

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of 2025  
depreciation study and for approval to amortize  
reserve imbalance, by Florida City Gas.

DOCKET NO. 20250035-GU  
ORDER NO. PSC-2026-0055-FOF-GU  
ISSUED: March 9, 2026

The following Commissioners participated in the disposition of this matter:

GABRIELLA PASSIDOMO SMITH, Chairman  
GARY F. CLARK  
MIKE LA ROSA

FINAL ORDER APPROVING FLORIDA CITY GAS'S  
2025 DEPRECIATION STUDY AND  
AMORTIZATION OF RESERVE IMBALANCE

BY THE COMMISSION:

**Background**

On February 24, 2025, Florida City Gas (FCG or Company) filed a Petition for Approval of Depreciation Study and for Approval to Amortize Reserve Imbalance (Petition) under Rule 25-7.045, Florida Administrative Code (F.A.C.). The Petition included a depreciation study and proposed depreciation parameters that resulted in a total calculated reserve surplus of \$27.3 million. In its Petition, FCG requested approval of its depreciation study; an effective date for new depreciation rates of January 1, 2025; and approval to amortize the Company's calculated \$27.3 million reserve surplus over a 2-year period (2025 and 2026).

On February 26, 2025, the Office of Public Counsel (OPC) filed a Notice of Intervention pursuant to Section 350.0611, Florida Statutes (F.S.). On the following day, February 27, 2025, OPC filed a Motion to Hold Proceedings in Abeyance, which was denied by Order No. PSC-2025-0102-PCO-GU, issued April 1, 2025. On April 11, 2025, OPC timely filed a Motion for Reconsideration of that Order, along with a Request for Oral Argument. Separately, on June 20, 2025, OPC filed a Motion to Dismiss, along with a corresponding Request for Oral Argument. We denied both Motions and Requests for Oral Argument by Order No. PSC-2025-0360-PCO-GU, issued September 24, 2025.

The current depreciation rates for FCG were approved in 2023 in connection with the Company's 2022 request for base rate increase.<sup>1</sup> The approved depreciation parameters resulted in a total reserve surplus of \$52.1 million, of which \$25 million could be amortized over a 4-year period using a Reserve Surplus Amortization Mechanism (RSAM). OPC appealed the 2023 rate

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<sup>1</sup> Order No. PSC-2023-0177-FOF-GU, issued June 9, 2023, in Docket No. 20220069-GU, *In re: Petition for rate increase by Florida City Gas.*

case Final Order, as well as the Commission's subsequent Clarifying Order.<sup>2</sup> The appeals of these Orders have been consolidated and are currently pending before the Florida Supreme Court.

As part of its Petition and accompanying depreciation study filed on February 24, 2025, FCG calculated a \$27.3 million reserve surplus. On August 5, 2025, FCG filed a Revised 2025 Depreciation Study and reduced its calculated reserve surplus to \$22.3 million. On November 4, 2025, the Company amended its testimony with resulting changes to both the narrative and workbook schedules, and further reduced its calculated reserve surplus to \$19.2 million. For purposes of this order, the November 4, 2025 filing is the final depreciation study filed for review, is referred to as the 2025 Depreciation Study or 2025 Study, and supplants FCG's August 5, 2025 Revised 2025 Depreciation Study.

We conducted an evidentiary hearing on December 11, 2025. This order addresses a threshold issue of whether FCG's depreciation rates should be revised; other issues that identify the appropriate depreciation parameters, rates, expenses, theoretical reserve imbalance, and related corrective measures; and further issues identified in the prehearing order.<sup>3</sup>

We have jurisdiction over this matter pursuant to Chapter 366, F.S., including Sections 366.04, 366.05, and 366.06, F.S.

## **Decision and Analysis**

### 1. Need to Revise Currently Prescribed Depreciation Rates

#### **Overview**

Rule 25-7.045, F.A.C. (the depreciation rule), requires regulated gas companies to file a comprehensive depreciation study at least once every five years from the date of the last study or pursuant to Commission order. The submission date of FCG's last depreciation study (2022 Depreciation Study) was May 31, 2022. Based on the five-year provision in the depreciation rule, OPC argued that this case should be closed, the current depreciation rates should remain in effect, and a new, correct depreciation study should be filed as part of the next rate case or by May 31, 2027, whichever is earlier.

Additionally, OPC argues that the filing was premature due to the "Four-Year Stay Out." Specifically, OPC asserts that the Company pledged in its last rate case in 2023 to "stay out" and not come to the Commission with a request for rate relief for four years if it was allowed to use no more than \$25 million of an identified \$52 million depreciation reserve imbalance during that period. OPC argues that the Company's request in this docket is contrary to these representations, and that FCG's instant depreciation study is insufficient due to it being two years premature. OPC further contends that FCG's 2025 Study itself has serious flaws, including

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<sup>2</sup> Order No. PSC-2023-0299-FOF-GU, issued October 2, 2023, in Docket No. 20220069-GU, *In re: Petition for rate increase by Florida City Gas*.

<sup>3</sup> Order No. PSC-2025-0444-PHO-GU, issued December 9, 2025, in Docket No. 20250035-GU, *In re: Petition for approval of 2025 depreciation study and for approval to amortize reserve imbalance, by Florida City Gas*.

inconsistencies between study data and audited FCG Annual Reports and missing cost of removal information. OPC further alleged that a statistical life analysis is required by the depreciation rule, but was not included in the 2025 Study. OPC concludes that FCG's request to revise the currently-approved depreciation rates and the underlying parameters is really a request for \$19.2 million of customer money to boost earnings as a form of rate relief.

At the time that FCG submitted its last depreciation study, the Company was owned by Florida Power & Light Company. Since December 2023, FCG has become a wholly owned subsidiary of Chesapeake Utilities Corporation (CUC). FCG claimed that the change in operating environment associated with new ownership and other factors led the Company to identify a need to seek to revise its depreciation rates.

As to the timing of this submission, FCG maintained that the depreciation rule neither requires that a gas utility wait five years to file a new study, nor restricts the filing of depreciation studies to coincide with a rate case. The Company claimed that the plain language of the depreciation rule allows a gas utility to file a depreciation study more often than the 5-year minimum.

FCG continued that the instant request is justified at this time due to changed accounting treatments.<sup>4</sup> FCG further explained that, as the study neared completion, it became aware that a significant surplus reserve imbalance would likely result from the study, and a 2-year amortization was determined to be the most appropriate timeframe and methodology to resolve the reserve imbalance. FCG indicated that the study completion coincided with adverse financial conditions confronting the Company, including a \$4.1 million decrease in net income and a \$16.0 million increase in rate base versus the approved rate case amounts. The utility had fully utilized \$25 million of the RSAM reserve by the end of 2024. FCG stated that the requested revisions will allow it to maintain earnings within its range and more effectively evaluate a potential future consolidated depreciation study or rate case.

In FCG's 2025 Study, book investments of various plant accounts, including all Office Furniture and Equipment, Software, and all Transportation assets, are restated based on proposed new subaccounts. Restated account numbers are based on the new owner's (CUC's) standard chart of accounts for all natural gas business units to streamline operations, as presented in Schedule A of the 2025 Study. Additionally, various accounts are reclassified to the corresponding newly proposed accounts, including: Misc. Intangibles from Account 30302 to Account 3031; Steel Mains from Account 3761 to Account 3762; Plastic Mains from Account 3762 to Account 3761; Steel Services from Account 3801 to Account 3802; Plastic Services from Account 3802 to Account 3801; and ERTs Meter from Account 3811 to Account 3812. The Company claimed that these reclassifications are for consistency across all CUC business units and administrative ease.

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<sup>4</sup> For instance, FCG is now using the same operational and accounting procedures as other Chesapeake business units, is no longer pursuing certain capital projects previously planned, and is implementing changes in net plant (investment less reserve).

FCG asserts that a historical life statistical analysis is not required by Rule 25-7.045(5), F.A.C., and that all aspects of its 2025 depreciation study are consistent with the Rule. FCG acknowledged that, due to the change of its ownership, it cannot provide complete supporting documentation for activities recorded prior to acquisition and must rely on source records from the prior owners. FCG relied on continuous property records and provided detailed reconciliations for all accounts with significant variances between the study data and Annual Reports as new, correct information came to light. FCG asserts that many of the inconsistencies cited by OPC were due to timing differences between in-service date and late charges or true-ups related to the project.

### **Analysis**

OPC's post-hearing brief reasserted several arguments regarding our jurisdiction over this matter. Because we have previously considered and rejected these arguments, some of them twice, we find no further analysis is required.<sup>5</sup> We will not reiterate any legal issues and argument that were disposed of in the prior orders but, rather, will address the merits of FCG's current request.

