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FLORIDA'S LAW FIRM FOR BUSINESS

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BY E-PORTAL

Mr. Adam Teitzman, Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 20220128-PU – Joint petition requesting approval to establish regulatory assets, by Florida Public Utilities Company, Florida Public Utilities Company - Indiantown Division, Florida Public Utilities Company - Fort Meade, and Florida Division of Chesapeake Utilities Corporation.

Dear Mr. Teitzman:

Attached for electronic filing, please find Florida Public Utilities Company's Responses to Staff's First Data Requests.

Thank you for your assistance with this filing. As always, please don't hesitate to let me know if you have any questions.

Sincerely,

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Cc: Jennifer Crawford (OGC)
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Docket No. 20220128-PU – Joint petition requesting approval to establish regulatory assets, by Florida Public Utilities Company, Florida Public Utilities Company - Indiantown Division, Florida Public Utilities Company - Fort Meade, and Florida Division of Chesapeake Utilities Corporation.

FLORIDA PUBLIC UTILITIES COMPANY'S RESPONSES TO STAFF'S FIRST DATA REQUESTS

1. Please refer to paragraph (6) of FPUC's Joint Petition Requesting Approval to Establish Regulatory Assets (Petition). Florida Public Utilities Company (FPUC) states that its current Customer Information System – ECIS – which has been utilized in Florida for over 20 years, is now fully depreciated. Please identify the following:

    a. The FERC plant account (e.g. 391) or accounts in which FPUC's ECIS investments are currently being recorded.

FPUC Response: The Original ECIS Software is retired, but was originally in service in FERC plant account 3914 (Computer Software) in 2000. The ECIS Improvements, implemented over the years to keep the software functioning, are currently in FERC plant account 3914 on FC Corporate ledger in the amount of $917,653.10

    b. The authorized service life or lives associated with the ECIS, currently and since the in-service date of the asset.

FPUC Response: ECIS Improvements are currently being depreciated based on a 10-year life. Based on the previous system Data the original ECIS assets were depreciated over 5 years.

    c. Please provide an annualized history of the amortization of ECIS for FPUC-Gas and FPUC-Electric.

Annualized History of ECIS Amortization FPUC Gas and Electric						
	Depr/	FPUC Allocation %		FPUC Allocation		
Year	Amort Exp	Gas	Electric	Gas	Electric	
2001	109,948	45.00%	42.00%	49,476	46,178	
2002	119,100	44.00%	42.00%	52,404	50,022	
2003	119,705	53.00%	39.00%	63,444	46,685	
2004	120,916	52.00%	39.00%	62,876	47,157	
2005	154,272	51.00%	40.00%	78,679	61,709	
2006	154,272	51.00%	41.00%	78,679	63,252	
2007	154,272	51.00%	39.00%	78,679	60,166	
2008	154,272	51.00%	40.00%	78,679	61,709	
2009	154,272	53.00%	38.00%	81,764	58,623	
2010	143,820	53.00%	38.00%	76,225	54,652	
2011	2,756	64.00%	24.00%	1,764	661	
2012	2,234	64.00%	24.00%	1,430	536	
2017	17,332	63.20%	21.60%	10,954	3,744	
2018	35,731	61.20%	20.50%	21,867	7,325	
2019	75,150	55.88%	24.91%	41,994	18,720	
2020	87,463	54.19%	23.73%	47,396	20,755	
2021	93,099	58.03%	16.22%	54,026	15,101	Total
Total	1,698,614			880,334	616,994	1,497,329

d. Does FPUC have any history of allocating any portion of ECIS implementation costs, as described in Paragraph 9 of the Petition, to a regulatory asset? Please explain.

FPUC Response: No, the Company has no history of allocating any portion of ECIS implementation costs from the 2000 installation. FPUC was acquired in 2009, after the implementation of ECIS by Chesapeake Utilities, whose accounting policies surrounding regulatory assets are further detailed in the Company's response to question 7.

e. If Customer Information Systems (CIS) other than ECIS are serving some portion of FPUC-Gas and/or FPUC-Electric customers, please identify the associated Company, the number of customers, the name of the CIS, and the FERC account used for recording the costs, and the history of such amortizations.

FPUC Response: No other CIS serves any portion of FPUC-Gas and/or FPUC-Electric.

f. On page five, paragraph 10 of the petition, the duties performed prior to the implementation of the new unified CIS are: 1) gathering and validating business requirements, 2) vendor review and selection, 3) data cleansing and preparation, and 4) process documentation. Were some or all of these duties performed prior to the implementation of ECIS and were the costs associated with such duties for ECIS capitalized to plant?

