

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 2007 depreciation study by Florida
Division of Chesapeake Utilities Corporation.

DOCKET NO. 070322-GU
ORDER NO. PSC-08-0364-PAA-GU
ISSUED: June 2, 2008

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman
LISA POLAK EDGAR
KATRINA J. McMURRIAN
NANCY ARGENZIANO
NATHAN A. SKOP

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING THE FLORIDA DIVISION OF CHESAPEAKE
UTILITIES CORPORATION'S DEPRECIATION RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

Background

Rule 25-7.045, F.A.C., requires regulated natural gas utilities to file comprehensive depreciation studies once every five years. On May 17, 2007, the Florida Division of Chesapeake Utilities Corporation (Chesapeake or company) filed its depreciation study in accordance with this rule. Chesapeake's last comprehensive depreciation study was filed on May 8, 2002. We have jurisdiction to consider this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes (F.S.).

The current depreciation rates are those provided by Order No. PSC-03-0319-PAA-GU, issued March 6, 2003. The current study is consistent with Rule 25-7.045, F.A.C., which requires gas utilities to file a comprehensive depreciation study at least once every five years from the submission date of the previously filed study.

During the last study, the company increased its average number of customers by four percent over the previous five years and expected this rate of growth to continue into the future. Currently, the company is not as optimistic about the increase in customer growth due to the current status of the economy. The company is more conservative in its approach to expansion and has tabled many of its projects.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

A comprehensive review of Chesapeake's planning and activity since its prior depreciation filing indicates a need for a revision to the currently prescribed depreciation rates. Based upon a comprehensive review of Chesapeake's depreciation study, we hereby approve the remaining lives, net salvages, reserves, and resultant depreciation rates shown on Attachment A to this Order. Investment and reserve positions, shown on Attachment B, reflect actual amounts as of December 31, 2007, with the reserve positions restated to reflect the corrective measures discussed herein.

A depreciation study provides an opportunity to review the present recovery position and determine whether any changes should be made to the existing pattern of recovery (depreciation rates). A prime concern of the depreciation study is life and salvage. As part of the review process, the prudence of company planning (including additions and retirements), technological impacts, retirement and salvage practices, and other related activities are reviewed. The average service life refers to the overall period the account is expected to serve the public and is projected based on experience or estimates. The average remaining life is the remaining period of service which can be expected from the equipment under study.

The company's filing provided aged retirement data for the 2002-2006 period and actual 2007 data. The company also provided the average age distributions of the surviving investments for each account. We then worked with the company in the development of appropriate life and salvage values. As a result of the review and analytical process, an agreement was reached on the lives, net salvages, and resultant depreciation rates for all accounts.

The approved changes in the distribution and general plant depreciation rates can be attributed mainly to: (1) updated account ages to reflect activity since the last represcription, and (2) the correction of reserve positions by transfers to appropriate accounts. A brief discussion of plant account life parameters with a substantial change are discussed below.

Distribution Plant

Mains and Services (Accounts 376 and 380)

Mains and services comprise about 77 percent of the investment in the distribution plant function and about 72 percent of the company's total depreciable investment. When a main or service is retired, it is generally abandoned in place rather than being physically removed. Cost of removal is associated with activities incurred with the abandonment process. This involves labor and material costs associated with a crew to travel to the site, digging down to the pipe, cutting and capping the pipe, refilling the hole, and restoring the roadway. Restoring the roadway becomes significant if the main or service is located under pavement. Surface restoration normally occurs at two locations for each service line retired; one at the point of the service riser, and the other at the property line or at the connection to the main. The galvanic action of dissimilar metals such as a galvanized steel service line running off a cast iron main requires that the line be cut at the main rather than the property line. Under these circumstances, paving restoration is required.

Steel services is a dying or declining asset since mains and services are now plastic instead of steel. The company requested an increase in service life for steel services from 35 to 40 years. This is in line with the company's current planning. As new mains and services are generally plastic rather than steel, only \$111,025 of steel services has been added since 2002 compared to over \$3.9 million of plastic services.