FCG has alleged that circumstances have changed from its last proceeding before the Commission, and these changes in circumstances warrant a revision to its depreciation rates. We agree. Rather than establishing a schedule or definitive cycle, the depreciation rule sets five years as the maximum period that a company may take between depreciation studies. Stated differently, the depreciation rule does not mandate that a company take the entire five years between every study. Indeed, by requiring that a company include a narrative that describes the factors that lead to an application for a revision in depreciation rates, the depreciation rule contemplates intermittent filings based on current circumstances. We find that FCG's ownership, plant activities, accounting procedures, and assets' life and net salvage projections for various accounts have changed since its last depreciation study, and that the timing of the 2025 Study is justified by these changed circumstances.<sup>6</sup>

The depreciation rule prescribes that "upon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category." OPC contends that FCG did not provide the support for its study that is required by the rule, argues that the study is incomplete and contains errors, and requests that we disregard the depreciation study in its entirety. We have reviewed FCG's explanations, data reconciliations, and corrections regarding OPC's assertions that there are inconsistencies between FCG's 2025 Study data and its audited annual report, and consider them to be reasonable.

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<sup>5</sup> Order Nos. PSC-2025-0102-PCO-GU, issued April 1, 2025, and PSC-2025-0360-PCO-GU, issued September 24, 2025, in Docket No. 20250035-GU, *In re: Petition for approval of 2025 depreciation study and for approval to amortize reserve imbalance, by Florida City Gas.*

<sup>6</sup> *Delray Medical Center, Inc. v. State, Agency for Health Care Admin.*, 5 So. 3d 26, 29 (Fla. 4th DCA 2009) (stating Florida courts do not apply the doctrine of administrative finality when there has been a significant change of circumstances or there is a demonstrated public interest).

Rule 25-7.045(3)(b), F.A.C., prescribes that “upon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category.” We find that, absent the Company filing its 2025 Depreciation Study as it did, a depreciation revision filing regarding the proposed new subaccounts, restatements and reclassifications, would have been necessary to comply with Rule 25-7.045(3)(b), F.A.C.

## **Conclusion**

Based on our review of the record, we find that the preponderance of evidence -- particularly the evidence regarding changed circumstances cited and discussed above -- demonstrates that FCG’s depreciation rates should be revised. We find that the study complies with the timing and filing requirements of Rule 25-7.045, F.A.C. The revisions to FCG’s currently prescribed depreciation rates are discussed below.

### 2. Appropriate Depreciation Parameters and Resulting Rates

#### **Overview**

We now turn to the depreciation parameters and resulting depreciation rates for FCG’s depreciable plant accounts. Depreciation parameters include an average service life (ASL), a curve shape, an average remaining life (ARL), and an average future net salvage percentage (NS) for each depreciable account.<sup>7</sup> The combination of these parameters and the net plant investment of the account can be used to provide an account-specific depreciation rate on a going-forward basis, which is also referred to as the remaining life depreciation rate (depreciation rate). This depreciation rate is designed to recover the remaining unrecovered plant balance, or investment, over the remaining life of the associated investment in the account. The formula for the remaining life depreciation rate is prescribed in our depreciation rule.<sup>8</sup>

For each plant account, FCG witness Lee proposed an ASL with a curve shape (life pattern), an ARL, a NS, and the resulting depreciation rate, all of which are detailed in FCG’s 2025 Depreciation Study.

OPC argued that the Company should retain the current approved depreciation parameters and rates for all accounts. OPC asserted that any revisions to the currently prescribed depreciation rates for FCG should be consistent with the recommendation of Staff witness Kunkler. OPC argued that FCG’s proposal to transfer the reserve surplus to owners creates a conflict of interest in making the parameter selections used to calculate the surplus.

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<sup>7</sup> For a depreciation account, the ASL is the average number of years that the assets in the account are expected to be in-service; the curve shape is a graphical representation of the retirement pattern for the plant assets in the account; the ARL is the average number of in-service years left for plant currently in service; and the NS, also referred to as Net Salvage Factor, is gross salvage minus cost of removal of the retired plant assets.

<sup>8</sup> See Rule 25-7.045(1)(e), F.A.C., Remaining Life Rate = (100% - Reserve % - Average Future Net Salvage %) ÷ Average Remaining Life in Years.

As this case evolved, FCG made several revisions to its parameters in response to data requests and discovery. Commission staff witness Kunkler provided testimony on alternative depreciation parameters applicable to certain depreciable plant accounts contained in FCG's 2025 Depreciation Study. These alternative parameters included a different Iowa curve shape for Account 3762: Mains-Steel, and a lower net salvage factor for Account 3762: Mains-Steel and Account 3801: Services-Plastic. These alternative parameters are supported by the Company's historical retirement and salvage data. These two accounts are the second and third-largest accounts by plant investment, and together constitute nearly 40 percent of the Company's total plant investment.<sup>9</sup>

#### **A. Curve Shape for Account 3762: Mains-Steel<sup>10</sup>**

Account 3762 includes the cost of FCG's steel distribution mains and related components. This account is the Company's second largest account by plant investment. As of January 1, 2025, the investment and restated reserve balances are \$143,280,076 and \$61,968,633, respectively. The average age of the account's surviving investments is 21.7 years. For this account, the life pattern underlying the current approved ARL is an ASL of 65 years with an R1.5 curve shape, denoted as 65/R1.5.<sup>11</sup>

The selected curve shape of an account impacts the ARL calculation, subsequently impacting an account's theoretical reserve level, reserve imbalance, depreciation rate, and annual depreciation expense. For Account 3762, FCG proposed to change the curve shape from R1.5 to R2.5 while retaining the currently approved ASL of 65 years. Staff witness Kunkler concurred with retaining a 65-year ASL but disagreed with FCG's proposed change in curve shape. He proposed using the R4 curve shape instead as a better representation for this account's historical retirement dispersions.

Witness Lee testified that the proposed curve shapes are based on existing curve shapes underlying the currently prescribed average remaining life for each account, a review of the curve shapes proposed in the 2022 Depreciation Study, actual retirement experience over the 2020-2024 period as well as historical retirements, and the current average age. For account 3762, witness Lee testified that FCG's program to relocate mains from the customer's back yard to more accessible areas, as well as the program to retire orange pipe due to safety concerns, has led to increased future retirement expectations, and a mortality dispersion (curve shape)

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<sup>9</sup> (Account 3762 plant invested + Account 3801 plant invested)/total plant invested = (\$143,280,076 + \$128,613,988) / \$696,714,096 = 39.03 percent.

<sup>10</sup> In depreciation studies, Iowa Curves, published in Bulletin 125, Statistical Analysis of Industrial Reporting, published in 1935, by Robley E. Winfrey of the Iowa State College Engineering Experimental Station, are widely used to depict the retirement pattern (mortality dispersion) of a plant asset. Each curve is denoted by a letter and a number. The letter defines when retirements are more likely to occur. An L curve implies that retirements tend to occur prior to the ASL, an R curve implies that retirements tend to occur after the ASL. The number portion of the Iowa Curve designation indicates how steep or flat the curve's shape is. Lower numbers indicate a wide, broader variance of retirement ages around the ASL, while higher numbers indicate a narrow, less broad variance of retirement ages around the ASL.

<sup>11</sup> The curve shape, and average age are used to develop the ARL of the account.

recognizing more early retirements, which support a curve indicating more early retirements than historical indications.

An account's curve shape is usually determined using the retirement rate method when sufficient detail exists. This method uses the average rate at which the account's plant for each age group is retired to calculate the percent surviving for the account's original life table and original stub curve shape.<sup>12</sup> The stub curve shape is then compared to the Iowa curves using visual and mathematical matching in order to determine the better fitting smooth curves. The average rate of retirement used in the calculation of the percent surviving requires two sets of data: the plant retired during a period of observation, identified by the plant's age at retirement; and the plant exposed to retirement at the beginning of the age intervals during the same period.<sup>13,14</sup> This method was used in FCG's last depreciation study. In the 2025 Study, the Company did not use the method to calculate the retirement rate for each depreciable account, including Account 3762, for developing the corresponding original curve shape.

FCG's 2025 Study includes the calculated retirement rate for each depreciable account in Schedule (Sch) F-1 of the 2025 Study. These exhibits show that FCG calculated the retirement rate by dividing the total retirements by the total ending plant balance for each account for each year from 2021-2024. The nominator used in the calculation is a simple summation (not weighted) of the aged retirements. The denominator is the plant balance (exposure), which consists of multiple vintages with materially different ages and historical costs, as shown in Sch F-1 of the 2025 Study.

OPC disagreed with FCG's retirement rate calculations in the 2025 Study. and argued that the calculations in the FCG filing divide dollar amounts which were recorded more recently by dollar amounts that were recorded farther back in the past, which ignores the effects of inflation. Because the denominator reflects mixed-age exposures stated in nominal dollars, we agree with OPC that this approach does not account for inflation or the time value of money, effectively treating a dollar of plant added decades ago as equivalent to a dollar of recent investment. For this reason, we find that calculating retirement rates based on retirements and the corresponding plant exposures by age interval data is more precise than FCG's calculation.