FPUC Response: Per Chesapeake Utilities capitalization policies, these items would be expense. The Company does not have detail from the 2000 implementation of ECIS that breaks out the capitalization vs expense portion of the project.

2. Is it FPUC's general accounting practice to remove amortizable assets from the Company's books and records once they are fully depreciated? Please explain.

FPUC Response: Yes, it is FPUC's general accounting practice to do so per the depreciation studies in place.

3. Based on the response to Question No. 1.a, is the FERC account(s) and associated service life/lives the same as what FPUC intends to use to record the CIS investments contemplated in this Petition?

FPUC Response: Yes, FPUC intends to use FERC plant account 3914 and associated service life as in Question No. 1.a.

4. If the response to Question No. 3 is negative, please identify FPUC's anticipated FERC account(s) and the associated service life for the CIS investments contemplated in this Petition.

FPUC Response: N/A

5. Please provide a cost breakdown of FPUC's portion of the non-capitalizable estimate of $9.5 million associated with the implementation of its "modern, unified CIS solution."

FPUC Response:

	Technology Selection	*Data Conversion*	*Training/Stabilization*	*Total*
FPUC Gas	*$167,719*	$957,903	$2,800,689	$3,921,311
FPUC Electric	$53,083	$312,494	$913,661	$1,279,239
	$215,803	*$1,270,398*	*$3,714,350*	*$5,200,551*

6. Referring to paragraph (7) of FPUC's Petition.

   a. Please provide a breakdown of Chesapeake Utilities Corporation's (CUC) CIS cost allocation proposal for its Florida, Maryland, and Delaware business units.

FPUC Response:

	Capitalizable Cost	*Non-Capitalizable Cost*
Chesapeake Utilities – DE Division	$9,167,796	$2,759,026
Chesapeake Utilities – MD Divisions	$4,406,352	$1,326,081
FPUC Gas	$13,029,881	$3,921,311
FPUC Electric	$4,250,704	$1,279,239
	$30,854,732	*$9,285,658*

b. Approximately how many customers are served, and how many bills are issued (monthly) by CUC in Maryland?

FPUC Response: There are approximately 31,600 customers served by Chesapeake -Maryland Divisions as of July 2022.

c. For the Florida companies, please explain how CUC contemplates allocating the CIS cost between the electric and gas companies, and any allocation within those companies.

FPUC Response: CUC intends to allocate the CIS costs between the electric and gas companies on the basis of customer counts. Please see the chart provided in 6a for a detailed breakdown of costs based on customer count allocation.

7. Based on staff's review of 25-6, 25-7, and 25-14, Florida Administrative Code Rules, there are no rule requirements to follow Accounting Standards Codification (ASC) 350-40. Please identify whether there is a Commission rule that requires regulated electric and gas utilities to follow the capitalization guidelines in ASC 350-40?

FPUC Response: There are no specific Commission rules which require regulated electric and gas utilities to follow the capitalization guidelines in ASC 350-40. However, as a corporation, Chesapeake has historically filed for approval from the State Commissions when we request setting up a regulatory asset. Typically, a regulatory asset is set up when a significant investment is made such as technology advancements. Chesapeake complies with specific FERC and State PSC regulatory rules and in instances in which these regulatory bodies do not cover a scenario, Chesapeake complies with GAAP. Specifically, for those technology implementation costs which are not capitalizable but add value to the asset by either extending its life or getting it to use and useful, we request approval for those expense items not capitalized to be reclassified to a regulatory asset.

FPUC is required to follow Accounting Standards Codification 980, Regulated Operations, ("ASC 980") for the treatment of certain costs as prescribed by the regulator. ASC 980-340-25-1 stresses the importance of accounting for incurred costs in accordance with "rate actions of a regulator," which can include rate orders, rules or regulations, regulatory policies and practices.
More specifically, ASC 980-340-25-1 states that the "rate action of a regulator can provide reasonable assurance of the existence of an asset." All or part of an incurred cost that would otherwise be charged to expense should be capitalized as a regulatory asset if: (a.) It is probable that future revenues in an amount approximately equal to the capitalized cost will result from inclusion of that cost in allowable costs for ratemaking purposes (b.) The regulator intends to provide for the recovery of that specific incurred cost rather than to provide for expected levels of similar future costs. As such, approval to establish a regulatory asset provides the regulated entity a level of comfort that it can proceed to incur, and defer, the costs at issue, but, by the same token, it does not prevent the regulator from reviewing and potentially disallowing some of those costs at a later date, should the utility pursue recognition of the asset in rates. In past years, this concept was captured more explicitly by FAS 71, which expressly required approval of the regulator.

