113

FPUC's Responses to OPC's Fifth Set of Interrogatories, Nos. 158-161

(Including Attachments)

Interrogatory No. 158

INTERROGATORIES

158. Parent debt adjustment. Please refer to the rebuttal testimony of Michael Reno and to MFR Schedules G-2 and G-3.

a. Page 2, lines 14-16 indicates that the parent company, Chesapeake Utilities Corporation ("CUC") maintains all of the third-party debt. Identify the CUC capital structuring showing the common equity and third-party debt amounts and the cost rate for the third- party debt components that are held at CUC as of 12/31/2021 and projected for 12/31/2022 and 12/31/2023.

Company Response:

All of the debt shown on MFR G-3 page 3 of 11 is CUC debt, with the exception of line 16, which relates directly to FPUC unamortized debt costs on a borrowing that was retired before its scheduled maturity. The short-term debt on MFR G-3 page 4 of 11 is also CUC debt. None is held by FPUC. In addition, MFR G-3 page 6 of 11 equity & MFR G-3 page 8 of 11 relates to CUC stock and bond issues. The divisions do maintain retained earnings accounts which are consolidated into CUC. The division amounts were not included in the filing's capital structure, since the consolidated capital structure was used. MFR G-3 page 1 of 11 and page 2 of 11 both contain boxes at the bottom of the schedule that show the parent equity, long-term and short-term debt and the ratios. The ratios were used to allocate rate base after the cost of capital components that are direct (customer deposits, deferred taxes, and regulatory tax liability) were reduced from rate base.

Respondent: Noah Russell

Interrogatory No. 158 (b)

b. Provide the Company's definition of "third party debt".

Company Response:

Third party debt is intended to mean all interest-bearing debt instruments owed to CUC's private placement lenders (who hold all the long-term debt) and banks participating in the $400 million credit facility. The FPUC companies are not borrowers under CUC's current debt instruments.

Respondent: Noah Russell

Interrogatory No. 159

159. Third part debt and Accounts Payable to Associated Companies.

a. Please explain how the amounts that FPUC records for Accounts Payable to Associated Companies are being treated by the Company in rate base, capital structure and operating expenses for the current rate case? Please explain fully and identify amounts for the test year for the four FPUC gas utilities combined and for each utility.

Company Response:

Intercompany accounts are shown in the working capital schedule but are excluded from rate base because they are the funding source, along with the direct earnings from the division, for the utility's investments and operating costs. As a result, the CUC equity and debt ratios are used in calculating the division's capital structure. Although accounts receivable/(payable) are shown in the working capital schedule, MFR G-1 page 2, line 11, they are removed in the adjustment columns.

The amounts by division for these schedules have been provided in an Excel version of the MFR's to OPC. The 13-month average amounts from those schedules, related to each division before being adjusted out, are:

	2021	2022	2023
FPUC	$(86,817,759)	$(100,361,311)	$(95,355,445)
CFG	(31,951,553)	(30,236,136)	(28,261,140)
Indiantown	(1,919,827)	(2,010,051)	(2,133,205)
Ft. Meade	(1,969,558)	(2,011,988)	(2,099,434)
Total	$(122,658,697)	$(134,619,486)	$(127,849,224)
Florida Common*	$ (54,138,235)	$ (58,589,670)	$(54,974,244)

*Before Allocation to regulated and non-regulated divisions which was not done because the amounts were removed from working capital.

Respondent: Michael Galtman

Interrogatory No. 159 (b)

b. To which associated companies is the amount shown for 2021 of $110,099,346 as "Accounts Payable to Associated Companies" account? Please identify each "associated company" to which such amounts were payable and explain why amounts were owed by FPUC to each of those associated companies.

Company Response:

To clarify, the amount of $110,099,346 shown above is the year-end balance in the FPUC division's 2021 Annual Report filed with the Commission and not the consolidated year-end balance provided in the minimum filing requirements Schedule B-1 page 2 of 8. Please refer to the attached file "OPC ROG 159b". FPUC participates in a centralized cash management program within Chesapeake Utilities where operating expenses and capital needs are recorded through the Accounts Payable to Associated Companies. The cumulative balance in the Accounts Payable to Associated Companies account can be the result of many different types of transactions where the operating expense or capital payments would be recorded as debit entry. In such a case, the Accounts Payable to Associated Companies line is where our accounting system generates the necessary offsetting balancing entry. General examples of common situations that utilize the Accounts Payable to Associated Companies include: capital investment, normal operating expenses, intercompany sharing of costs including Corporate allocations, invoices paid out of one business unit but the services provided relate to multiple business units, movement of employees and their associated costs across the organization, transfers/sales of assets from one entity to another, reclassification entries to correct clerical errors (ex. improper coding on invoices), and many other situations that could arise that require an entry to be recorded across two or more entities.

Respondent: Michael Galtman

Interrogatory No. 159 (c)

c. Is any interest or financing costs charged on any of the amounts that FPUC records in the "Accounts Payable to Associated Companies" account? If not, please explain fully why not. If so, please identify the interest and financing charges.