Witness Lee testified that FCG does not have the data of plant exposures by age interval because collecting such data would be very time consuming and expensive. We note that FCG used a calculation method, as described above by witness Lee, which we accepted in prior cases, particularly for smaller utilities, largely because it is simpler, less time-consuming, and less expensive than vintage-based or age-weighted methods.<sup>15</sup>

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<sup>12</sup> An account's original surviving curve is usually an incomplete curve (stub curve), one that does not extend to maximum life. It shows the percent of plant survivors in that account as function of the average age of the plant in the account, and is prepared from the Company's original life table. The curve shape is complete (extend to the maximum life) when the account is fully retired or approaches full retirement.

<sup>13</sup> *Depreciation Systems*, Frank K. Wolf and W. Chester Fitch, Iowa State University Press, 1994.

<sup>14</sup> In an account: Percentage of surviving = (1 - Percentage of retirement).

<sup>15</sup> Order No. PSC-14-0698-PAA-GU, issued December 18, 2014, in Docket No. 20140016, *In re: 2014 depreciation study by Florida Public Utilities Company*; PSC-2023-0103-FOF-GU, issued March 15, 2023, in Docket No. 20220067-GU, *In re: Petition for rate increase by Florida Public Utilities Company, Florida Division of*

With respect to the proposed curve shape for Account 3762, witness Lee first calculated the account's retirement rate for the 2004-2024 period, which is 0.26 percent, and compared that to the most recent 2021-2024 period average, which is 0.49 percent. Witness Lee then testified that while historical retirements have been miniscule, recent years indicate an increase in retirement rates. In recognition of future expectations of retiring early vintage orange pipe due to safety concerns as well as the Company's program to replace mains running through less assessable parts of customer property (e.g., backyards) with mains located in more accessible areas, FCG proposed an R2.5 curve shape.

Witness Kunkler recommended 65/R4 and testified that the R4 curve shape is the curve shape proposed in FCG's last depreciation study, reviewed by witness Lee, and originally proposed in the current docket. Compared to a R2.5 curve shape, the R4 curve shape is a higher modal curve which reflects a retirement dispersion that is more concentrated around the ASL. Witness Kunkler pointed out that FCG's historical curve shape for Accounts 3761 and 3762 shows that up to age 50, plant assets in the accounts had few retirements (approximately 89 percent of these assets surviving at an age of 50.5 years). Immediately following age 50, a relatively rapid increase in the frequency of retirements is observed (approximately 70 percent of these assets surviving at an age of 57.5 years). In other words, the asset retirements of the accounts are concentrated towards 65 years (the ASL of Account 3762). Witness Kunkler further performed curve fitting by comparing the stub curve against both R2.5 and R4 curve shapes. Witness Kunkler concluded that, visually, a 65/R4 life pattern represents a better fit.

FCG argued that witness Kunkler's curve shape selection fails to account for input from Company personnel, who indicate increased expectations for retirement. Witness Lee asserted that witness Kunkler based his recommendation for life/curve pattern for Steel Mains (Account 3762) on a curve derived from historical retirements in the Gannett Fleming Depreciation Study and did not incorporate the Company's expectations or judgment about future retirements, including those influenced by FCG's SAFE program. She contended that because FCG's historical data is limited, it is critical to consider additional factors.

Our concern is with how the Company considers historical data to support the underlying account estimates and analyses. An account's life pattern estimate shall be based on a number of factors including historical data analysis; current Company management plans, policies and outlook; and the curve shape estimates that originate from previous studies of the Company. In our view, relying solely on historical data of an account is not ideal, nor is it appropriate to ignore the past behaviors of the account and its previous curve shape estimates.

Notably, as shown in FCG's 2025 Study, Sch F, Account 3762 was established in 1963, and the Company maintains more than 60 years of aged retirement data. The use of historical

retirement data is an important foundation to project the account's retirement behavior and related impact on remaining life estimates for the next five years.<sup>16</sup>

Further, we find that the current plans, policies and outlook of the Company's are important factors to be considered in deriving a 5-year projection of the parameters and rate for the account.<sup>17</sup> Our staff investigated FCG's future plans and expectations pertaining to the life pattern of Account 3762 under the SAFE and orange pipe replacement programs. Results show that even with the commencement of orange pipe replacement in 2024, FCG's actual rate of pipe replacement, based on a five-year average of total miles of pipe replaced, is nearly the same in the current filing as it was at the time of FCG's last filing. The 2022 FCG Study had a five-year average replacement of 29.2 pipe miles, the 2025 FCG Study had a five-year average replacement of 31.5 pipe miles, and FCG projects that, in 2030, the Company will have a five-year average replacement of 31.6 pipe miles, as indicated in Table 1 below.

**Table 1**  
**FCG's SAFE and Orange Pipe Replacements**

Year	Miles of Pipe Replaced			5-yr Average of the Total Replacements	
	SAFE Replacements	Orange Pipe Replacements	Total Replacements		
2014					
2015					
2016	17.1		17.1		
2017	37.5		37.5		
2018	27.6		27.6		
2019	37.8		37.8		
2020	25.5		25.5		
2021	26.0		26.0		
2022	29.0		29.0	29.2	FCG filed its last depreciation study
2023	23.7		23.7		
2024	23.7	5.6	29.3		
2025	31.7	18.0	49.7	31.5	FCG filed its current depreciation study
2026	21.9	11.5	33.4		
2027	14.5	18.0	32.5		
2028	14.0	18.5	32.5		
2029	12.5	17.5	30.0		
2030	12.0	17.5	29.5	31.6	FCG filing its next deprecation study
<b>Annual Average</b>	23.6	15.2	30.7		<b>Annual Average for SAFE + Orange Pipe</b>

Source of Data: EXH 30, BSP E-170 – E-173.

FCG opposed the R4 curve shape for Account 3762 and claimed that this curve shape selection fails to account for the Company's expectations of increased rate of retirements resulting from the SAFE program. However, as discussed above and as shown in Table 1, the detailed future retirement expectations provided by FCG seem not to deviate significantly from the historical pattern the Company experienced. Therefore, we are not persuaded by the

<sup>16</sup> In line with Rule 25-7.045, F.A.C, all the parameters and rates of gas utility's accounts shall be reviewed at least every 5 years.

<sup>17</sup> The depreciation parameters and rates resulting from the current depreciation study will be reviewed by the Commission again in five years per Rule 25-7.045, F.A.C.

Company's argument and find that a 65/R4 life pattern, derived based on historical data, is still indicative of the expected pattern of retirement for Account 3762 at the present. Taking into consideration both the historical data analysis and the current Company plans and outlook, as well as the curve shape the Company studied and derived just 3 years ago, we approve a 65/R4 as an appropriate life pattern estimate for Account 3762.

### **B. Net Salvage for Accounts 3762: Mains-Steel and 3801: Services-Plastic<sup>18</sup>**

The currently prescribed net salvage (NS) for Account 3762: Mains-Steel is (50) percent. FCG contended that an increase from (50) percent to (40) percent is justified due to recent trends, easier accessibility to retired pipe, and expectations of other Florida gas companies.

Account 3801: Services-Plastic is FCG's third largest account by plant investment. Assets in this account represent plastic distribution service lines from the mains to the customers' property lines or meter location. The currently prescribed NS for this account is (68) percent. FCG based its proposed increase of the NS of this account from (68) percent to (40) percent on easier accessibility to the retired services, as well as the expectations of other Florida gas companies.

OPC objected to every NS change proposed by FCG. OPC witness Dunkel recommended that all accounts' current NS factors should remain in effect because, as shown in Table 2, FCG's proposed increase in NS "is contrary to even the net salvage data as calculated and filed by FCG."

**Table 2**  
**Comparison of Net Salvage Factors**

	Net Salvage Percentage		
	FCG Last 5-yr Avg. Per FCG Schedule	Currently Approved for FCG	FCG Proposed
Account 3762: Main-Steel	(73)	(50)	(40)
Account 3801: Services-Plastic	(132)	(68)	(40)

OPC contended that FCG's claim that the Cost of Removal for Service-Plastic will be much less in the future than it has been in the past was not supported in the record. Staff witness Kunkler also disagreed with FCG's NS proposals for Accounts 3762 and 3801, stating that retaining the currently approved net salvage factors is the most reasonable approach for these two accounts at this time because the Company's proposed increase is not supported by historical salvage data and exhibits an over-reliance on expectations. Witness Kunkler also noted that the realized average net salvage factor for the account over the past 20 years and the most recent 5 years are both lower net salvage factors than the factor currently prescribed. With the exception of 2024 (in which the full cost of removal may not be fully processed as of yet), FCG has not

<sup>18</sup> Net salvage (NS) is an important parameter for calculating the remaining life depreciation rate. It is gross salvage minus cost of removal of the retired plant assets. When an account's cost of removal is larger than the gross salvage of the retired assets in that account, the NS value of the account becomes negative.

experienced a single year since 2008 in which the realized net salvage has been greater than (90) percent.

