

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: July 10, 2019

TO: Adam J. Teitzman, Commission Clerk, Office of Commission Clerk

FROM: Devlin Higgins^{DH}, Public Utility Analyst IV, Division of Economics

RE: Docket No. 20190056-GU - Petition for approval of 2019 consolidated depreciation study by Florida Public Utilities Company, Florida Public Utilities Company-Indiantown Division, Florida Public Utilities Company-Fort Meade, and Florida Division of Chesapeake Utilities Corporation.

Would you be so kind as to include the attached document titled: "Copy of Staff's First Data Request" to the docket file. Thank you very much.

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STATE OF FLORIDA



DIVISION OF ECONOMICS
JUDY HARLOW
DIRECTOR
(850) 413-6482

Public Service Commission

April 15, 2019

Mike Cassel
Florida Public Utilities Company/
Florida Division of Chesapeake
1750 South 14th Street
Suite 200
Fernandina Beach, FL 32034

Re: Staff's initial review of Florida Public Utilities Company's 2019 Revised Depreciation Study (Natural Gas Divisions)

Mr. Cassel:

Staff has completed its initial review of Florida Public Utilities Company's (Natural Gas Divisions) Revised 2019 Depreciation Study and we have a few questions. Please provide responses to the following data requests by May 17, 2019.

Should you have any questions, or need further information, please do not hesitate to contact Devlin Higgins at (850) 413-6433.

Sincerely,

A handwritten signature in blue ink, appearing to read "Devlin Higgins".

Devlin Higgins
Public Utilities Analyst

Attachment
cc: Beth Keating/Gunster Law Firm
Office of Public Counsel

**Staff's First Data Request regarding Florida Public Utilities Company's 2019
Revised Depreciation Study**

1. Please refer to the 2019 Consolidated Depreciation Study Petition (Petition) by Florida Public Utilities Company, Florida Public Utilities Company - Indiantown Division, Florida Public Utilities Company - Fort Meade, and the Florida Division of Chesapeake Utilities Corporation (FPUC or Company), page 2, for the following request. Has the Regulatory Asset authorized in 2014, initially valued at \$58,452 been fully amortized?¹ If not, please specify the remaining (net) balance, and an estimated date when the regulatory asset will reach full-amortization.
2. Please refer to pages 3-4 of the Petition for the following requests.
 - a. Please further discuss the common asset cost assignment methodology referred to in this section, and how the depreciation rates ultimately ordered in the instant proceeding would effect/apply to FPUC's Electric division. Please describe all inputs/parameters needed for the common asset cost assignment calculation and explain how they are accounted for/considered.
 - b. Please provide any documentation which outlines how and in what proportions "assets and associated rates" will be distributed across the FPUC Companies in Florida, including its Electric Division.
3. Please refer to Revised Attachment 1 of the 2019 Consolidated Depreciation Study (Study), page 3, for the following requests. A portion of the first paragraph reads: "FPUC is in the process of correcting the plant and reserve items that are specifically itemized on Exhibits G and H."

¹ Order No. PSC-14-0698-PAA-GU, issued December 18, 2014, in Docket No. 140016-GU, *In re: 2014 depreciation study by Florida Public Utilities Company.*

- a. Does the quoted passage above imply that the information shown on *Report(s) of Depreciation Data Under Rule 25-6.0436(8)* (schedules provided in “Exhibit G”) are different than the information previously provided in through the Company’s Annual Depreciation Status Reports filed with the Commission in years 2013-2017?
 - b. If the response to (a.) is affirmative, other than the 2019 Study, please specify where (i.e. reports, ledgers etc.) correcting plant and reserve entries have been/are being performed.
4. Please refer to Revised Attachment 1 of the Study, page 5, and Order No. PSC-14-0698-PAA-GU for the following requests. A portion of the first paragraph reads: “[t]he Company continues its endeavor in developing practices and procedures governing retirements and removal costs.”
- a. What is/are the current method for recognizing and recording retirements and removal costs?
 - b. Please further discuss any progress thus far and if there is currently a timeframe when standardized practices and procedures will be fully implemented across all FPUC’s Divisions.
 - c. Please describe or provide examples of any practices and procedures the Company currently foresees/intends to effectuate in the future governing retirements and removal costs.
 - d. Please indicate who within the Company is/will be responsible for developing any future standardization practices and procedures governing plant retirements and removal costs.