Company Response:

No, interest or financing costs are not charged on any of the Accounts Payable to Associated Companies. Our normal practice is not to charge interest on Accounts Payable to Associated Companies because these amounts eliminate in consolidation for Chesapeake Utilities as part of centralized cash management. As a result, we utilize the Chesapeake Utilities capital structure when calculating the cost of capital for the Companies after recognizing direct assignment for customer deposits, deferred taxes and regulatory tax liabilities.

Respondent: Michael Galtman

Interrogatory No. 159 (d)

d. What amounts are provided for the "Accounts Payable to Associated Companies" for 12/31/2022 and 12/31/2023 for the combined FPUC gas utilities and for each of the four FPUC gas utilities?

Company Response:

Please refer to the response to the attached file "OPC ROG 159d-AP".

Respondent: Michael Galtman

e. Does the Company agree that the amounts recorded by the combined FPUC gas utilities into the account "Accounts Payable to Associated Companies" are the result of making two-sided accounting journal entries, in which the amounts in the "Accounts Payable to Associated Companies" account represent a liability (i.e., credit balance) and there are related accounting entries (charges or accounting debits)? If not, please explain fully why not. If so, identify and provide the journal entries.

Company Response:

Yes, these are two line entries with a corresponding debit being record for each amount recorded to the Accounts Payable to Associated Companies. These amounts are being used to fund investments and operating expenses or capital payments of the division.

Respondent: Michael Galtman

Interrogatory No. 159 (f)

f. Refer to part d of this request and the change in the balance of the "Accounts Payable to Associated Companies" projected to occur from 12/31/2022 to 12/31/2023, what accounts are projected to be charged and how much is projected to be charged to each account?

Company Response:

We projected 2022 and 2023 capital investments, balance sheet asset and liability accounts, and operating expenses based on anticipated capital projects and other known amounts or historical account trends. The Accounts Payable to Associated Companies and the Unappropriated Retained Earnings on the individual balance sheets were adjusted for the difference. These accounts are ultimately replaced with the allocated CUC capital structure.

Respondent: Michael Galtman

Interrogatory No. 159 (g)

g. The "Accounts Payable to Associated Companies" for FPUC decreased from $293,418,088 to $71,323,541 from 2018 to 2019. Please explain what caused the large decrease in that balance from 2018 to 2019 and indicate what accounts were credited and by how much related to the reduction in that affiliated payable liability.

Company Response:

To clarify, the amounts above are from FERC reported year-end balances for the FPUC (FN) division for 12/31/2018 and 12/31/2019. The minimum filing schedules were based on consolidated numbers and did not contain 2018 and 2019 balances for intercompany payables/receivables. That said, there is not a decrease in the general ledger account for $222,094,547 as it appears based on the question.

In 2018, the Company recorded intercompany payables separate from receivables. The account receivable portion was included on page 6, line 27 as $233,311,206 and the account payable portion was shown on page 7 line 29 as $293,418,088. The net of these amounts is a net liability of $60,106,882. In the 2019 FERC report, both the 2018 net balance of $60,106,882 and the 2019 net balance of $71,323,541 are shown on page 7 line 29. The actual difference between the years is $11,216,659 which is mainly due to normal capital investments and operation.

Respondent: Michael Galtman

Interrogatory No. 160

160. Parent debt adjustment. Please refer to the rebuttal testimony of Michael Reno and to MFR Schedules G-2 and G-3.

a. Identify the CUC equity investment in each of the four FPUC gas distribution utilities as of 12/31/2021 and projected for 12/31/2022 and 12/31/2023.

Company Response:

CUC's equity investment in the divisions is presented below:

CUC's Equity Investment Based on 13-Month Averages

	FPUC	CFG	Indiantown	Ft. Meade	Total
2021	$ 249,589,657	$ 94,611,917	$ 1,580,994	$ 1,609,003	$ 347,391,571
Projected 2022	$ 276,237,845	$ 97,303,808	$ 1,527,792	$ 1,638,734	$ 376,708,179
Projected 2023	$ 282,189,501	$ 98,150,937	$ 1,526,323	$ 1,677,879	$ 383,544,640

Since the divisions participate in CUC's consolidated cash management program, the equity investment consists of the Accounts Payable with Affiliated Companies, Retained Earnings for the divisions and the applicable allocation for common plant, common CWIP and common accumulated depreciation for the respective division.

Respondent: Michael Galtman

Interrogatory No. 160 (b)

b. Show in detail how the CUC common equity and third party debt components are allocated to each of the four FPUC gas distribution utilities as of 12/31/2021 and projected for 12/31/2022 and 12/31/2023.

Company Response:

Please refer to the attached file "OPC ROG 160b".

Respondent: Noah Russell

Interrogatory No. 160 (c)

c. Show the third-party debt to total capital ratio for CUC as of 12/31/2021 and projected for 12/31/2022 and 12/31/2023.

Company Response:

Please refer to the information in the box at the bottom of MFR Schedule G-3 page 1 for 2022 and MFR Schedule G-3 page 2 for 2023 for the debt to capital ratio used in the filing.