FCG argued that that less negative net salvage is expected in the future, primarily due to improved accessibility to retired pipe, which will reduce labor costs – the largest component of removal expense. Additionally, the FCG proposals reference net salvage estimates from other Florida gas companies.

When steel mains pipes [Account 3762 plants] are retired, they are usually permanently physically disconnected from all sources of gas and abandoned in place. When plastic services pipes [Account 3801 plants] are retired, they are cut and capped at the main and abandoned in place. There are costs associated with accessing the line, disconnecting it from all sources of gas, locking valves to prevent gas flow, and completing any surface restoration.

The cost of removal is part of the NS, which in turn is part of depreciation costs. Hence, when the cost of removal of an account decreases, the NS of the account increases. FCG supported its increase in NS via improved accessibility by claiming that the improved accessibility will make it easier for field personnel to cut and cap the pipes when the relocated mains/service lines were retired and abandoned. However, FCG and CUC were unable to state whether FCG's prior owner had experienced that same degree of accessibility. FCG further claimed that net salvage for Steel Mains has improved significantly, and that this trend is expected to continue. Plastic Services show a similar, though less pronounced, improvement.

In terms of the "Chesapeake's removal practices" before and after FCG's ownership, the Company continues to utilize the services of the same vendor. The main difference is the amount of paperwork involved due to system changes. Company personnel has noted an ease with CUC's current work flow processes.

FCG's proposed increase in NS is not well supported. First, as noted in the Company's discovery response discussed above, the 'improved accessibility' was observed before FCG's ownership change, but the data supporting the claim appears to be lacking, with no additional information available from either FCG or its current owner CUC. Second, FCG did not report any major changes in removal practices (such as transforming from 'cut, physical removal, transport, and recycle' to 'cut, cap, and abandon in place'); hence, no substantial decrease in physical removal costs has been claimed. We are not persuaded that changes in the amount of paperwork related to work flow processes would be expected to cause a significant reduction in cost of removal of the pipelines.

We also reviewed the Company's claim that "[r]etirements are delayed because operations require newly installed mains and services to be fully operational before retiring the old ones. This delay also impacts net salvage." As testified by FCG witness Lee, there could have been a lag in reporting and some 2024 retirement-related removal costs may have been recorded in 2025. Thus, the relatively high NS recorded in 2024 (negative one percent) highlighted by witness Lee is not a correct representation of the account's true NS value in that

year. As such, we give more consideration to FCG's historical 5-year average NS in determining the future NS estimate to be applied in this case.

Further, FCG witness Lee testified that the average NS for the most recent five years is (73) percent and (132) percent for Accounts 3762 and 3801, respectively. This indicates that FCG's proposed (40) percent NS values deviates significantly from the Company's own historical data. On the other hand, a NS of (50) percent for Accounts 3762 and a NS of (68) for Account 3801, which are currently approved and recommended to be retained by both OPC witness Dunkel and staff witness Kunkler, are more in line with the Company's historical data. These NS estimates are within the industry range.<sup>19</sup>

Based on the record evidence, we find that retaining a NS of (50) percent and (68) percent for Accounts 3762 and 3801, respectively, is appropriate. We will review the appropriateness of these NS estimates in no more than five years pursuant to Rule 25-7.045 F.A.C.

### **C. Parameters for Other Accounts**

Our staff thoroughly reviewed the appropriateness of FCG's proposed parameters and rates for all other depreciable accounts. The Company revised certain depreciation parameters and amended its proposals based on this review and the information that was available to it after the Company's ownership change. We find that the proposed depreciation parameters for such accounts as set forth in FCG's 2025 Study are reasonable at this point in time.

Additionally, FCG submitted certain amortizable accounts as part of the 2025 Depreciation Study.<sup>20</sup> The Company proposed to synchronize the amortization periods with those of its parent Company, CUC, which has uniform amortization periods for amortizable accounts across all of its natural gas distribution business units. The Company indicated that amortization periods are based on judgement and were approved in the latest depreciation studies for CUC Florida Public Utilities Company's consolidated natural gas division and CUC-Maryland. They have also been proposed in the CUC-Delaware 2024 depreciation study.

We find that FCG's amortizable accounts' parameters and rates are supported by the record and reasonable. The Company's request regarding its proposed modifications to

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<sup>19</sup> See Order Nos. PSC-2023-0177-FOF-GU, issued June 9, 2023, in Docket No. 20220069-GU, *In re: Petition for rate increase by Florida City Gas*; PSC-2023-0103-FOF-GU, issued March 15, 2023, in Docket No. 20220067-GU, *In re: Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company - Fort Meade, and Florida Public Utilities Company - Indiantown Division*; PSC-2023-0388-FOF-GU, issued December 27, 2023, in Docket No. 20220212-GU, *In re: Petition for approval of depreciation rate and subaccount for renewable natural gas facilities leased to others, by Peoples Gas System, Inc.*; PSC-2023-0215-PAA-GU, issued July 26, 2023, in Docket No. 20230022-GU, *In re: Petition for approval of 2022 Depreciation Study by St. Joe Natural Gas Company, Inc.*; PSC-2022-0153-PAA-GU, issued April 22, 2022, in Docket No. 20210183-GU, *In re: Petition for approval of 2021 depreciation study, by Sebring Gas System, Inc.*

<sup>20</sup> An amortizable account is usually used to book intangible assets and small plant items such as office equipment, tools, and miscellaneous equipment. For each such account, the Commission prescribes an amortization period (e.g. 10 years) to allow the investment of the account to be recovered evenly throughout the plant's service life.

amortizable accounts to reflect the amortization of CUC's other gas business units comports with Rule 25-7.045(3)(b), F.A.C.

### **Summary**

There is some degree of subjectivity in depreciation studies. Our analysis weighed the arguments and support for parameter adjustments based on the degree of reliance placed on historical retirement/salvage activity as well as the reliance placed on future expectations and professional judgement. After thoroughly reviewing all depreciation parameters presented in the 2025 Study, we find adjustments to one account's proposed curve shape and two accounts' NS are necessary.

We find FCG's proposed R2.5 curve shape used to calculate remaining life rate for Account 3762: Mains-Steel unsupported in the record. We find that the Company's historic curve shape for this account is supported by the preponderance of evidence in the record and most appropriate. We approve R4 as the appropriate curve shape for Account 3762.

We find the continuation of current NS percentages for accounts 3762 and 3801 are supported by the preponderance of the evidence, most notably the testimony of both OPC witness Dunkel and staff witness Kunkler.

### **Conclusion**

We approve the depreciation parameters and resulting remaining life depreciation rates for each depreciable account, as well as the amortization period for each amortizable account, as set forth in Attachment A to this order, which is incorporated by this reference as if fully set forth herein.

### **3. FCG's Resulting Depreciation Imbalances**

Rule 25-7.045(4)(k), F.A.C., provides that an account's theoretical reserve amount is determined by the account's book investment minus the account's future accruals and future net salvage. The theoretical reserve is a calculated reserve based on the proposed parameters of that account.<sup>21</sup>

The reserve imbalance of the account is the difference between the account's theoretical reserve and its book reserve. If the book reserve amount is larger than the theoretical reserve amount for a particular account, then this account presents a reserve surplus at a specific point in time. If the book reserve amount is less than the theoretical reserve amount, the account presents a deficit.

Applying the depreciation parameters and depreciation rate proposed in the 2025 Study, FCG witness Lee calculated the Company's theoretical reserve and reserve imbalance for each

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<sup>21</sup> Rule 25-7.045(1)(k), F.A.C..

depreciable account. The resulting total imbalance calculated by the Company is a surplus of \$19.2 million, as of January 1, 2025.

OPC recommended that FCG's 2025 Study should be rejected but, in the alternative, OPC proposed that the Commission should adopt the recommendation of staff witness Kunkler.

We have reviewed FCG's reserve imbalance for each depreciable account. We also reviewed the reserve imbalance provided by staff witness Kunkler. We agree with the reserve imbalance as calculated by witness Kunkler. The resulting reserve imbalance is a surplus of \$6,716,759 for the depreciable accounts. Adding in the Company's identified reserve surplus of \$43,469 associated with the amortizable accounts, the total amount of reserve imbalance for FCG's is a surplus of \$6,760,228, or approximately \$6.8 million.

Table 3 below shows our approved theoretical reserve imbalances for each FCG depreciable plant account. The table includes some inter-account reserve transfers, which are all within the same plant category (distribution). These transfers do not impact the reserve imbalance calculation here because they net to zero.

