




STATE OF DELAWARE

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February 21, 2018

TO: The Chair and Members of the Commission

FROM: Jason R. Smith, Public Utility Analyst 

SUBJECT: IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION DELAWARE DIVISION'S REQUEST TO REVIEW THE DEPRECIATION RATE FOR FERC ACCOUNT 390 GENERAL PLANT-STRUCTURES AND IMPROVEMENTS (FILED OCTOBER 4, 2017) – PSC DOCKET NO. 17-1077

Background

On October 4, 2017, Chesapeake Utilities Corporation (“Chesapeake” or “Company”) filed a request (the “Application”) with the Delaware Public Service Commission (the “Commission”) to review the depreciation rate for FERC Account 390 – General Plant-Structures & Improvements. Chesapeake is required to maintain its books and records in accordance with the Federal Energy Regulatory Commission’s (“FERC”) Uniform System of Accounts (“USofA”). The USofA provides basic account descriptions and accounting definitions that are useful in understanding the information reported in FERC Annual Report Form No. 2, Annual Report Form No. 2-A, and Quarterly Report Form No. 3-Q.¹

The Commission has the authority to review and determine an appropriate depreciation rate for each regulated public utility.² Typically, depreciation rates are reviewed in the context of a base rate proceeding with the completion of a depreciation study if the utility proposes to change any of its rates.³ The Company most recently had proposed changes to its depreciation rates during its 2007 base rate proceeding (PSC Docket No. 07-186). In this docket, on September 2, 2008, the Commission issued Order No. 7434, approving a settlement agreement, a part of which contained a schedule governing the depreciation rates set for the Company. A copy of this schedule has been attached to this memorandum as **Exhibit “A”** for reference.

¹ See Federal Energy Regulatory Commission, Uniform System of Accounts, <https://www.ferc.gov/enforcement/acct-matts/usofa.asp> (last visited February 5, 2018).

² See [26 Del. C. § 313](#).

³ See [26 Del. Admin. C. § 1002-5.3.7](#).

FERC Account 390 is designated for a gas utilities general plant account for structures and improvements. A description of the account defined in the USofA is as follows:

390 – Structures and improvements. This account shall include the cost in place of structures and improvements used for utility purposes, the cost of which is not properly includible in other structures and improvements accounts. (See gas plant instruction 8.)

Application

The Company began construction on a new campus in Dover for its operations of the Delaware Division and other subsidiaries.⁴ Prior to the initiation of the new building construction, the Company had little to no dollars associated to FERC Account 390 since the issuance of Order No. 7434.⁵ Thus, it was not noticed until recently that the schedule governing depreciation for this particular account had a depreciation rate of 20.0% (See Exhibit “A”). The Company has requested that a more appropriate depreciation rate of 2.0% be approved for this particular account.⁶

Staff’s Review and Recommendation

Staff has performed a review of Chesapeake’s Application and conducted its own research and investigation. Staff reviewed all documents associated with PSC Docket No. 07-186, particularly looking for any work papers, notes, internal documents, or other testimonies relating to this specific issue. Staff was only able to successfully uncover one document relating to FERC Account 390. Schedule RCS-13 contained in the direct testimony of Staff Witness Ralph C. Smith, filed on December 14, 2017, lists FERC Account 390 with a 0.00% depreciation rate. It appears that this rate may have been recommended primarily due to the fact that the Company had not recorded any dollars in this account during its proposed test period during that proceeding; however there is no testimony or other records to support that assertion.

⁴ See The News Journal, *Chesapeake Utilities breaks ground on \$26M Dover campus*, 2016, <https://www.delawareonline.com/story/money/business/2016/10/17/chesaepake-utilities-breaks-ground-26m-dover-campus/92287264/>

⁵ See Paragraph 2, *Application of Chesapeake Utilities Corporation*, Docket No. 17-1077.

⁶ See Paragraph 2, *Application of Chesapeake Utilities Corporation*, Docket No. 17-1077.

The Company did file a depreciation rate study in this proceeding through the direct testimony of Company Witness Paul M. Normand (July 6, 2007), however Mr. Normand's study does not directly address FERC Account 390.

Almost ten years have passed since the issuance of Order No. 7434, and all of the individuals involved in that proceeding are no longer available for consultation. It still remains unclear how the Parties arrived at a 20.0% depreciation rate as listed in Exhibit "A". It would appear that an unnoticed typo or calculation error may have occurred sometime during the drafting of the depreciation schedule for attachment to the settlement agreement in that proceeding.