8. Is there any prohibition set forth in Title 18 of the Code of Federal Regulations parts 101 and 201 from capitalizing to plant the duties reflected on page five, paragraph 10 of your petition?

FPUC Response: No, there are no explicit written prohibitions set forth in Title 18 of the CFR from capitalizing the duties reflected on page five, paragraph 10 of our petition. However, the Code of Federal Regulations description of "Regulatory Assets" states that "The amounts included in this account (182.3, Other Regulatory Assets) are to be established by those charges which would have been included in net income, or accumulated other comprehensive income, determinations in the current period under the general requirements of the Uniform System of Accounts but for it being probable that such items will be included in a different period(s) for purposes of developing rates that the utility is authorized to charge for its utility services." As noted in the Company's petition, ASC 350-40 provides guidance that these costs would be expenses and thus "would have been included in net income". Per the Company's accounting policies, listed in response to question 7, the Company is requesting regulatory asset treatment from the PSC.

9. Please identify whether there is any Commission order that requires jurisdictional electric or gas utilities to specifically follow the capitalization guidelines set forth in ASC 350-40?

FPUC Response: The Company is not aware of a specific order from the FL PSC that requires it to follow the guidance. However, please see response to #7 & #8 for additional clarifying information.

10. If there are no Commission rules or orders requiring electric and gas utilities to comply with ASC 350-40 and no prohibition by the FERC electric and gas Uniform System of Accounts to capitalize to plant the duties reflected in paragraph 10 of your petition, please explain why there would be a need to establish regulatory assets?

FPUC Response: See below for overall Chesapeake capitalization guidelines, rules for software capitalization, and historical precedent.

There are no specific requirements to request approval for setting up a regulatory asset. However, Chesapeake has the historical precedent of filing for approval from the State Commissions when we request setting up a regulatory asset. Typically, a regulatory asset is set up when a significant investment is made such as technology advancements. Generally, Chesapeake complies with specific FERC and State PSC regulatory rules and in instances in which these regulatory bodies do not cover a scenario, Chesapeake complies with GAAP. Specifically, for those technology implementation costs which are not capitalizable but add value to the asset by either extending its life or getting it to use and useful, Chesapeake requests approval for those expense items not capitalized to be reclassified to a regulatory asset.

Chesapeake's overall capitalization policy is, in simplified terms, that if the specifically identifiable asset is defined as a property unit by the FERC or a State PSC, the costs associated with getting that asset to be "used and useful" are capitalizable.

- Property Units – Specifically identified assets included in the Property Unit Catalog (PUC) are identified as a property unit. The costs directly related to the acquisition and construction of a property unit, including expenditures incurred to place the property unit in service, may be capitalized. If an asset is not identified in the PUC as an identified and trackable property unit, the asset is considered a Minor Item of Property. The property units that are identified and trackable should include the asset description, cost, location and quantity.

For technology projects, the following are examples of activities that are allowed to be capitalized:

- The cost of the license, if owned by the Company (Accounting should analyze the contract to determine if the solution is owned or provided as a service "SAAS")
- New module - software configuration (owned or SAAS)

- New module - software documentation (processes or procedures) (owned or SAAS)
- New module - software testing (owned or SAAS)
- Significant change in functionality of existing software, due to a new release, for software configuration, documentation and testing (owned or SAAS)
- Project management of a project that meets the criteria above

- The following costs must be expensed when incurred and are, therefore, out of scope for this policy. Some limited exceptions may be made on regulated entities, if pre-approved by regulatory commissions. (See the regulatory implications for more details on this exception.)
    - Costs associated with the preliminary project stage including the following:
        - Strategic decisions related to the project versus alternative projects
        - Determination of the performance requirements and the system requirements
        - Vendor product demonstrations
        - Exploration of alternatives
        - Feasibility studies
        - Vendor, technology or consultant selection
    - Training
    - Data Conversion (except for costs to develop or obtain software to access or convert the data)
    - Data Cleansing
    - Costs of reengineering activities associated with new or upgraded software
    - Upgrading of existing software with limited new functionality
    - Ongoing maintenance costs