**Table 3**  
**Commission Approved Theoretical Reserve Imbalance (as of 1/1/2025)**

Acct No.	Account Description	Book Reserve	Theoretical Reserve	Imbalance (+) = surplus (-) = deficit	Commission Approved Reserve Transfer	Restated Book Reserve
3642	Structures & Improvements	\$807	\$717	\$90		\$807
3643	LNG Processing Terminal Equipment	\$2,464	\$4,795	(\$2,331)		\$2,464
3645	Measuring and Regulating Equip.	\$808	\$718	\$90		\$808
3646	Compressor Station Equipment	\$1,922,731	\$1,194,047	\$728,684		\$1,922,731
3743	Right-of-Way	\$0	\$4,601	(\$4,601)		\$0
3750	Structures & Improvements	\$8,672	\$39,118	(\$30,446)		\$8,672
3761	Mains - Plastic (Formally Acct 3762)	\$49,591,899	\$41,145,183	\$8,446,716	(\$8,446,716)	\$41,145,183
3762	Mains - Steel (Formally Acct 3761)	\$67,160,281	\$69,435,729	(\$2,275,448)	\$2,275,448	\$69,435,729
3780	Measuring and Regulating Equip. - General	\$410,733	\$492,151	(\$81,418)		\$410,733
3790	Measuring and Regulating Equip. - City Gates	\$5,689,779	\$5,075,410	\$614,369		\$5,689,779
3801	Services - Plastic (Formally Acct 3802)	\$32,898,453	\$31,428,582	\$1,469,871		\$32,898,453
3802	Services - Steel (Formally Acct 3801)	\$18,490,162	\$15,969,307	\$2,520,855		\$18,490,162
3810	Meters	\$6,267,515	\$9,351,739	(\$3,084,224)	\$3,084,224	\$9,351,739
3812	Meters - ERTs (Formally Acct 3811)	\$301,699	\$641,492	(\$339,793)	\$339,793	\$641,492
3820	Meter Installations	\$256,072	\$1,372,701	(\$1,116,629)	\$1,116,629	\$1,372,701
3821	Meter Installations - ERT	(\$1,172,264)	\$5,868	(\$1,178,132)	\$1,178,132	\$5,868
3830	House Regulators	\$1,225,606	\$1,613,062	(\$387,456)	\$387,456	\$1,613,062
3840	House Regulators Installations	\$432,366	\$613,491	(\$181,125)	\$65,034	\$497,400
3850	Indus. Meas. & Reg. Station Equip	\$2,309,679	\$2,160,730	\$148,949		\$2,309,679
3870	Other Equipment	\$713,530	\$556,798	\$156,732		\$713,530
3900	Structures & Improvements	\$2,490,539	\$2,295,127	\$195,412		\$2,490,539
3921	Cars (revised subaccount)	\$163,750	\$203,248	(\$39,498)		\$163,750
3922	Light -Med. Trucks, SUVs & Vans (revised subaccount)	\$3,453,447	\$2,530,685	\$922,762		\$3,453,447
3923	Heavy Trucks	\$591,746	\$556,287	\$35,459		\$591,746
3924	Trailers (formally account 3920)	\$137,364	\$87,623	\$49,741		\$137,364
3941	Natural Gas Vehicle Equipment	\$826,016	\$664,662	\$161,354		\$826,016
3960	Power Operated Equipment	\$84,705	\$97,926	(\$13,221)		\$84,705
	Total - Depreciable Accounts	\$194,258,559	\$187,541,800	\$6,716,759	\$0	\$194,258,559
	Total - Amortizable Account			\$43,469		
	Grand Total			\$6,760,228		
	Rounded			\$6.8 Million		

### Conclusion

We approve the resulting theoretical reserve imbalances for FCG's depreciable plant accounts as shown in Table 3.

#### 4. Corrective Measures to the Theoretical Reserve Imbalances

This section addresses whether any corrective measures should be taken with regard to the theoretical reserve imbalances. The remaining life technique is the most common method we use to address reserve imbalances (surplus or deficit).<sup>22</sup> We have approved other corrective

<sup>22</sup> Order Nos. PSC-14-0514-PAA-GU, in Docket No. 20140051-GU, issued September 25, 2014, *In re: 2014 depreciation study by Florida City*; PSC-2018-0190-FOF-GU, issued April 20, 2018, in Docket No. 20170179-GU, *In re: Petition for rate increase by Florida City Gas*; PSC-17-0066-AS-GU, issued February 28, 2017, in Docket

measures, including amortization of a certain portion of the surplus over a period of time that is shorter than the remaining life, or amortization of the entire surplus over a specific period (years) shorter than the remaining life.<sup>23</sup> In this Section, the dispute is over the methodology to address reserve imbalances.

FCG witness Lee calculated the Company's total theoretical reserve imbalance, resulting in a surplus of \$19,200,911 for depreciable accounts. Adding in the Company's identified reserve imbalance of \$43,469 associated with the amortizable accounts, FCG's total reserve imbalance is \$19,244,380, or approximately \$19.2 million. The Company requested the total of its calculated \$19.2 million reserve surplus be amortized over 2 years.

OPC opposed FCG's proposed corrective measure of a 2-year amortization of the Company's calculated reserve surplus and asserted if there is any imbalance identified in this case, it should be addressed in the remaining life calculations using the remaining life technique. OPC offered testimony that the Company's amortization proposal would result in future service rates being higher than if the surplus were not removed from the depreciation reserve. If we were to approve any reserve surplus amortization in this docket, the associated value would be collected through future depreciation expense and ultimate service rates. Meaning in general, a reserve amortization dollar today would be equal to a depreciation expense dollar and the additional grossed-up return on the increased rate base in the future. The additional return would result from the corresponding increase in rate base caused by the reduction of the depreciation reserve. Based on the Company's latest depreciation parameters and associated reserve surplus, OPC estimated the initial annual (return-related) revenue requirement, or grossed-up return on the increased rate base associated with FCG's proposal, to be \$1,676,453. This figure correlates to the Company's calculated depreciation reserve surplus in the amount of \$19.2 million, the last-authorized overall rate of return of 6.44 percent, and gross-up factor of 1.3527 used in setting current customer base rates.

Additionally, OPC contended that reliance on Rule 25-7.1352, F.A.C., "Earnings Surveillance Report[s]," is insufficient to form a basis for understanding a regulated natural gas company's earnings position. In its Brief, OPC stated that a necessary detailed earnings review to determine FCG's true earnings posture can only be done in a rate case.

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No. 160159-GU, *In re: Petition for approval of settlement agreement pertaining to Peoples Gas System's 2016 depreciation study, environmental reserve account, problematic plastic pipe replacement, and authorized ROE*; PSC-2023-0388-FOF-GU, issued December 27, 2023, in Docket No. 20220219-GU, *In re: Petition for approval of 2022 depreciation study by Peoples Gas System, Inc.*; PSC-14-0698-PAA-GU, issued December 18, 2014, in Docket No. 20140016, *In re: 2014 depreciation study by Florida Public Utilities Company*; PSC-2023-0103-FOF-GU, issued March 15, 2023, in Docket No. 20220067-GU, *In re: Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company - Fort Meade, and Florida Public Utilities Company - Indiantown Division*; PSC-2023-0215-PAA-GU, issued July 26, 2023, in Docket No. 20230022-GU, *In re: Petition for approval of Depreciation Study by St. Joe Natural Gas*; PSC-2022-0153-PAA-GU, issued April 4, 2022, in Docket No. 20210183-GU, *In re: Petition for approval of 2021 depreciation study, by Sebring Gas System, Inc.*

<sup>23</sup> Order Nos. PSC-2023-0177-FOF-GU; PSC-2020-0485-FOF-GU, issued December 10, 2020, in Docket 20200051-GU, *In re: Petition for rate increase by Peoples Gas System*; PSC-2021-0446-S-EI, issued December 2, 2021, in Docket No. 20210015-EI, *In re: Petition for increase in rates by Florida Power & Light Company*.

In support of its 2-year amortization request, FCG asserted that it is currently earning far below its authorized rate of return, and would have likely filed for a base rate increase in 2025 if it had known that this depreciation study would take longer than anticipated to be resolved. FCG continued that this earnings posture implies its customers are not paying rates sufficient to allow the Company to cover operating expenses and earn an adequate return on its investments. Specifically, for the 12 months ended June 30, 2025, the Company reported under-earning its mid-point rate of return (mid-point equity return of 9.50 percent and a weighted average cost of capital of 7.65 percent) by approximately \$10.8 million.<sup>24</sup> The Company is under-earning the low-point of its earnings range by approximately \$8.4 million. FCG is projected to under-earn by an even greater margin at year end 2025. FCG contended that the 2-year amortization proposal is a fair balance between the ongoing benefits of a delayed rate case filing and associated delayed rate increase for customers, and would promptly correct the reserve imbalance and allow the Company a better opportunity to earn near or within its approved rate of return range.