The approved net salvage values are generally in line with each account's expectations. The retirement rate for steel services during the 2003-2007 period has averaged approximately one percent with cost of removal averaging over 25 percent. The company's original cost for steel service lines was low in comparison to the current costs for the removal of the lines. Normally, cost of removal for this account is over 100 percent, or can be as much as 200 percent, due to consistent activity and substantive retirements; however, the currently approved net salvage is a negative 80 percent and is in line with the regulated gas industry. The company believes there will be less activity in this account, but may have periods when more activity occurs causing an increase in the cost of removal. Therefore, due to current company planning and the sporadic nature of this account, the company believes a decrease in net salvage to a negative 50 percent is more appropriate on a going forward basis. Accordingly, we find that the company's requests for a negative 50 percent net salvage and an increase in service life from 35 to 40 years are hereby approved.

Other Equipment (Account 387)

This account includes the cost to install all other distribution system equipment not provided for in the other accounts such as, street lighting equipment, lockers, gas masks, recording gauges, fire extinguishers, and other similar equipment. For this depreciation study, there have been no retirements in this account since 1997 and the current age of the equipment is 10.3 years. Since the last depreciation study, this account has experienced approximately 29 percent in growth. Over a ten year period, there have been more additions to this account than retirements. The currently approved service life for this account is 15 years and the company requests a life of 20 years. We find that an increase in average service life for this account to 20 years is appropriate.

General Plant

Data Processing Equipment (Account 391.1)

The investment of \$73,108 in this account includes personal computers and printers. The interior of the main office was damaged during Hurricane Jeanne in 2005 and \$95,198 of data processing equipment was retired due to the damage. At the time of the last study, the average service life of the equipment was seven years. According to the company, the equipment should last at least eight years, if not longer. The remaining equipment average age is currently 6.8 years. We hereby approve an eight year average service life and a zero net salvage, which is in line with the expectations of other companies with similar investments.

Reserve Allocations

As part of our review of the company's study, we reviewed the reserve position for each account. When significant surpluses and deficits exist, corrective reserve transfers between accounts should be considered. The effect of prior depreciation rates, average service lives, and net salvage projections results in surpluses and deficits that should be addressed. During this review, we also recognized that the company overstated many of the plant accounts by continuing to depreciate the account beyond the recovery of the investment. For these reasons, we find that these related reserve surpluses shall be transferred to help correct the existing reserve deficiencies in the accounts, as shown in the table below.

RESERVE RE-ALLOCATIONS					
Account Number	Account Description	Actual Reserves (A)	Theoretical Reserves (B)	Reserve Transfers (C)	2008 Restated Reserves D= (A)+(C)
Distribution		(\$)	(\$)	(\$)	(\$)
376.1	Mains-Steel	\$5,911,572	\$6,366,000	\$454,428	\$6,366,000
376.2	Mains-Plastic	3,388,452	2,865,767	-454,428	2,934,024
378.0	Meas. & Reg. Eqpt.	300,504	327,676	27,172	327,676
381.0	Meters	744,061	744,570	509	744,570
382.0	Meter Installations	439,466	500,327	60,861	500,327
383.0	House Regulators	436,103	452,422	16,319	452,422
387.0	Other Equipment	301,397	122,635	-104,861	196,536
	Totals	\$11,521,555	\$11,379,397	-0-	\$11,521,555
General Plant					
391.1	Data Processing Eqpt.	81,983	49,348	-32,635	49,348
391.4	Vax System Eqpt.	-2,956	0	2,956	0
392.1	Transport. Eqpt./Lt. Trk.	480,073	434,065	-520	479,553
396.0	Power Operated Eqpt.	355,489	385,552	30,063	385,552
398.0	Misc. Equipment	44,229	44,365	136	44,365
	Totals	\$958,818	\$913,330	-0-	\$958,818

Investment Tax Credits and Excess Deferred Income Taxes

In this order, we approve revisions to the company's proposed remaining lives, to be effective January 1, 2008. Revising a utility's book depreciation lives generally results in a change in its rate of investment tax credits (ITCs) amortization and flowback of excess of deferred income taxes (EDIT) in order to comply with the normalization requirements of the Internal Revenue Code (IRC) and its underlying Regulations (REGs) found in Sections 46, 167, and 168, and 1.46, 1.67, and 1.68, respectively.

Section 46(f)(6), IRC, states that the amortization of ITC should be determined by the period of time actually used in computing depreciation expense for ratemaking purposes and on the regulated books of the utility. Since we are approving a change in remaining lives, it is also important to change the amortization of ITC to avoid violation of the provisions of Sections 46, 1.46, IRC and REGs, respectively.

