100133-GU

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY

OF MATTHEW KIM

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Matthew Kim. I serve as Assistant Vice President and Corporate Controller of Chesapeake Utilities Corporation ("Chesapeake"). My business address is 909 Silver Lake Boulevard, Dover, Delaware.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I graduated with a Bachelor of Science in Business Administration degree, with a major in Accounting, Magna Cum Laude, from Georgetown University in Washington, DC in 1998. I am a Certified Public Accountant, licensed in the District of Columbia. I have 13 years of professional accounting experience. I joined Chesapeake in 2009 as the Corporate Controller and in 2010, I was appointed as Assistant Vice President by Chesapeake's Board of Directors. Prior to joining Chesapeake, I was Vice President and Assistant Controller at The Carlyle Group, a global private equity firm, from 2005 to 2009. I also held various audit positions with public accounting firms for over seven years, from Staff Auditor to Senior Manager. Prior to leaving public accounting, I was a Senior Manager with PricewaterhouseCoopers LLC.

Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.

A. As Assistant Vice President and Corporate Controller, I am responsible for accounting, financial reporting and tax compliance functions within Chesapeake. This includes daily oversight, management, compliance and policy. I am also involved in the financial planning and budgeting functions within Chesapeake.

Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION OR ANY OTHER REUGATORY BODY?

A. Yes. In 2010, I previously provided testimony before the Federal Energy Regulatory Commission ("FERC") in Docket Number RP11-1670. I have not previously provided testimony before the Florida Public Service Commission (the "Commission").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to describe the acquisition by Chesapeake of Florida Public Utilities Company ("FPUC") and support the calculation of and the request for recovery of the positive acquisition premium and transaction/transition costs (the "Regulatory Assets") resulting from the acquisition.

Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR TESTIMONY?

A. Yes. I am sponsoring the following Exhibits to my testimony:

- Exhibit___(MK-1) – Calculation of Natural Gas Premium;
- Exhibit___(MK-2) – Calculation of Income Tax Gross-Up;

- Exhibit___(MK-3) – Transaction and Transition Costs – Summary Detail;
- Exhibit___(MK-4) – Proposed Amortization Schedule; and
- Exhibit___(MK-5) – Calculation of Acquisition Premium and Regulatory Assets Revenue Requirements and Comparison to Operating Savings

Q. PLEASE DESCRIBE THE ACQUISITION TRANSACTION.

A. On October 28, 2009, Chesapeake acquired FPUC, whereby FPUC became a wholly owned subsidiary of Chesapeake. Pursuant to the transaction, FPUC shareholders received 0.405 shares of Chesapeake common stock in exchange for each outstanding share of FPUC common stock. Chesapeake issued 2,487,910 shares of its common stock to redeem all outstanding FPUC common shares. The market price of Chesapeake stock at the time of the transaction was $30.42 per share. Thus, the value of consideration exchanged for FPUC common shares, inclusive of a minor amount of cash paid in lieu of issuing fractional shares, was $75,698,624. In addition, Chesapeake assumed all of the outstanding short-term and long-term debt of FPUC at the time of the acquisition, which represented $4,249,000 and $47,812,431, respectively. These amounts represented the outstanding principal balances, net of any remaining discount and unamortized debt issuance costs at the time of the transaction. Thus, the total value of Chesapeake stock issued, cash paid and FPUC debt assumed in the acquisition was $127,760,055. The transaction between Chesapeake and

FPUC, which was an exchange of stock rather than a sale of assets, was treated as a tax-free reorganization for income tax purposes in accordance with the Internal Revenue Code Section 368(a). Under a tax-free reorganization, the premium paid for the acquisition is considered to be capitalized as part of the investment basis and therefore, it is not deducted or amortized for income tax purposes for the Company.

Q. DID THE ACQUISITION BY CHESAPEAKE RESULT IN A PURCHASE PRICE GREATER THAN THE BOOK VALUE OF THE ACQUIRED ASSETS FOR THE FPUC NATURAL GAS BUSINESS UNIT?

A. Yes. We determined that the amount paid for the FPUC natural gas business in the acquisition was $88,276,234. The book value of the FPUC natural gas business at the time of the acquisition was $53,596,487. Thus, the purchase price paid by Chesapeake exceeded the book value of the acquired assets of the FPUC natural gas business by $34,679.747. The book value of the FPUC natural gas business at the time of the acquisition of $53,596,487 includes the effect of certain adjustments recorded after the acquisition was completed based on Chesapeake's review of FPUC's accounting records and other adjustments as required by generally accepted accounting principles in the United States of America ("US GAAP"). See Exhibit __(MK-1).