FCG also argues that the the 2-year amortization of the \$19.2 million depreciation reserve surplus would put downward pressure on future (rate case) interim service rates because the amortization amount would be accounted for in determining the level of under-earnings reflected in the Company's historic test year, provided such amortization occurs in that year. Stated alternatively, the amount of under-earnings would be greater absent amortization of any reserve surplus. Interim service rates would be based on the level of under-earnings; thus, the greater level of under-earnings, the higher the interim service rates.

### **Analysis**

Our decision as to the technique to be utilized to address a reserve surplus in a particular instance must be based on the record before us, but is also infused with many policy considerations. As previously noted, we exercised our discretion in the past and approved different methodologies as necessary to address the needs of a particular situation.

We do not agree with FCG's proposal of the 2-year amortization for correcting the Company's total depreciable plants' theoretical reserve surplus. We approve the remaining life technique to address the reserve surplus. The use of the remaining life technique in calculating depreciation rates will spread any surplus (or deficit) over the remaining life of the asset group by adjusting the depreciation rate up or down.<sup>25</sup> In essence, the remaining life technique either slows down the rate of depreciation in the case of a surplus, or increases the rate of depreciation in the case of a deficit. As such, the resulting remaining life rate for each account is self-correcting with regard to the imbalance (surplus or deficit) over the remaining life of the asset. This stability benefits ratepayers.

FCG argued that its calculated total reserve imbalance of \$19.2 million represents nearly 10 percent of the calculated theoretical reserve; using the remaining life technique to correct it will take too many years so that a short 2-year amortization period is justified. We do not agree

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<sup>24</sup>*Id.*

<sup>25</sup> Order No. PSC-2023-0388-FOF-GU, at page 26.

with this argument. The matter of how a reserve imbalance should be corrected is not a subject of depreciation theory but is instead a policy decision. In prior cases, we have approved using the remaining life technique to address varying levels of reserve imbalances, some of which are relatively large in size, as shown in Table 4 below.

**Table 4**  
**Total Theoretical Reserve Imbalance and the Corrective Measure**

				Depreciable Plant Investment	Depreciable Plant Book Reserve	Theoretical Reserve	Reserve Imbalance: Surplus	Surplus/Theoretical Reserve	Surplus/Book Reserve	Surplus/Investment	Corrective Measure
				(\$)	(\$)	(\$)	(\$)	(%)	(%)	(%)	
Utility	Docket No.	Status		(1)	(2)	(3)	(4)=(2)-(3)	(5)=(4)/(3)	(6)=(4)/(2)	(7)=(4)/(1)	(8)
1	FCG	20250035-GU	Staff Proposed	682,544,588	194,258,559	187,541,800	6,716,759	3.6%	3.5%	1.0%	Remaining life
			FCG Proposed	682,544,588	194,258,559	175,057,648	19,200,911	10.9%	9.9%	2.8%	2-yr amortization
2	FCG	20170179-GU	PSC-2018-0190-FOF-GU	425,352,480	180,638,460	169,129,311	11,509,149	6.8%	6.4%	2.7%	Remaining life
3	PGS	20220219-GU	PSC-2023-0388-FOF-GU	3,186,513,154	889,076,505	728,684,347	160,392,158	22.0%	18.0%	5.0%	Remaining life
4	PGS	20180044-GU	PSC-2018-0501-S-GU	1,378,109,097	664,335,975	515,783,674	148,552,301	28.8%	22.4%	10.8%	Remaining life
5	FPUC	20220067-GU	PSC-2023-0103-FOF-GU	572,352,652	140,037,855	119,869,638	20,168,217	16.8%	14.4%	3.5%	Remaining life

Each of the orders cited in rows 3 through 5 of Table 4 address a reserve surplus that is relatively large in size, when measured against the corresponding theoretical reserve, the book reserve, and the plant investment. In essence, we have ordered using the remaining life technique as the corrective measure for relatively large reserve imbalances. Compared with these cases, FCG’s currently calculated total reserve surplus is small, when measured against the theoretical reserve, the book reserve, or the investment.

The Company claimed that another reason for its proposed corrective measure of a 2-year amortization was that using the remaining life technique would mean that it would take 43 years to correct the imbalance. A 2-year amortization ensures that those customers who contributed to the surplus are more likely to receive the benefit promptly by reducing depreciation expense. However, taking 43 years to correct FCG’s calculated reserve surplus can only be realized if FCG’s currently proposed depreciation parameters are not changed throughout the 43 years, which is the estimated average remaining life of the Company’s total depreciable plant. The depreciation rule provides that the calculated reserve imbalance and its underlying depreciation parameters will be reviewed at least every five years. Consequently, the resulting theoretical reserve imbalances should be calculated and action taken to address such imbalance on that same schedule.

FCG’s argument for transferring depreciation reserves to earnings is based on the claim that current customers are underpaying for service. However, a depreciation reserve surplus indicates that - based on current information - depreciation expense has been greater than necessary. The depreciation expense customers have paid to this point did not cause FCG to under-earn its authorized return. Such a surplus should be returned to customers through the remaining life technique.

The record shows that if the \$6.8 million reserve imbalance approved is amortized over a 2-year period, the resulting annual depreciation expenses (as shown in Section II of Attachment B to this order) would be lower than the annual depreciation expenses resulting from applying

the remaining life technique to correct the reserve imbalance (see Section I of Attachment B). However, amortization of the reserve imbalance over less than remaining life would, all else being equal, cause future depreciation rates and revenue requirements to increase. More specifically, FCG indicated that, with respect to the impact of its proposed surplus corrective measure on customer's rates in next base rate case, correction of the reserve surplus over the proposed 2-year period compared to correction through the remaining life rate design could, in a vacuum, result in an increased rate base and depreciation expenses in FCG's next rate case proceeding.

An impact of FCG's proposed 2-year amortization would be increased Company earnings because the depreciation reserve would be used to offset or credit 2025 and 2026 depreciation expenses. Given that the Company is under-earning through June 30, 2025, and projected to under-earn for calendar year 2025, FCG's amortization proposal "would be acting as a bridge" in terms of earnings support between now and a future rate case/implementation of revised base rates. However, the 2-year amortization proposal is not being offered as a definitive postponement of a future rate case.

The specific accounting entries associated with the Company's 2-year amortization proposal consist of debits to accumulated depreciation by Federal Energy Regulatory Commission plant account and credits to depreciation expense. While the Company's under-earnings level quoted in this Section is associated with the first half of 2025 and the proposed amortization occurs over calendar year 2025, approving the Company's requested depreciation parameters and \$19.2 million 2-year amortization proposals could potentially bring it inside the authorized earnings range for 2025.

The matter of how a reserve imbalance should be corrected is not a subject of depreciation theory but is instead a policy decision. In this case, approving a 2-year amortization for correcting staff's calculated \$6.8 million reserve surplus, which can help in addressing FCG's short term under earnings, is one direction available to us. However, there are compelling reasons to support using the remaining life technique to address the identified theoretical reserve surplus.

### **Conclusion**

We approve using the remaining life technique to correct the theoretical reserve imbalances. The resulting total annual depreciation expense is \$17.3 million, as shown in Attachment B, Section I, which is incorporated by this reference as if fully set forth herein.

### **5. Implementation Date**

Rule 25-7.045(5)(b), F.A.C., states, in part, a depreciation study shall include "a comparison of current and proposed annual depreciation rates and expenses. The comparison of current and proposed rates shall identify the proposed effective date for the proposed rates." FCG's 2025 Depreciation Study included a proposed effective date of January 1, 2025, for the proposed depreciation rates as required by this Rule.

OPC recommended that FCG's 2025 Depreciation Study should be rejected and any implementation date should be no sooner than the effective date of new end user rates resulting from the Company's next rate case.

An implementation date must be set. FCG's proposed effective date of January 1, 2025 is in line with the Company's data and proposals set forth in this docket. Additionally the Company's investments and reserves used for calculating the reserve imbalance are as of January 1, 2025. We find the appropriate implementation date should be January 1, 2025.

### **Conclusion**

The implementation date for revised depreciation rates and amortization schedules shall be January 1, 2025.

6. Amortization of Investment Tax Credits (ITCs) and Flow Back of Excess Deferred Income Taxes (EDITs)

FCG argued if the Commission approves the 2025 Depreciation Study, the flow back of EDITs should be revised to reflect the depreciation rates and amortization schedules ultimately approved by us in this proceeding. FCG explained that if we approve changing the remaining lives of depreciable property, it would also be necessary to change the amortizations of ITCs and EDITs to avoid conflict with provisions of the Internal Revenue Code (IRC) and Tax Cuts and Jobs Act. The flow back of EDITs should be revised to reflect the depreciation rates and amortization schedules ultimately approved by the Commission in this proceeding. FCG affirmed it does not have any ITCs at this time.

OPC contended FCG did not file a complete depreciation study as required by Rule 25-7.045, F.A.C.; therefore, there is no lawful basis to change depreciation rates and amortization schedules, thus rendering this issue moot. OPC acknowledged in the event the Commission grants FCG's request, the Commission should follow Commission practice.