Staff agrees that in this particular instance a 20.0% depreciation rate is unusually high and not appropriate for this particular account. For comparison purposes, Delaware's other LDC⁷ of natural gas, Delmarva Power & Light Company, presently has a depreciation rate of 2.10% for FERC Account 390.⁸

Based on Staff's review of the Company's Application, Staff does not believe it to be unreasonable to modify the Company's depreciation rate to 2.0% for FERC Account 390 on a temporary basis until the Company has had an opportunity to conduct a complete depreciation study and present its results in a future base rate case proceeding. Staff believes that the Company should consider conducting a complete depreciation study for either its next or subsequent base rate proceeding. Therefore, Staff respectfully recommends that the Commission grant the Company's request to change its depreciation rate on a temporary basis until such a time that a complete depreciation study has been conducted and offered for review and consideration.

⁷ A Local Distribution Company is a regulated utility involved in the delivery of natural gas to consumers within a specific geographic area.

⁸ See Exhibit 1 (Gas Depreciation Rate Schedule) of Attachment B (Proposed Settlement), *Application of Delmarva Power & Light Company*, Docket No. 16-0650, Order 9049 (June 6, 2017).

Exhibit "A"

CHESAPEAKE UTILITIES CORPORATION
DELAWARE DIVISION
PSC DOCKET NO. 07486

DEPRECIATION RATES

Acct /	Description of Property	Test Period Balance- March 31, 2007	Depreciation Rate -Asset	Cost of Removal Rate	Total Depreciation Rate	Projected Depreciation and Retirement Expense
301	Organization Expense	\$6,732	0.00%	0.00%	0.00%	\$0
302	Frond* & Consent	410	0.00%	0.00%	0.00%	\$0
	303 Miscellaneous intangible Plant	3,000	0.00%	0.00%	0.00%	\$0
30328	UtiliCIS (customer billing software)	1,200,000	6.67%	0.00%	6.67%	\$80,040
30328	UtiliC4S (modifications)	46,760	13.04%	0.00%	13.04%	\$6,098
	Total Intangible Plant	\$1,258,903				\$86,138
	Production Plant					
304	Land & Land Rights	1139,111	0.00%	0.00%	0.00%	\$0
3041	Depreciable Land Rights	\$0	4.14%	0.00%	4.14%	\$0
305	Structures & Improvements	258,887	1.26%	0.00%	1.26%	\$3,262
311	Liquid Petro. Gas Equipment	2,977,522	3.17%	0.03%	3.20%	\$95,281
	Total Intangible Plant	83,373,520				\$98,543
	Distribution Plant					
376	Mains	33,931,204	1.54%	0.07%	1.61%	546,292
378	M & R Stations - General	167,231	3.77%	0.00%	3.77%	6,305
379	M & R Stations - City Gate	1534,688	3.46%	0.35%	3.81%	30,658
380	Services	16,198,380	1.82%	0.26%	2.08%	378,526
381	Meters	5,135,397	2.29%	0.00%	2.29%	117,601
382	Meter installations	3,136,851	2.14%	0.04%	2.18%	68,383
383	Regulating Equipment	1,501,270	1.77%	0.00%	1.77%	26,572
385	M & R Stations - Industrial	676,184	4.14%	0.02%	4.16%	38,449
387	Other Equipment	236,635	3.92%	0.00%	3.92%	9,354
	Total Distribution Plant	163,989,820				\$1,220,141
	General Plant					
	390 Structures & Improvements		20.00%	0.00%	20.00%	
391	Office Equipment	532,052	3.99%	0.00%	3.99%	21,229
392	Transportation Equipment	1,104,704	15.11%	-0.74%	14.37%	158,746
394	Tools & Work Equipment	292,507	2.44%	0.00%	2.44%	7,137
395	Laboratory Equipment	1,658	0.00%	0.00%	0.00%	-
396	Power Operated Equipment	583,188	7.20%	-0.58%	6.62%	38,607
397	Communication Equipment	-	3.85%	0.00%	3.85%	-
398	Miscellaneous Equipment	289,236	4.44%	0.00%	4.44%	12,842
399	Other Tangible Property	475	0.00%	0.00%	0.00%	-
	Total General Plant	52,803,820				\$238,581
	Total Plant in Service	871,426,063				\$1,843,383
	Less Depreciation on Transportation Equipment	1,104,704				158,748
	Less Depreciation on Communications Equipment charged to Dept.					
	Depreciation Exclusive of Transportation Equipment & Communications	\$70,321,359				\$1,484,637