- e. On page 6 of Florida Public Service Commission (Commission) Order No. PSC-14-0698-PAA-GU, the Commission wrote “[t]he Company shall implement a procedure of maintaining clear documentation on each gross salvage and [cost of removal] booked so that we can verify these records through the Annual Status Report reviewing process.”² Please further comment on the efficacy thus far in maintaining “clear documentation” of the Company’s gross salvage and removal cost information.
5. Please refer to Revised Attachment 1, page 6, for the following questions.
- a. FPUC indicates on page 5 that “[t]he plastic mains account investment includes \$100,098,436 associated with [Gas Reliability Infrastructure Program] GRIP.” What are the annual and total GRIP-related retirements booked in steel mains account within the period of the instant depreciation study (2014 through 2018)?³
 - b. How many miles in total of GRIP-associated bare steel and cast iron mains have been replaced as of 12/31/2018?
 - c. How many miles of bare steel and cast iron mains have been replaced within the period of the instant depreciation study?
 - d. How many miles in total of plastic mains have been replaced due to the GRIP-related removal of bare steel and cast iron mains?
 - e. How many miles of plastic mains have been replaced within the period of the instant depreciation study (2014 through 2018)?

² Order No. PSC-14-0698-PAA-GU.

³ Order No. PSC-12-0490-TRF-GU, Issued September 24, 2012, in Docket No. 120036-GU, *In re: Joint petition for approval of Gas Reliability Infrastructure Program (GRIP) by Florida Public Utilities Company and the Florida Division of Chesapeake Utilities Corporation.*

6. Please refer to Revised Attachment 1, pages 6-7, for the following question. Please explain why FPUC believes that “while the current retirement dispersion may not accurately reflect today’s retirements, it does reflect future expectations” with respect to its mains accounts (376.1 and 376.2, including GRIP-associated assets).
7. Please refer to Revised Attachment 1, pages 6-7. For clarification purposes, please provide responses for the following questions regarding Federal Energy Regulatory Commission (FERC) Account 376.1 Mains –Plastic, Account 376.2 Mains – Steel, and Account 376G Mains – GRIP.
 - a. Is it correct that the investments booked in Acct 376G are the new plastic pipes that were installed to replace the old bare steel and iron cast pipes, as well as the problematic plastic pipes being replaced under the GRIP initiative? If not, please explain.
 - b. In what account(s) is the investment associated with the 80 remaining miles of bare steel and cast iron mains to be replaced under the GRIP initiative currently being booked?
 - c. In which accounts are the Salvage and Cost Of Removal (COR) of the “GRIP-replaced” bare steel and cast iron pipes as well as the problematic plastic pipes being booked?
8. Please refer to Revised Attachment 1, page 8, Exhibit G, and Exhibit I with respect to Account 379 – Measuring and Regulating Equipment - City Gate for the following questions.
 - a. On page 8 of Revised Attachment 1, FPUC indicated “[t]here have been no retirements making any statistical analysis for life or salvage unreliable.” Data presented in Exhibit G also confirmed that there was no retirement activity

performed during the study period 2014 through 2018. However, FPUC indicated in Revised Attachment 1, page 8, that “[t]he existing negative salvage of 5% recognizes some removal cost with the retirement of the equipment in this account.” Please reconcile these two statements. Does FPUC expect certain retirements to be incurred for the period 2019 through 2023?

- b. Referring to Exhibit G (2014), please explain the cause of COR of (\$13,211) recorded, given that there is no retirement activity for the year.
 - c. Referring to Exhibit G (2015), please explain the cause of COR of (\$4,175) recorded, given that there is no retirement activity for the year.
9. Please refer to Revised Attachment 1 of the Study, page 11 for the following request. For clarification purposes, is the Company requesting the establishment of a Regulatory Asset in the amount of \$1,350,980 (to be amortized over five years) resulting from its proposal of switching to Vintage Group Amortization of certain General Plant accounts? If so, what date would the amortization begin?
 10. Are the assets currently recorded in FERC Accounts: 376.1, 376.2, 380.1, and 380.2, subject to replacement under the GRIP initiative? If so, please specify the estimated dollar amount of future GRIP-related retirements for each of the afore listed accounts.
 11. Please refer to Exhibit G. (2013). Please describe the nature of the Plant adjustment in the amount of \$239,228 for Account 376.1 – Mains - plastic.
 12. Please refer to Exhibit G. (2013). Please describe the nature of the Plant adjustment in the amount of (\$35,125) recorded to Account 376.2 – Mains - Steel.
 13. Please refer to Exhibit G (2013), Account 378 – Measuring and Regulating Equipment – General. Please explain the cause of COR of (\$8,599), given that there is no retirement recorded for the year.