In order to ensure consistency with the applicable provisions of the IRC and Tax Cuts and Jobs Act, the amortization of EDITs shall be revised to reflect the rates approved in this order.

In addition, FCG confirmed it does not have any ITCs. FCG agreed that if the Company changes the remaining lives of depreciable property, it is also important to change the amortization of ITCs and EDITs to avoid violation of provisions of IRC Section 50(d)(2) for ITCs, and IRC Section 168(i)(9), former Section 167(1), and Section 13001(d) of the Tax Cuts and Jobs Act for EDITs, and their underlying Treasury Regulations.

Revising a utility's book depreciation lives in general results in a corresponding change in its rates of ITC amortization and flow back of EDITs. This revision is implemented in order to comply with normalization requirements of the IRC as set forth in Federal Tax Regulations

under the Code sections,<sup>26</sup> Sections 168(f)(2) and (i)(9),<sup>27</sup> former IRC Sections 167(1), and 46(f),<sup>28</sup> and Section 203(e) of the Tax Reform Act of 1986 (the Act).<sup>29</sup>

Former IRC Section 46(f)(6) of the Code indicated that the amortization of the ITC should be determined by the period of time actually used in computing depreciation expense on the regulated books of the utility for ratemaking purposes.<sup>30</sup> While Section 46(f)(6) was repealed, under IRC Section 50(d)(2), the terms of former IRC Section 46(f)(6) remain applicable to public utility property for which a regulated utility previously claimed ITCs. FCG confirmed in response to our staff's 3<sup>rd</sup> set of interrogatories, No. 55, that 26 U.S.C 46(f)(6) has been repealed and at the time of filing, it did not have any ITCs. The Company is requesting changes to the remaining lives and the EDITs must also be changed to avoid a potential IRC violation. Changes in the ITCs and EDITs are needed to avoid violations of the provisions of IRC Section 50(d)(2) for ITCs, and IRC Section 168(i)(9), former Section 167(I), and Section 13001(d) of the Tax Change and Jobs Act for EDITs, and their underlying U.S. Treasury Regulations. The consequence of an ITC or EDIT normalization violation is a repayment of unamortized ITC balances to the IRS and the inability to utilize accelerated depreciation. Therefore, we approve the flow back of EDITs be revised to match the actual recovery periods for the related property.

### **Conclusion**

The current amortization of ITCs, if any, and the flow back of EDITs shall be revised to reflect the depreciation rates and amortization schedules approved by the Commission. FCG shall file detailed calculations of the revised EDITs at the same time it files its earnings surveillance report as specified in Rule 25-7.1352, F.A.C.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that our review of Florida City Gas's depreciation study indicates a need to review the Company's currently prescribed depreciation rates. It is further

ORDERED that the depreciation parameters and resulting depreciation rates for each depreciable plant account, as well as the amortization periods for each amortizable account listed in Attachment A to this Order are approved. It is further

ORDERED that the resulting theoretical reserve imbalances of FCG's total plant accounts, as of January 1, 2025, is a surplus of \$6.8 million as shown in Table 3 on Page 15 of this Order. It is further

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<sup>26</sup> Treas. Reg. §1.167; Treas. Reg. §1.46.

<sup>27</sup> Title 26 US Code §§168(f)(2) and (i)(9).

<sup>28</sup> Under IRC Section 50(d)(2), the terms of former 26 US Codes §167(1) and §46(f), which were repealed by the Revenue Reconciliation Act of 1990 (Pub. L. No. 101-508, §11812(a)(1-2)(1990)), remain applicable to public utility property for which a regulated utility previously claimed ITCs, which is the case here. (I.R.S. Priv. Ltr. Rul. 200933023, In.1 (May 7, 2009)).

<sup>29</sup> Tax Reform Act of 1986, Pub. L. No. 99-514 (100 Stat., 2085, 2146)(1986).

<sup>30</sup> Former 26 US Code §46(f)(6) (establishing proper determination of ratable portion).

ORDERED that the remaining life technique shall be used to correct the depreciation reserve imbalances identified in Section 3 of this Order. The resulting annual depreciation rates and expenses are presented in Attachment B, Section I.

ORDERED that the implementation of the new depreciation rates for FCG approved in this order shall be January 1, 2025. It is further

ORDERED that the current amortization of ITCs and flow back of EDITs shall be revised to reflect the depreciation rates and amortization schedules approved by the Commission. FCG shall file detailed calculations of the revised EDITs at the same time it files its earnings surveillance report as specified in Rule 25-7.1352, F.A.C. It is further

ORDERED that this docket shall be closed once the time for filing an appeal has run.

By ORDER of the Florida Public Service Commission this 9th day of March, 2026.



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ADAM TEITZMAN  
Commission Clerk  
Florida Public Service Commission  
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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 or judicial review of Commission orders that is available under Sections 120.57 or 120.68, 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 or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request:

- 1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or
- 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Office of Commission Clerk, and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Attachment A: Depreciation Parameters and Amortization Periods with Resulting Depreciation/Amortization Rates														
Acct No.	Acct Description	Book** Investment	Book Reserve	CURRENT*				COMMISSION APPROVED						
				Curve	ASL	ARL	NS	Curve	ASL	ARL	NS	Reserve Ratios	RL Depreciation /Amortization Rate***	MORT Depreciation /Amortization Rate****
					(Yrs.)	(Yrs.)	(%)		(Yrs.)	(Yrs.)	(%)			
		(As of 1/1/2025)	(As of 1/1/2025)											
3031	Miscellaneous Intangible Plant (formally Acct 30302)	\$2,126,505	\$313,262	SQ	12 Yr Amortization			SQ	15 Yr Amortization			14.7	6.7	6.7
3032	Miscellaneous Intangible Plant	\$6,944,592	\$1,358,546	SQ	20 Yr Amortization			SQ	20 Yr Amortization			19.6	5.0	5.0
	Total Intangible Plant	\$9,071,097	\$1,671,808											
3642	Structures & Improvements	\$35,843	\$807	S4	50	50	-	S4	50	49	0	2.3	2.0	2.0
3643	LNG Processing Terminal Equipment	\$239,769	\$2,464	S4	50	50	-	S4	50	49	0	1.0	2.0	2.0
3645	Measuring and Regulating Equip.	\$35,905	\$808	S4	50	50	-	S4	50	49	0	2.3	2.0	2.0
3646	Compressor Station Equip.	\$59,702,374	\$1,922,731	S4	50	50	-	S4	50	49	0	3.2	2.0	2.0
	Total Storage Plant	\$60,013,891	\$1,926,810											
3743	Right-of-Way	\$11,132	\$0					SQ	75	44	0	0.0	2.3	1.3
3750	Structures & Improvements	\$273,829	\$8,672	L0	33	31	-	R4	35	30	0	3.2	3.2	2.9
3761	Mains - Plastic (Formally Acct 3762)	\$237,376,057	\$49,591,899	R2	75	66	(33)	R2.5	75	65	(30)	20.9	1.7	1.7
3762	Mains - Steel (Formally Acct 3761)	\$143,280,076	\$65,981,846	R1.5	65	50	(50)	R4	65	44	(50)	46.1	2.3	2.3
3780	Measuring and Regulating Equip. - General	\$2,556,627	\$410,733	R1.5	40	37	(10)	S3	40	33	(10)	16.1	2.8	2.8
3790	Measuring and Regulating Equip. - City Gates	\$17,746,190	\$5,689,779	R2.5	50	41	(10)	R3	50	37	(10)	32.1	2.1	2.2
3801	Services - Plastic (Formally Acct 3802)	\$128,613,988	\$32,898,453	R1.5	55	47	(68)	R1.5	55	47	(68)	25.6	3.0	3.1
3802	Services - Steel (Formally Acct 3801)	\$16,378,776	\$18,490,162	R0.5	52	32	(125)	R1.5	60	34	(125)	112.9	3.3	3.8
3810	Meters	\$24,050,241	\$6,267,515	R2	19	12.4	3	R2	20	12.6	(5)	26.1	5.3	5.3
3812	Meters - ERTs (Formally Acct 3811)	\$4,266,834	\$301,699	R2	19	14.4	3	R2	20	17.0	0	7.1	5.0	5.0
3820	Meter Installations	\$6,710,985	\$256,072	R1	44	35	(25)	R1	44	35	0	3.8	2.3	2.3
3821	Meter Installations - ERT	\$258,204	\$6,171	R1	44	36	(25)	R1	44	43	0	2.4	2.3	2.3
3830	House Regulators	\$7,527,623	\$1,225,606	S1	42	33	-	S0	42	33	0	16.3	2.4	2.4
3840	House Regulators Installations	\$2,065,464	\$432,366	R1	47	35	(25)	R1	47	33	0	20.9	2.3	2.1
3850	Indus. Meas. & Reg. Station Equip	\$3,740,797	\$2,309,679	R3	37	17.8	(2)	S3	40	16.9	0	61.7	2.3	2.5
3870	Other Equipment	\$2,783,990	\$713,530	L2	24	18.1	-	R3	35	28	0	25.6	2.7	2.9
	Total Distribution Plant	\$597,640,813	\$184,584,182											
3900	Structures & Improvements	\$13,115,013	\$2,490,539	L0	25	20	-	S0.5	40	33	0	19.0	2.5	2.5
3910	Office Equipment	\$36,234	\$40,214	SQ	15 Yr Amortization			SQ	14 Yr Amortization			111.0	7.1	7.1
3912	Computer Hardware (Combines Accounts 39112 and 3915)	\$1,062,207	\$913,452	SQ	5 Yr Amortization			SQ	10 Yr Amortization			86.0	10.0	10.0
3913	Office Furniture (formally account 3910)	\$1,280,582	\$447,729	SQ	15 Yr Amortization			SQ	20 Yr Amortization			35.0	5.0	5.0
3914	Computer Software (formally account 39111)	\$0	\$0	SQ	12 Yr Amortization			SQ	10 Yr Amortization			-	10.0	10.0
3921	Cars (revised subaccount)	\$324,144	\$163,750	L2.5	9	4.2	11	S2	12	3.7	10	50.5	10.8	7.5
3922	Light -Med. Trucks, SUVs & Vans (revised subaccount)	\$8,392,837	\$3,453,447	L3	10	6.1	11	S2	12	7.5	20	41.1	5.2	6.7
3923	Heavy Trucks	\$1,040,846	\$591,746	L2	12	6.5	4	L3	13	5.3	10	56.9	6.3	6.9
3924	Trailers (formally account 3920)	\$174,493	\$137,364	L2	12	4.7	4	L2	20	9.5	0	78.7	1.8	4.8
3930	Stores Equipment	\$32,400	\$1,566	SQ	25 Yr Amortization			SQ	26 Yr Amortization			4.8	3.8	3.8
3940	Tools, Shop & Garage Equip.	\$965,394	\$327,689	SQ	15 Yr Amortization			SQ	15 Yr Amortization			33.9	6.7	6.7
3941	Natural Gas Vehicle Equip.	\$1,564,204	\$826,016	S4	20	13.5	-	S4	20	11.5	0	52.8	4.1	5.0
3950	Laboratory Equip.	\$0	\$0	SQ	20 Yr Amortization			SQ	20 Yr Amortization			-	5.0	5.0
3960	Power Operated Equip.	\$278,349	\$84,705	SQ	15	10.3	10	L2	15	9.1	10	30.4	6.5	6.0
3970	Communication Equip.	\$1,202,866	\$290,423	SQ	12 Yr Amortization			SQ	13 Yr Amortization			24.1	7.7	7.7
3980	Miscellaneous Equip.	\$505,540	(\$51,276)	SQ	20 Yr Amortization			SQ	17 Yr Amortization			(10)	5.9	5.9
	Total General Plant	\$29,975,107	\$9,717,364											
	Total Gas Plant	\$696,700,908	\$197,900,164											

