GUNSTER
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 to Staff's Second Set of 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,

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

Cc: Jennifer Crawford (OGC)
Ryan Sandy (OGC)

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 RESPONSE TO STAFF'S SECOND DATA REQUESTS

1. Would a Commission order stating, "The cost associated with the duties listed in paragraph 10 of the petition should be capitalized" be sufficient to satisfy GAAP and Chesapeake's capitalization guideline concerns?

   FPUC Response: Yes, if the Commission established an order giving FPUC the ability to capitalize dollars otherwise not allowed by GAAP the Public Service Commission's order would override the GAAP standard otherwise followed.

   Recently, on August 31, 2022, the Maryland Commission approved the Company's request for approval of its CIS Regulatory Asset with a succinct Letter Order stating:

   After considering this matter at the August 31, 2022 Administrative Meeting, the Commission authorized the Company to implement a regulatory asset as described in the filing pending review and examination of costs in a future rate case.

   For reference, The Company has included both that Letter Order (Attachment PSC 2-1a) and MD PSC Staff's comments (Attachment PSC 2-1b).

2. According to paragraph seven of the petition, the "non-capitalizable" implementation costs of the new CIS is $9.5 million, and the capitalizable implementation costs of the new CIS is $30.5. If the Commission were to approve the petition and allow FPUC to establish a regulatory asset, would the amortization of the $9.5 million and the depreciation of the capitalized $30.5 million both begin on January 1, 2025? If not, please explain in detail.

   FPUC Response: Yes, both the depreciation and amortization would start once the CIS system is in service. Any additional trailing costs associated with post implementation costs would result in a true up the amortization amount in the period incurred and the remaining subsequently amortized as appropriate.

3. The Federal Energy Regulatory Commission issued a Notice of Proposed Rulemaking that, in pertinent part, would modify its Uniform System of Accounts by creating new accounts for computer hardware, software and communication equipment. If this results in new accounts that are effective prior to January 1, 2025, what potential impacts would this have on how FPUC accounts for the new CIS?

   FPUC Response: There would be minimal impact to FPUC. The CIS assets would be transferred in the system to the newly created applicable accounts when placed in service and any adjustments necessary to deprecation would be made at that time.

4. In the Utility's response to Question 7 of Staff's First Data Request, it stated that "FPUC is required to follow Accounting Standards Codification 980, Regulated Operations, ('ASC 980') for the treatment of certain costs as prescribed by the regulator." Based on Staff's review of Commission's rules, there are no rules that specifically require jurisdictional electric or gas IOUs to follow ASC 980. Staff notes that Provision (2) of Rule 25-14.012, Accounting for Postretirement Benefits Other Than Pensions, does state, in pertinent part, the following: ". . . Deferral accounting under Statement of Financial Accounting Standards No. 71 (Accounting for the Effects of Certain Types of Regulation, December 1982 shall not be used to account for the costs of post retirement benefits other than pensions without prior Commission approval." Staff recognizes that SFAF 71 is the predecessor accounting standard for ASC 980; however, this rule addresses postretirement benefits other than pensions not costs associated with a customer information system investment. Please identify whether there is a Commission rule that requires regulated electric and gas utilities to follow ASC 980.

   FPUC Response: As a publicly-traded corporation FPUC defaults to all GAAP standards if no formal Commission rule is in place that would supersede the GAAP accounting standards. There is no defined Commission rule that requires regulated electric and gas utilities to follow ASC 980, however, it is the guidance that supports our past requests for establishing a regulated asset for those costs which are not capitalizable under the GAAP standards but add value to the asset by either extending its life or getting it to used and useful.

STATE OF MARYLAND

PUBLIC SERVICE COMMISSION

#12, 8/31/22 AM; ML# 241655, A-2755

August 31, 2022

Brian M. Quinn, Esq.
Venable, LLP
210 W. Pennsylvania Avenue, Suite 500
Towson, MD 21204
BQuinn@Venable.com

Dear Mr. Quinn:

The Commission has reviewed the Request filed on July 27, 2022 by Chesapeake Utilities Corporation to Establish a Regulatory Asset.

After considering this matter at the August 31, 2022 Administrative Meeting, the Commission authorized the Company to implement a regulatory asset as described in the filing pending review and examination of costs in a future rate case.