Section 203(3) of the Tax Reform Act of 1986 (the Act) prohibits rapid flowback of depreciation related (protected) EDIT. Further, Rule 25-14.013, F.A.C., Accounting for Deferred Income Taxes Under Statement of Financial Accounting Standards (SFAS) 109, generally prohibits EDIT from being written off any faster than allowed under the Act. The Act, SFAS 109, and Rule 25-14.013, F.A.C., regulate the flowback of EDIT. Therefore, we find that it is appropriate that the flowback of EDIT be adjusted to comply with the Act, SFAS 109, and Rule 25-14.013, F.A.C.

The Commission, the Internal Revenue Service, and independent outside auditors examine a company's books and records and the orders and rules of the jurisdictional regulatory authorities to determine if the books and records are maintained in the appropriate manner and to determine the intent of the regulatory bodies in regard to normalization. Therefore, we find that the current amortization of ITCs and the flowback of EDIT should be revised to reflect the approved remaining lives.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the remaining lives, net salvages, reserves, and resultant depreciation rates for the Florida Division of Chesapeake Utilities Corporation are hereby revised as set forth in the body of this Order and as contained in Attachment A to this Order. It is further

ORDERED that Attachments A and B are incorporated herein by reference. It is further

ORDERED that the implementation date for the revised depreciation rates is January 1, 2008. It is further

ORDERED that the current amortization of investment tax credits and the flowback of excess deferred income taxes shall be revised to reflect the approved remaining lives. Chesapeake shall file detailed calculations of the revised investment tax credits amortization and the flowback of excess deferred income taxes at the same time it files its surveillance report covering the period ending December 31, 2008. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 2nd day of June, 2008.



ANN COLE
Commission Clerk

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 23, 2008.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

CHESAPEAKE UTILITIES CORPORATION
 DOCKET NO. 070322-GU
 2007 DEPRECIATION STUDY

COMPARISON OF RATES AND COMPONENTS

Attachment A

ACCOUNT	CURRENT				COMMISSION APPROVED			
	AVERAGE REMAINING LIFE	NET SALVAGE	1/1/2003 RESERVE	REMAINING LIFE RATE	AVERAGE REMAINING LIFE	NET SALVAGE	1/1/2008 RESERVE	REMAINING LIFE RATE
	(YRS.)	(%)	(%)	(%)	(YRS.)	(%)	(%)	(%)
DISTRIBUTION PLANT								
375.0 - Structures & Improvements	32.0	-15.0	26.26	2.8	30.0	-15.0	29.97	2.8
376.1 - Mains - Steel	27.0	-30.0	40.26	3.3	25.0	-30.0	47.50	3.3
376.2 - Mains - Plastic	36.0	-30.0	12.99	3.3	34.0	-30.0	18.22	3.3
378.0 - Measuring and Regulating Ept. - General	23.0	-5.0	24.08	3.5	19.9	-5.0	35.35	3.5
379.0 - Measuring and Regulating Ept. - City Gate	24.0	-5.0	17.68	3.6	22.0	-5.0	28.57	3.5
380.1 - Services - Steel	18.1	-80.0	48.91	7.2	22.0	-50.0	73.98	3.5
380.2 - Services - Plastic	30.0	-25.0	17.96	3.6	30.0	-25.0	17.18	3.6
381.0 - Meters	14.9	0.0	41.99	3.9	16.7	0.0	33.20	4.0
382.0 - Meter Installations	26.0	-20.0	22.03	3.8	26.0	-20.0	31.60	3.4
383.0 - House Regulators	21.0	0.0	32.52	3.2	18.7	0.0	38.29	3.3
385.0 - Measuring & Regulating Eqpt. - Industrial	22.0	-5.0	11.13	4.3	19.0	-5.0	27.70	4.1
387.0 - Other Equipment	9.5	0.0	78.6	2.3	9.7	0.0	45.43	5.6
GENERAL PLANT								
390.0 - Structures & Improvements	29.0	5.0	28.9	2.3	37.0	5.0	19.57	2.0
391.1 - Data Processing Equipment	3.2	0.0	67.23	10.2	2.6	0.0	67.50	12.5
391.2 - Office Furniture	9.5	3.0	50.34	4.9	14.5	3.0	24.69	5.0
391.3 - Office Equipment	7.9	0.0	42.41	7.3	8.5	0.0	38.25	7.3
391.4 - Vax System Equipment	0.0	0.0	89.98	5.6	0.0	0.0	0.00	0.0
392.1 - Transp. Equip. - Autos/L. Trucks	2.9	15.0	51.32	11.6	3.0	15.0	46.84	12.7
392.3 - Transp. Equip. - Other	5.0	0.0	43.38	11.3	4.2	0.0	78.80	5.0
394.0 - Tools, Shop & Garage Equipment	7.6	0.0	73.36	3.5	5.7	0.0	82.23	3.1
396.0 - Power Operated Equipment	8.0	0.0	51.86	6.0	2.6	0.0	79.98	7.7
397.0 - Communication Equipment	10.5	0.0	19.81	7.6	8.6	0.0	39.37	7.1
398.0 - Miscellaneous Equipment	8.6	0.0	42.66	6.7	3.9	0.0	73.87	6.7