Respondent: Noah Russell

Interrogatory No. 160 (d)

d. Are the third-party debt to total capital ratios for the four FPUC gas utilities combined and for each FPUC gas utility shown on Schedule G-3? If not, please provide the third-party debt to total capital ratios for the four FPUC gas utilities combined and for each FPUC gas utility as of 12/31/2021 and projected for 12/31/2022 and 12/31/2023.

Company Response:

Yes, the same corporate allocation percentages are used for all four divisions and for the consolidated basis.

Respondent: Noah Russell

Interrogatory No. 160 (e)

e. Does the parent, CUC, have a higher ratio of third-party debt to total capital than the four FPUC gas distribution utilities combined? If so, explain fully how the higher debt to total capital at the parent, CUC, is not providing leverage.

Company Response:

Yes, due to a specific debt instrument that is secured by the assets of another Chesapeake subsidiary. The security interest granted under this arrangement directly ties the financing of another subsidiaries' assets and precludes it from providing leverage to FPUC.

Respondent: Noah Russell

161. Parent debt adjustment. Please refer to the rebuttal testimony of Michael Reno and to MFR Schedule G-3.

a. Provide the cost rate for the $660,072,946 parent long-term debt amount and the dollar amount of interest expense related to that parent long-term debt.

Company Response:

All of the information provided on G-3 page 3 of 11 is related to the parent except the amount on line 16 which relates the unamortized debt costs of a retired FPUC debt. The schedule shows the amount and the interest expense.

Respondent: Noah Russell

Interrogatory No. 161 (b)

b. Provide the cost rate for the $92,381,195 parent short-term debt amount and the dollar amount of interest expense related to that parent long-term debt.

Company Response:

MFR G-3 page 4 of 11 is all related to the parent and shows the dollar amount and the interest expense.

Respondent: Noah Russell

Interrogatory No. 161 (c)

c. Please confirm that it is FPUC's position that no portion of the $205,350,391 common equity amount listed on Schedule G-3 consolidated, page 2 of 11, line 1 in the "Adjusted" column is in any way financed by debt at the CUC parent company level. If this cannot be confirmed, explain fully.

Company Response:

Confirmed.

Respondent: Noah Russell

DOCKET No.: 20220067-GU

d. Please confirm that no portion of the $148,548,502 long-term debt amount listed on Schedule G-3 consolidated, page 2 of 11, line 2 in the "Adjusted" column is actually recorded on the books of any of the FPUC gas utilities. If this cannot be confirmed, explain fully and identify the amounts of that long-term debt that is recorded on the books of the FPUC gas utilities.

Company Response:

We are confirming that no portion of the $148,548,502 in long-term debt is recorded on FPUC's books.

Respondent: Noah Russell

Interrogatory No. 161 (e)

e. Please confirm that no portion of the $20,789,980 short-term debt amount listed on Schedule G-3 consolidated, page 2 of 11, line 3 in the "Adjusted" column is actually recorded on the books of any of the FPUC gas utilities. If this cannot be confirmed, explain fully and identify the amounts of that short-term debt that is recorded on the books of the FPUC gas utilities.

Company Response:

We are confirming that no portion of the $20,789,980 in short-term debt is recorded on FPUC's books.

Respondent: Noah Russell

Interrogatory No. 161 (f)

f. Are all of the common equity, long-term debt and short-term debt amounts that are listed on Schedule G-3 allocated to the FPUC gas utilities from the parent company, CUC? If not, explain which amounts are allocated from CUC and which amounts are recorded on the books of each FPUC gas utility.

Company Response:

Yes. These are all allocations of our rate base using the parent Company's debt and equity ratios.

Respondent: Noah Russell

20220067.GU Staff Hearing Exhibit 00532

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities – Fort Meade and Florida Public Utilities – Indiantown Division	) Docket No. 20220067-GU)))) Filed:

DECLARATION

I hereby certify and affirm that I sponsored the Company's responses to CITIZENS' FIFTH SET OF INTERROGATORIES TO FLORIDA PUBLIC UTILITIES COMPANY, Nos. 158, and 160b to 160e in Docket No. 20220067-GU. The responses are true and correct to the best of my knowledge.

Under penalty of perjury, I declare that I have read the foregoing declaration and the interrogatory responses identified above, and that the facts stated therein are true.

Noah T. Russell

Noah Russell, Declarant

Dated: 10/10/22

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities – Fort Meade and Florida Public Utilities – Indiantown Division	) Docket No. 20220067-GU)))) Filed:

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I hereby certify and affirm that I sponsored the Company's responses to CITIZENS' FIFTH SET OF INTERROGATORIES TO FLORIDA PUBLIC UTILITIES COMPANY, Nos. 159, and 160a in Docket No. 20220067-GU. The responses are true and correct to the best of my knowledge.

Under penalty of perjury, I declare that I have read the foregoing declaration and the interrogatory responses identified above, and that the facts stated therein are true.

Michael Galtman, Declarant

Dated: 10/6/22