



March 24, 2022

**BY HAND DELIVERY**

The Honorable Andrew G. Fay  
Chairman  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

RECEIVED-FPSC  
2022 MAR 24 PM 3:40  
COMMISSION  
CLERK

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

Dear Chairman Fay:

Florida Public Utilities Company ("FPUC") operates as a gas utility in Florida, as well as an electric utility, subject to regulations by the Commission under Chapter 366, Florida Statutes. In 2009, Chesapeake Utilities Corporation ("CUC") acquired both the electric and natural gas businesses of FPUC. At the time, CUC already owned and operated another natural gas utility subject to the Commission's jurisdiction, the Florida Division of Chesapeake Utilities Corporation, known by its registered fictitious name, Central Florida Gas ("CFG"). Following its acquisition by CUC in 2009, FPUC then acquired Indiantown Gas Company (2010) and the natural gas assets of the City of Fort Meade (2013). These most recent additions now operate as Florida Public Utilities Company-Indiantown Division ("Indiantown") and Florida Public Utilities Company – Fort Meade ("Fort Meade"), respectively. All together, these four natural gas utilities provide safe and reliable service to approximately 91,000 residential, commercial, and industrial customers in counties across the state, including Nassau, Palm Beach, Broward, Escambia, Martin, Polk, Okeechobee, Marion, Hillsborough, Highlands, Gilchrist, Alachua, and Holmes, to name a few.

While steps have been taken in recent years to align and consolidate certain aspects of each of these natural gas business units, each is still recognized as a separate utility by the Commission, each with its own rates and rate structure. In recent years, the growth of the state's population and the resulting growth in CUC's natural gas businesses in Florida have accelerated the need and opportunity to consolidate the four natural gas utilities into one. Consolidation of the four natural gas business units will ensure that: (1) customers continue to receive safe and reliable natural gas service from an efficient, unified company; and (2) the utility continues to be able to meet the growing demand for natural gas service in all of its service areas. Thus, on behalf of the four business units, we intend to petition the Commission to approve consolidation of the rates and rate structure and recognize all of these operations under the name Florida Public Utilities Company.

For ease of reference and for clarity, references in the remainder of this letter to Company or FPUC should be construed to include all four of the referenced natural gas utilities.

As noted, the overall demand for natural gas service has increased due to growth in the state's population thereby necessitating infrastructure improvements in certain areas of the Company's natural gas systems. These improvements will enable FPUC to receive and deliver larger quantities of gas at higher pressures while ensuring that the system can maintain safe and reliable service to all customers, including customers in areas experiencing exponential growth. This growth has also resulted in numerous road-widening projects that have required FPUC to relocate facilities in rights of way. Beyond improvements to existing areas on its system, the Company has also completed projects to extend natural gas service into growing areas that previously did not have any natural gas service at all, most notably Nassau County. The Company has also worked with the City of Pensacola to provide a second access and delivery point for natural gas to the City, and to extend service for an industrial customer who the City was unable to serve. These capital improvements are prudently incurred infrastructure investment that have significantly enhanced system reliability and safety. The growth on the system has also required the acquisition of additional capacity on both intrastate and interstate pipelines to ensure our customers have adequate access to gas supplies.

The Company has undertaken numerous efficiency and cost saving measures; however, the impacts of inflation on the cost of materials and labor since the last rate proceedings, as well as costs associated with the implementation of newer, more advanced technologies to improve service to customers and better protect customer data have further contributed to declining returns for the Company, which are also projected to decline further in the future.

Consequently, the Company estimates that an increase in revenue requirement of \$18 million to \$21 million is necessary to produce sufficient revenues to allow the Company to continue to provide the safe and reliable natural gas service our customers deserve and have come to expect. These additional revenues will enable the Company to invest in the safety of our employees, customers, and communities as well as the reliability of our natural gas distribution system, customer service operations, and the training and development of our employees. The Company, therefore, submits this Test Year Notification letter, along with the following required information.

#### *A. Test Year Selection*

In accordance with Rule 25-7.140, Florida Administrative Code, the Company has selected the twelve-month period ending December 31, 2023, as the projected test year for purposes of the Company's request for a permanent base rate increase. The Company's request will seek an effective date for new rates of January 1, 2023. The Company believes that the requested test year is appropriate in that it will: (1) best reflect the economic conditions impacting the Company during the first 12-month period that the new rates will be in effect; and (2) provide the most accurate picture of revenues as compared to the Company's cost to serve during the initial period new rates would be placed into effect.