14. Please refer to Exhibit G. (2013). Please describe the nature of the Plant adjustment in the amount of (\$110,695) for Account 380.1 - Service – Plastic.
15. Referring to Exhibit G. (2014), for Account 378 – Measuring and Regulating Equipment – General, please explain the cause of COR of (\$4,299) recorded, given that there is no retirement activity for the year.
16. Please refer to Exhibit G. (2014). Please describe the nature of the Plant adjustment in the amount of (\$389,967) for Account 380.1 - Services – Plastic.
17. Please refer to Exhibit G. (2014). For Account 382 – Meter - Installations, please explain the cause of COR of (\$103,142) recorded, given that there is no retirement activity for the year.
18. Please refer to Exhibit G. (2014). Please briefly describe the nature of the retirement amount of \$673,241 for Account 390 – Structures & Improvements.
19. Please refer to Exhibit G. (2015). Please describe the nature of the Plant adjustment in the amount of (\$22,642) for Account 376.1 – Mains - Plastic.
20. Please refer to Exhibit G. (2015). Please describe the nature of the Plant adjustment in the amount of (\$4,886) for Account 380.1 - Service – Plastic.
21. Please refer to Exhibit G. (2015). Please describe the nature of the Plant adjustment in the amount of \$14,284 for Account 382 – Meter Installations.
22. Please refer to Exhibit G. (2015) for the following questions.
 - a. Given the nature of the assets booked in Account No. 389 – Land and Land Rights, and having no retirements recorded over the study period, please explain what caused the COR of \$1,318 incurred in this account.
 - b. It appears that FPUC recorded COR of (\$1,318) in Account 390 – Structures & Improvements. Is it possible that FPUC intended to record a transfer of \$1,318

between Accounts 389 and 390? If so, please make necessary correction to the Exhibit. If not, please explain.

23. Please refer to Exhibit G. (2016). Please explain the cause of COR of (\$64,280) for Account 382 – Meter Installations given that there is no retirement activity for the year.
24. Please refer to Exhibit G. (2016). Please describe the nature of the Plant adjustment in the amount of (\$75,301) for Account 387 – Other Equipment.
25. Please refer to Exhibit G. (2016). Please describe the nature of the reserve adjustment in the amount of (\$20,738) to Account 392.4 – Transportation - Other.
26. Referring to Exhibit G. (2017) for Account 378 – Measuring and Regulating Equipment – General, please explain the COR charge of (\$23,565) given there is no retirement activity for the year.
27. Please refer to Exhibit G. (2017). Please describe the nature of the Plant adjustment in the amount of \$921,498 for Account 380.1 - Service – Plastic.
28. Please refer to Exhibit G. (2017). Please explain the nature and cause for the Plant reduction in the amount of (\$3,982,202) that was recorded to Account 389 Land and Land Rights. Please identify the account(s), if any, to which the investment was transferred.
29. Please refer to Exhibit G. (2017) for the following requests.
 - a. Please briefly describe the nature of the plant adjustment in the amount of (\$115,086) for Account 390 – Structures & Improvements.
 - b. Please briefly describe the nature of the plant adjustment in the amount of (\$1,210,379) for Account 392.1 – Transportation – Cars.

30. Referring to Exhibit G. (2018) for Account 378 – Measuring and Regulating Equipment – General, please explain the respective causes of Gross Salvage of \$5,509 and COR of (\$13,373) given that there is no retirement activity for the year.
31. Please refer to Exhibit G. (2018). Please fully explain all plant and reserve entries associated with Account 392.3 – Transportation – Heavy Trucks for the year.
32. Please explain the differences (i.e. asset types) among the following land- and land-rights-related distribution accounts: Account No. 389 – Land and Land Rights, Account No. 374 – Land, and Account No. 374.1 – Land Rights.
33. With respect to the Company’s transportation accounts (392.1, 392.2, 392.3, and 392.4), please generally discuss what types of costs are incurred as part of these accounts COR charges.
34. Please refer to Exhibit J. of the Study for the following request. Please define the acronyms listed under column “CO.”
35. Please refer to Revised Attachment 1, Exhibit G 2018, as well as Exhibits AA, CC, and DD. As shown in Table 1 below, it appears that for certain distribution accounts, the Plant in Service 2018 ending balance, as reported in Exhibit G 2018, is different from the corresponding plant investment on 1/1/19, as reported in Exhibits AA, CC and DD. Please provide explanation and reconciliation.

