



Writer's Direct Dial Number: (850) 521-1706
Writer's E-Mail Address: bkeating@gunster.com

September 24, 2014

BY E-PORTAL

Ms. Carlotta Stauffer, Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 140016-GU - 2014 Depreciation Study Filing by Florida Public Utilities Company, Florida Public Utilities Company-Indiantown Division, and Florida Division of Chesapeake Utilities Corporation

Dear Ms. Stauffer:

Attached for filing in the above-referenced docket, please find Florida Public Utilities Company's response to the concerns identified in the letter from the Office of Public Counsel of September 5, 2014.

As always, thank you for your assistance. Please do not hesitate to contact me if you have any questions whatsoever.

Sincerely,

Beth Keating
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706

MEK

Enclosures

cc:// Martha Barrera (PSC Staff Counsel)
Patricia Christensen (Office of Public Counsel)

FPUC's Response to OPC's Comments of September 5, 2014 regarding Natural Gas Depreciation Study

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

1. As previously discussed in response to Data Request No. 24 in the Second Data Requests from Staff filed in this proceeding, the Assets acquired from the City of Fort Meade were not previously subject to rate regulations. In addition, the Assets acquired from the City of Fort Meade were not subject to, and thus were not accounted for in accordance with, the Uniform System of Accounts (USoA). The accounting procedures prescribed by the USoA, which require the original historic cost to be used to account for plant assets, apply to only the entity that first devoted those assets to utility service. The USoA defines the term utility as an entity to which the USoA is applicable. Since the USoA was not applicable to the City of Fort Meade, these Assets were not subject to utility service for accounting purposes as prescribed in the USoA. Therefore, the use of the historic cost of plant assets in purchases of utility assets pursuant to the USoA does not apply in this case. Since Florida Public Utilities Company (FPUC) is the first entity required to apply the USoA to these assets, FPU should state these assets at the cost FPUC incurred to acquire these assets. \$670,000 represents the fair value of these assets paid by FPU at the time of the purchase, which both FPU and the City of Fort Meade agreed in the purchase price allocation in the agreement. This fair value was based on a valuation estimate of the entire natural distribution system provided by an independent consultant.

The previous owner of the assets, the City of Fort Meade, Florida, from which FPU purchased these assets in December 2013, did not maintain detailed records of assets by different asset name, type or category. Therefore, the Company is unable to provide asset information by different FERC account. Also, as explained in our response to Data Request No. 24, the value assigned to these plant assets at the time of the purchase was based on the estimated value of

the entire natural gas distribution system as provided by an independent consultant. There was, and is, insufficient information available from the previous owner to assign the overall value to individual asset(s).

As discussed herein and in the Company's response to Data Request No. 22, the Company is unable to further assign this value to individual assets due to lack of detailed asset records maintained by the City of Fort Meade. Nonetheless, since \$670,000 represents the price/value paid by FPUC to purchase the natural gas utility assets of Fort Meade in their entirety, there is no accumulated depreciation associated with these assets as of the date of the purchase. And again, the valuation of the physical assets of the natural gas utility, as a whole, was determined through a reasonable, third party, valuation of the system.

As far as the Company can determine from the fixed asset records provided by the City of Fort Meade, Fort Meade did not track or apply gross salvage and cost of removal in its accounting for these assets, further indicating that this system was not a "utility" as defined in the USoA.

The Company is therefore requesting that the fair value of assets acquired be used as the basis for cost of assets and that the depreciation rates be set equal to those of similarly situated assets within the Company's other Florida Natural Gas divisions. The Company has in good faith made the best estimate possible to determine the value of the assets acquired, including using a third party consultant to value these assets, and this is the most appropriate treatment for an acquisition of a municipality not subject to the same rules and regulations as investor owned utilities.

2. The Company respectfully disagrees with the OPC's assessment of the need for an independent consultant to develop this Study. As the Company has indicated in prior data responses, the

need for additional consulting assistance varies from study to study. The need for such services as they relate to the development of this study has nothing to do with the elimination of employee positions associated with the merger. Instead, it has everything to do with timing and the fact that this is the first time that the Company (or any Company that we are aware of) has embarked on the profoundly complex task of providing depreciation studies for multiple divisions and from those studies, developing appropriate blended rates.

With regard to the cases referenced by OPC in which neither the Florida Division of Chesapeake, nor Florida Public Utilities Company required the assistance of outside consultants, outside services were not utilized in those particular instances primarily because: (1) the internal staff had developed a working knowledge of depreciation studies and (2) the internal staff worked with PSC staff through an informal process to develop a "staff assisted" depreciation study. Moreover, in each instance, the Company involved was providing a depreciation study for that individual company. The situation at hand in this case is remarkably different in a couple of ways.