*B. Major Factors Necessitating Base Rate Increase*

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

1. The overarching factor is the Company's significant capital investments to enhance service capability and reliability for customers in growth areas, as well as the investments to extend service into new areas that, heretofore, did not have access to natural gas service. Overall, these projects have amounted to \$389,494,956 in capital investments since 2008.<sup>1</sup>
2. The Company has also made significant technology investments since the last rate proceedings. The Company also has additional planned technology investments that will be undertaken in 2022 and 2023. The investments in these systems have been to enhance the service reliability of the Company's internal network, its billing systems, its communications systems, and to address cyber security measures, as well as protect customer information.
3. In addition to technology investments, the Company has also had to make significant investments in areas such as safety and compliance to ensure the safety of our employees, customers and communities remains the primary focus.
4. Finally, with the current economic conditions in the United States, Chesapeake Utilities has experienced and continues to experience increased costs resulting from historically high inflation, which is notable in areas such as increased insurance premiums, cost of materials, and labor.

FPUC anticipates further investment to ensure access to gas supplies for all customers, enhance its distribution facilities to maintain safe and reliable natural gas service, and ensure that its customers experience the best possible customer service when interfacing with the Company.

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

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

1. The Company has implemented several cost containment measures that have been successful at limiting cost increases, and even reducing costs, in many areas. For instance, the Company reorganized its field personnel into vertical operating units and

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<sup>1</sup> FPUC's last rate case was in 2008 (Docket No. 20080366-GU); the Florida Division of Chesapeake Utilities Corporation d/b/a Central Florida Gas sought rate relief in 2009 (Docket No. 20090125-GU). Indiantown's last rate case was in 2003 (Docket No. 20030954-GU), prior to its acquisition by FPUC. Acquired from a municipality in 2013, Fort Meade has never had a rate case before the Commission.

centralized leadership in the operating units that has enhanced efficiency in addressing day-to-day Operations and Maintenance (“O&M”) tasks and reduced costs.

2. Since its acquisition by Chesapeake Utilities, numerous cost savings measures have been implemented, including modifications to benefits plans for employees and retirees and some reduction in operations personnel resulting from an increased use of the Energy Plus Partners (“EPP”) program.
3. Also, the Company has been able to take advantage of the stronger financial posture of Chesapeake Utilities Corporation in order to refinance debt at lower interest rates, as well as to obtain less expensive capital.
4. Finally, the Company has taken steps to consolidate functions across the entire FPUC platform in Florida. For instance, the Company has consolidated its Conservation Programs, Purchased Gas Adjustment (“PGA”), and the Gas Reliability Infrastructure Program (“GRIP”) for natural gas to ensure the programs are implemented consistently across the Company’s Florida platform. This has increased efficiency across the Company and reduced the number of personnel needed largely through attrition. The result is a reduction in costs.

*D. Interim Rates*

The Company will also be requesting interim rate relief in accordance with Section 366.071, Florida Statutes, using the period January 1, 2021 through December 31, 2021, as the test period. The Company will be seeking interim relief to allow the Company the opportunity to earn within its authorized range while its request for permanent rate relief is processed. The period January 1, 2021 through December 31, 2021 will serve as the Company’s interim test year, as well as its historic test year period for purposes of the Petition.

Conclusion

To conclude, FPUC is not requesting that the Commission process the Company’s petition for a rate increase using the proposed agency action process authorized in Section 366.06(4), F.S. The Company anticipates filing its Petition as soon as practicable after the expiration of the notification period, but in any instance not before May 24, 2022. If the Company is unable to file on or before May 27, 2022, the Company will so notify the Commission in writing prior to that date, including an explanation as to the reasons for the delayed filing and an indication of the revised target date.

The Company has only undertaken this request upon thoughtful deliberation and considerable study. While the Company has made significant efforts to control its expenses, maintaining high quality service to its customers on an ongoing basis necessitates a change in its current base rates. A base rate increase is necessary in order to ensure that the Company maintains a reliable and safe

natural gas system, which ultimately inures to the benefit of the Company's customers and our local communities.

Sincerely,



Vice President, Governmental and Regulatory  
Affairs, Florida Public Utilities Company/  
Chesapeake Utilities Corporation

cc: // Honorable Art Graham, Commissioner  
Honorable Gary F. Clark, Commissioner  
Honorable Mike La Rosa, Commissioner  
Honorable Gabriella Passidomo, Commissioner  
Eddie Phillips, Chief Advisor to Chairman Fay  
Forrest Boone, Chief Advisor to Commissioner Clark  
Jim Varian, Chief Advisor to Commissioner Graham  
Ana Ortega, Chief Advisor to Commissioner LaRosa  
Katherine Fleming, Chief Advisor to Commissioner Passidomo  
Braulio Baez, Executive Director  
Keith Hetrick, General Counsel  
Judy Harlow, Director/Economics  
Andrew Maurey, Director/Accounting and Finance  
Tom Ballinger, Director/Engineering  
Commission Clerk (Teitzman)  
Office of Public Counsel (Gentry)(Electronic Mail)  
Gunster Law Firm (Keating)