By Direction of the Commission,

/s/ Andrew S. Johnston

Andrew S. Johnston
Executive Secretary

ASJ/st

STATE OF MARYLAND
PUBLIC SERVICE COMMISSION

NUMBER: A2755
DATE: August 5, 2022
MAIL LOG NO.: 241655

TO: Jason M. Stanek, Chairman
Michael T. Richard, Commissioner
Anthony J. O'Donnell, Commissioner
Odogwu Obi Linton, Commissioner
Patrice M. Bubar, Commissioner

FROM: Anthony Myers, Executive Director MP for AM

Re: Request by Chesapeake Utilities Corporation to Establish a Regulatory Asset

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Description of Application:

On July 27, 2022, Chesapeake Utilities Corporation ("Chesapeake") filed a request to establish a regulatory asset regarding costs expected to be incurred related to the implementation of a new customer information system.

Parties which should receive a copy of Staff Recommendations:

Maryland Office of People's Counsel
Chesapeake Utilities Corporation

Recommended Action:

Staff recommends that Chesapeake be authorized to implement a regulatory asset as described in the filing pending review and examination of costs in a future rate case.

Jamie Smith
Jamie Smith
Director
Accounting Investigations Division

Michael A. Dean for
Lloyd J. Spivak
Staff Counsel

Commission Action on ______________________:

Approved ___ Disapproved ___ Accept for Filing ____

cc: H. Robert Erwin, Jr., General Counsel
Andrew S. Johnston, Executive Secretary
Ryan C. McLean, Chief Public Utility Law Judge
Stephanie Bolton, Director, Consumer Affairs Division
Tori Leonard, Director of Communications

Summary of Filing

Chesapeake requests authority to establish a regulatory asset for costs it expects to incur related to the implementation of a new customer information system.

Applicable Law

In accordance with the provisions of §4-101 and §4-202, of the Maryland Public Utilities Article, Annotated Code of Maryland, a utility must assess just and reasonable rates.

Background

Chesapeake Utilities Corporation is a holding company that provides gas and electric service in Maryland, Delaware and Florida. In Maryland, Chesapeake provides gas service through three (3) distribution affiliates- Chesapeake Utilities Corporation, Maryland Division, Sandpiper Energy, and Elkton Gas.

Elkton Gas, a distribution affiliate servicing Cecil County, Maryland, became an affiliate of Chesapeake upon its acquisition from South Jersey Industries by Chesapeake in 2020 as approved by Commission Order No. 89570 in Case No. 9632 on August 20, 2020.

Sandpiper Energy, servicing residents in Worcester County, Maryland, became an affiliate of Chesapeake pursuant to Order No. 85622 in Case No. 9303. In case No. 9410 the Commission approved a settlement that among other things, scheduled the conversion of Sandpiper's existing propane customers to natural gas service. The agreement contains specific language directing the Company to file a base rate case within the later of a) 6 years from the approval date or b) within 6 months after converting at least 80 percent of the system to natural gas service. The 6 year conversion schedule calls for a rate case to be filed by the Company circa 2023.

The Maryland division of Chesapeake Utilities last filed for rates in 2006, Case No. 9062.

By letter Order dated March 11, 2020; the Commission approved a request by Chesapeake to establish a regulatory asset related to the termination of its defined benefit plan pending review in a rate case to be conducted within 3 years.

On July 18, 2022, the Commission approved a request filed by Chesapeake and Sandpiper to defer the deadline for their respective rate cases such that Chesapeake, Sandpiper and Elkton Gas will file an unconsolidated base rate case for their respective operations not later than January 31, 2024.

Comments

On July 27, 2027, Chesapeake filed a request to defer costs related to the implementation of a new customer information system. Chesapeake notes the system is expected to cost approximately $40 million and be operational in 2025. Of the total costs expected to be incurred for the system, Chesapeake indicates accounting rules prohibit approximately $9.3 million of costs from being capitalized. Chesapeake indicates the approximately $1.3 million would relate be allocated to Chesapeake's Maryland distribution affiliates.

A request to defer costs into a regulatory asset is a fairly routine action for companies subject to rate regulation that can occur with regard to costs that are unusual in nature, non-recurring or extraordinary. Failure to approve a deferral would necessarily mean the costs would be charged against income in the current period. During the period costs are deferred, none of the costs in the regulatory asset should incur carrying charges. The deferral is simply an accounting maneuver that temporarily moves the costs out of operations until such time they can be properly reviewed and examined. Ultimately, the costs in question will be examined in a rate case and with those costs deemed to be appropriate for recovery will be amortized over an appropriate period. Based on the nature of the costs, and the age of the Company's existing systems, I believe it is appropriate for Chesapeake to establish a regulatory asset related to the non-capitalized charges expected to be incurred in regard to Chesapeake's new customer information system.

Recommendation

Staff recommends that Chesapeake be authorized to implement a regulatory asset as described in the filing pending review and examination of costs in a future rate case.

David Valcarenghi
David Valcarenghi
Accounting Investigations Division