Table 1
Comparison of FPUC’s Reported Plant in Service 12/31/18 Ending Balance and 1/1/19 Beginning Balance for Certain Distribution Accounts

| Distribution Account | | Plant in Service | | Difference |
|----------------------|-----------------|----------------------------|-------------------------------------|------------|
| No. | Name | Exh. G 2018 Ending Balance | Exhs. AA, CC & DD 1/1/19 Investment | |
| 376.1 | Mains - Plastic | \$93,906,023 | \$93,902,357 | \$3,666 |
| 376.2 | Mains - Steel | \$60,145,894 | \$60,146,931 | (\$1,037) |

Table 1
Comparison of FPUC's Reported Plant in Service 12/31/18 Ending Balance and 1/1/19 Beginning Balance for Certain Distribution Accounts

| Distribution Account | | Plant in Service | | Difference |
|----------------------|---|----------------------------|-------------------------------------|------------|
| No. | Name | Exh. G 2018 Ending Balance | Exhs. AA, CC & DD 1/1/19 Investment | |
| 379 | Measuring & Regulating Equip. - City Gate | \$13,017,664 | \$13,020,294 | (\$2,630) |
| 381.1 | Meters - AMR Equip. | \$2,216,411 | \$2,232,914 | (\$16,503) |
| 382.1 | Meter Installation - MTU/DUC | \$593,040 | \$596,662 | (\$3,622) |

36. Please refer to Revised Attachment 1, Exhibit K *AVERAGE AGE AT 12/31/18* and Exhibit AA *COMPARISON OF CURRENT PROPOSED DEPRECIATION COPONENTS*. It appears that the average age of certain distribution accounts are reported differently in these two exhibits as shown in Table 2 below. Please provide an explanation and reconciliation.

Table 2
Average Age of Certain Accounts

| Distribution Account | | Average Age (Years) | |
|----------------------|--------------------|---------------------|---------------------|
| No. | Name | Reported in Exh. K | Reported in Exh. AA |
| 376.1 | Mains - Plastic | 11.7 | 7.3 |
| 376G | Mains - GRIP | 3.3 | 7.3 |
| 380.1 | Services - Plastic | 11.9 | 9.0 |
| 380G | Services - GRIP | 3.3 | 9.0 |

37. Please refer to Revised Attachment 1, Exhibit G 2016, pages 50/86 and 51/86. It appears that there are reporting discrepancies between these two pages as shown in Table 3 below. Please provide explanation and reconciliation.

Table 3
Reporting Discrepancies

| Schedule | Column | Account | Value reported on page 50/86 | Value reported on page 51/86 |
|----------|----------|---------|------------------------------|------------------------------|
| Reserve | Accruals | 380.1 | \$1,111,798 | \$1,198,324 |

Table 3
Reporting Discrepancies

| Schedule | Column | Account | Value reported on page 50/86 | Value reported on page 51/86 |
|-----------------|---------------|----------------|-------------------------------------|-------------------------------------|
| Reserve | COR | 380.1 | (\$577,358) | (\$522,678) |
| Reserve | Adjustments | 376.1 | \$583 | \$555 |
| Reserve | Adjustments | 376.2 | (\$181) | (\$143) |
| Reserve | Adjustments | 379 | (\$596) | (\$206) |

38. Please refer to Revised Attachment 1, Exhibit DD. It appears that based on its proposed depreciation life and salvage parameters, FPUC would have a reserve deficiency of \$2.3 million at the beginning of 2019.

- a. Does the Company intend to propose any reserve transfers as part of its 2019 depreciation rate proposals? Please explain your response.
- b. Hypothetically, if staff were to recommend, and the Commission ultimately approve reserve transfers, please discuss any issues the Company may foresee in effectuating singular reserve transfers that would effect/apply to all FPUC (natural gas) divisions.