First, in Docket No. 120178-GU, the Company sought a waiver to allow it to defer filing the Chesapeake depreciation study in view of its intent to provide a consolidated filing. The waiver was granted by Order No. PSC-12-0532-PAA-GU, in which the Commission recognized that:

Every depreciation study requires a substantial amount of investigation and analysis in order to develop inputs necessary to determine the appropriate depreciation rates. Developing blended rates for three formerly separate companies adds an additional layer of complexity in determining the appropriate relationships among the three companies so that blended rates accurately reflect the relative investment, service lives, and net salvage of every investment account for each company in the combined organization.

Thereafter, in January 2014, the Company submitted the new depreciation study, consistent with the discussion had in Docket No. 120178-GU, reflecting blended rates for the three

divisions of the Company – Florida Public Utilities, Florida Public Utilities – Indiantown Division, and Florida Division of Chesapeake Utilities Corporation. The Company also requested that its newest division, the former Fort Meade municipal utility, be allowed to apply the final depreciation rates approved in this proceeding for FPUC. This new depreciation study reflects the efforts of the Company to accomplish the task that the Commission had already recognize would be particularly complex. In developing the studies and the blended rates reflected therein, the Company engaged the services of a consultant more versed in addressing the added layer of complexity and able to prioritize developing the study in the most accurate and complete manner possible in the time frame necessary to complete the filing within the time frame contemplated by Order No. PSC-12-0532-PAA-GU. In addition, the study involved an added layer of complexity in that the newly acquired Fort Meade division did not have previously established depreciation rates, much less accounts maintained in any semblance of USoA. Given the multiple layers of complexity involved in developing this depreciation study in the first instance, the Company sought the assistance of additional outside resources in order to develop the study. This is no indication whatsoever that the synergies or savings associated with the merger have declined.

Second, the Company required further outside consulting assistance due to the fact that in the second quarter of 2014, the Commission staff asked the Company to provide revised schedules that would facilitate consideration of the FPU companies' depreciation studies on both an individual and consolidated/blended basis. This additional work was substantial, but also was requested at a time when the Company had recently filed a rate application for its electric division, which required the Company to devote significant resources to providing responses to discovery and other typical rate case functions. As such, further use of an outside consultant

was the only prudent means to develop and provide the information to staff in a timely manner. Again, this was an unusually complex filing, further complicated by the timing of a rate case. It is not a reflection of reduced staffing levels or any other merger related issue.

To be clear, the development of depreciation studies, along with the analysis of the pertinent data curves and inputs that accompany such a task, is a specialized skill set not necessarily required for the day-to-day management of accounting for the utility. Because depreciation studies and revisions are typically only required on a four-year cycle, the Company has not seen a need to retain such expertise in-house. As noted previously, the Company has traditionally used the services of outside consultants for this function, and only rarely used in-house staff to develop a study when additional assistance has been available through the informal "staff assisted" process. In this case, the informal "staff assisted" process was not available, but the Company was able to engage the consulting services of former employees who had developed a working knowledge of the process through prior work on "staff assisted" studies for FPUC and Chesapeake. Going forward, the Company anticipates that it would likely engage consultants with more specific specialized expertise in the area of depreciation for future studies for the consolidated FPU companies.

Furthermore, while the Company did engage in this instance two former employees for assistance with this study, this should not result in the costs of this study being offset against the acquisition adjustment, because: (1) had the consultants still been employed by the Company, it is likely that the Company would still have required additional outside consulting services, as these two employees would have also been engaged in the rate case process and other ongoing company projects and therefore unable to devote the focused time necessary to develop the

study; and (2) the two employees' disassociation from the Company was not merger related nor considered in the Company's acquisition adjustment filing as synergies.

In addition, the Company is only requesting amortization of these costs as a regulatory asset, and customers will not be impacted by this amortization in their base rates at this time. If the Company files for a rate proceeding during the next five years, and requests recovery of this amortization, a more thorough review would be done at that time, and a decision could be made as to the prudence for recovery of this amortization during that time frame.

With regard to the OPC's concern about invoice detail, Accounting Principals is a temporary agency that does not typically provide details such as specific job tasks the employee is performing on the invoices for work being performed by its employees on behalf of the Company. The Company, however, specifically requested that Jim Mesite, a former employee of the Company, be assigned to work on the depreciation study project for the Company. From prior experience, as noted above, the Company was well aware that Mr. Mesite has a level of expertise in depreciation studies, and was familiar with the depreciation study work required on this depreciation study. This was the only work this temporary employee did for the Company during this time period. In addition, the Company utilized another outside consultant, Tom Geoffroy, for some of the preliminary work, particularly as it related to the Florida Division of Chesapeake, as Mr. Geoffroy was himself a former employee of the Florida Division, and as such, was familiar with the development of the Florida Division's prior studies. In addition, the Company engaged the services of its regulatory attorney for assistance navigating the regulatory requirements as further complicated by the special circumstances surrounding this consolidated depreciation study.