CHESAPEAKE UTILITIES CORPORATION
 DOCKET NO. 070322-GU
 2007 DEPRECIATION STUDY

COMPARISON OF EXPENSES

ACCOUNT			CURRENT		Attachment B COMMISSION APPROVED		
	1/1/2008	1/1/2008					CHANGE
	INVESTMENT	RESERVE	RATE	EXPENSES	RATE	EXPENSES	IN
	(\$)	(\$)	(%)	(\$)	(%)	(\$)	EXPENSES
DISTRIBUTION PLANT							
375.0 - Structures & Improvements	362,317	108,600	2.8	10,145	2.8	10,145	0
376.1 - Mains - Steel	13,402,105	6,366,000	3.3	442,269	3.3	442,269	0
376.2 - Mains - Plastic	16,099,812	2,934,024	3.3	531,294	3.3	531,294	0
378.0 - Measuring and Regulating Ept. - General	926,947	327,676	3.5	32,443	3.5	32,443	0
379.0 - Measuring and Regulating Ept. - City Gate	2,781,101	794,585	3.6	100,120	3.5	97,339	-2,781
380.1 - Services - Steel	965,291	714,109	7.2	69,501	3.5	33,785	-35,716
380.2 - Services - Plastic	7,186,276	1,234,588	3.6	258,706	3.6	258,706	0
381.0 - Meters	2,242,682	744,570	3.9	87,465	4.0	89,707	2,242
382.0 - Meter Installations	1,583,312	500,327	3.8	60,166	3.4	53,833	-6,333
383.0 - House Regulators	1,181,568	452,422	3.2	37,810	3.3	38,992	1,182
385.0 - Measuring & Regulating Eqpt.-Industrial	1,538,823	426,220	4.3	66,169	4.1	63,092	-3,077
387.0 - Other Equipment	432,578	196,536	2.3	9,949	5.6	24,224	14,275
TOTAL DISTRIBUTION PLANT	48,702,812	14,799,657		1,706,037		1,675,829	-30,208
GENERAL PLANT							
390.0 - Structures & Improvements	556,927	109,004	2.3	12,809	2.0	11,139	-1,670
391.1 - Data Processing Equipment	73,108	49,348	10.2	7,457	12.5	9,139	1,682
391.2 - Office Furniture	157,682	38,934	4.9	7,726	5.0	7,884	158
391.3 - Office Equipment	268,767	102,806	7.3	19,620	7.3	19,620	0
391.4 - Vax System Equipment	0	0	5.6	0	0	0	0
392.1 - Transp. Equip. - Autos/L. Trucks	1,023,738	479,553	11.6	118,754	12.7	130,015	11,261
392.3 - Transp. Equip. - Other	18,202	14,344	11.3	2,057	5.0	910	-1,147
394.0 - Tools, Shop & Garage Equipment	153,592	126,298	3.5	5,376	3.1	4,761	-615
396.0 - Power Operated Equipment	482,061	385,552	6.0	28,924	7.7	37,119	8,195
397.0 - Communication Equipment	511,842	201,507	7.6	38,900	7.1	36,341	-2,559
398.0 - Miscellaneous Equipment	60,058	44,365	6.7	4,024	6.7	4,024	0
TOTAL GENERAL PLANT	3,305,977	1,551,711		245,647		260,952	15,305
TOTAL PLANT	52,008,789	16,351,368		1,951,684		1,936,781	-14,903