\* Current parameters are approved by Order No. PSC-2023-0177-FOF-GU and Order No. PSC-2018-0190-FOF-GU.  
 \*\* Some accounts were restated by FCG to reflect FCG's parent company CUC's standard natural gas subaccounts, or retirement adjustments. (EXH 3, MPN C2-142, C2-146 )  
 \*\*\* Represents Depreciation Rates and Annual Expense using Remaining Life technique to address calculated reserve surplus  
 \*\*\*\* Represents Depreciation Rates and Annual Expense using 2-year amortization to address calculated reserve surplus

<b>Attachment B: Comparison of Annual Expenses</b>									
CURRENT*			Section I		Section II		Section III		
			Commission Approved		Alternative Option		Company Proposed		
			Corrective Measure for		Corrective Measure for		Corrective Measure for		
			Theoretical Reserve Imbalance		Theoretical Reserve Imbalance		Theoretical Reserve Imbalance		
			Remaining Life Technique		2-Year Amortization		2-Year Amortization		
Acct No.	Depreciation/ Amortization Rate (%)	Annual Expense	Depreciation/ Amortization Rate (%)	Annual Expense	Depreciation/ Amortization Rate (%)	Annual Expense	Depreciation/ Amortization Rate (%)	Annual Expense	
3031	8.3	\$176,500	6.7	\$141,782	6.7	\$141,782	6.7	\$141,767	
3032	5.0	\$347,230	5.0	\$347,230	5.0	\$347,230	5.0	\$347,230	
3642	2.0	\$717	2.0	\$715	2.0	\$717	2.0	\$717	
3643	2.0	\$4,795	2.0	\$4,843	2.0	\$4,795	2.0	\$4,795	
3645	2.0	\$718	2.0	\$716	2.0	\$718	2.0	\$718	
3646	2.0	\$1,194,047	2.0	\$1,179,176	2.0	\$1,194,047	2.0	\$1,194,047	
3743		\$0	2.3	\$253	1.3	\$148	1.3	\$148	
3750	3.8	\$10,406	3.2	\$8,839	2.9	\$7,824	2.9	\$7,832	
3761	1.6	\$3,798,017	1.7	\$4,114,518	1.7	\$4,114,518	1.7	\$4,106,606	
3762	2.0	\$2,865,602	2.3	\$3,306,463	2.3	\$3,306,463	2.1	\$3,080,522	
3780	2.6	\$66,472	2.8	\$72,774	2.8	\$70,307	2.8	\$70,307	
3790	2.0	\$354,924	2.1	\$373,812	2.2	\$390,416	2.2	\$390,416	
3801	3.1	\$3,987,034	3.0	\$3,897,299	3.1	\$3,928,573	2.6	\$3,279,657	
3802	2.5	\$409,469	3.3	\$540,061	3.8	\$614,204	3.8	\$614,204	
3810	6.9	\$1,659,467	5.3	\$1,262,638	5.3	\$1,262,638	5.3	\$1,262,638	
3812	9.7	\$413,883	5.0	\$213,342	5.0	\$213,342	5.0	\$213,342	
3820	3.6	\$241,595	2.3	\$152,522	2.3	\$152,522	2.3	\$152,339	
3821	10.3	\$26,595	2.3	\$5,868	2.3	\$5,868	2.3	\$5,861	
3830	2.3	\$173,135	2.4	\$179,229	2.4	\$179,229	2.4	\$179,157	
3840	3.4	\$70,226	2.3	\$47,460	2.1	\$43,946	2.1	\$43,994	
3850	2.3	\$86,038	2.3	\$84,704	2.5	\$93,520	2.5	\$93,520	
3870	4.4	\$122,496	2.7	\$73,945	2.9	\$79,543	2.9	\$79,622	
3900	4.0	\$524,601	2.5	\$321,954	2.5	\$327,875	2.5	\$327,875	
3910	6.7	\$2,428	7.1	\$2,588	7.1	\$2,588	7.1	\$2,588	
3912	20.0	\$212,441	10.0	\$106,221	10.0	\$106,221	10.0	\$106,221	
3913	6.7	\$85,799	5.0	\$64,029	5.0	\$64,029	5.0	\$64,029	
3914	8.3	\$0	10.0	\$0	10.0	\$0	10.0	\$0	
3921	6.0	\$19,449	10.8	\$35,163	7.5	\$24,311	7.5	\$24,311	
3922	6.6	\$553,927	5.2	\$436,110	6.7	\$559,522	6.7	\$559,746	
3923	7.7	\$80,145	6.3	\$65,343	6.9	\$72,059	6.9	\$72,034	
3924	13.4	\$23,382	1.8	\$3,161	4.8	\$8,376	5.0	\$8,725	
3930	4.0	\$1,296	3.8	\$1,246	3.8	\$1,246	3.9	\$1,246	
3940	6.7	\$64,681	6.7	\$65,224	6.7	\$65,224	6.7	\$64,360	
3941	3.0	\$46,926	4.1	\$64,181	5.0	\$78,210	5.0	\$78,210	
3950	5.0	\$0	5.0	\$0	5.0	\$0	5.0	\$0	
3960	6.5	\$18,093	6.5	\$18,148	6.0	\$16,701	6.0	\$16,701	
3970	8.3	\$99,838	7.7	\$92,528	7.7	\$92,528	7.7	\$92,528	
3980	5.0	\$25,277	5.9	\$29,738	5.9	\$29,738	5.9	\$29,738	
Total Annual Expenses		\$17,767,649			\$17,313,823			\$17,600,979	\$16,717,752
2-Year Amortization of Reserve Surplus									
Total amount amortized								(\$6,760,228)	(\$19,244,380)
Annual amount amortized								(\$3,380,114)	(\$9,622,190)
Annual Expense over 2-Year Amortization Period								\$14,220,865	\$7,095,562