Q. HOW DID THE COMPANY DETERMINE THE PURCHASE PRICE FOR THE FPUC NATURAL GAS BUSINESS UNIT?

A. The purchase price for the FPUC natural gas business is based on the fair value of the FPUC natural gas business as determined from a bottom-up valuation calculation prepared by the independent valuation experts from Ernst & Young ("E&Y"). After the acquisition of FPUC was completed, the Company engaged experts from E&Y to perform valuation services for the sole purpose of accounting for the FPUC acquisition in accordance with US GAAP. Under this engagement, E&Y calculated the fair value of the Total Invested Capital ("TIC") of each of FPUC's businesses based on the fair value standard/premise as defined in US GAAP. TIC is essentially the value of equity plus debt. The sum of TIC's from FPUC's businesses based on the E&Y valuation was compared and reconciled to the total value of Chesapeake shares issued, cash paid and FPUC debt assumed in the acquisition. The purchase price for the FPUC natural gas business was based on the TIC calculated by E&Y for the FPUC natural gas business ($88,700,000), plus a slight adjustment to account for an Excess Paid above the valuation amount ($111,260), less an adjustment to reallocate costs to cover "common" plant ($535,026).

Q. PLEASE DESCRIBE THE VALUATION METHODOLOGY ERNST & YOUNG UTILIZED TO DETERMINE "FAIR VALUE."

A. E&Y utilized the Fair Value standard/premise as defined in US GAAP as the primary basis for their valuation. The US GAAP standard/premise of fair value is defined in Accounting Standard Codification 820 as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." In a valuation of the TIC of a company, three different approaches may be used to determine fair value: 1) the Income Approach, 2) the Market Approach, and 3) the Cost Approach. As more fully described in the E&Y valuation report, E&Y considered all three approaches in its valuation of the FPUC natural gas business and determined that the Discounted Cash Flow Method ("DCF") of the Income Approach and the Guideline Company Method ("GCM") and Similar Transaction Method ("STM") of the Market Approach were the most appropriate for this transaction. The Cost Approach, which is usually not utilized when valuing an on-going, profitable operation, was not used by E&Y. E&Y determined the fair value of the FPUC natural gas business under each method and applied the following weight to each method based on its assessment of accuracy and application of each method to the business based on size, risk and relevance: DCF Method – 80%; GCM – 10%; and STM – 10%. The resulting fair value of the FPUC natural gas business as calculated by E&Y was $88,700,000.

Q. IS THE COMPANY SEEKING APPROVAL OF THE NATURAL GAS PURCHASE PREMIUM OF $34,679,747?

A. No. Although the premium (the purchase price in excess of the book value of assets) for the FPUC natural gas business as determined through the bottom-up, independent valuation by E&Y was $34,679,747, the total purchase premium for the acquisition was determined to be $34,192,493. The Company is seeking recovery of the total purchase premium amount of $34,192,493 (the lower amount).

Q. WHAT REGULATORY TREATMENT OF THIS ACQUISITION ADJUSTMENT IS BEING REQUESTED BY FPUC?

A. FPUC is requesting that the total purchase premium or positive acquisition adjustment of $34,192,493 be approved by the Commission for FPUC's natural gas business unit and amortized over 30 years. FPUC is also requesting that the amortization of the positive acquisition adjustment be allowed to be recorded in Account 406, Amortization of Gas Plant Acquisition Adjustment, as an above-the-line expense to be included for ratemaking and earnings surveillance purposes. FPUC is also requesting that the amortization of the positive acquisition adjustment be allowed to be "grossed-up" for income taxes as shown in Exhibit __ (MK-2).

Q. IS FPUC SEEKING ANY OTHER REGULATORY TREATMENT ASSOCIATED WITH THE ACQUISITION?

A. Yes, FPUC is requesting approval to recover the Regulatory Assets (as previously defined) attributable to the natural gas business unit and to amortize the Regulatory Assets over five years.

Q. PLEASE DESCRIBE THE TRANSACTION COSTS.

A. Transaction costs were those costs necessary to consummate the acquisition transaction. The transaction costs consisted primarily of fees paid by Chesapeake to attorneys, Chesapeake's financial advisor, accounting firms and other consultants for their services related to the acquisition. The transaction costs also included the costs associated with obtaining necessary regulatory approvals and shareholder approval, which were required to consummate the transaction. As shown on Exhibit __(MK-3), the total of all transaction costs incurred by Chesapeake were $2,375,033. The total transaction costs did not include approximately $4.6 million of similar costs incurred by FPUC in connection with the transaction, which were expensed by FPUC in 2008 and 2009. Chesapeake's transaction costs also exclude approximately $1.2 million of related costs incurred by Chesapeake during the initial acquisition discussions with FPUC in 2007 and 2008. Chesapeake expensed those amounts in 2008 upon termination of the initial discussions.

Q. PLEASE DESCRIBE THE TRANSITION COSTS.

A. Transition costs were incurred after the completion of the transaction to facilitate the integration of Chesapeake and FPUC and, as a requirement of the transaction, to improve business efficiencies and to lower overall costs to serve. The transition costs included: severance related expenses, "run-off" insurance for former directors and officers of FPUC, legal fees associated with severance and other integration-related matters, costs associated with shareholder litigation and consulting expenses related to integration of operations. The total transition costs incurred were $957,159, as shown on Exhibit___(MK-3).

Q. ARE ALL OF THE REGULATORY ASSETS DEDUCTIBLE FOR TAX PURPOSES?

A. No, certain costs are not deductible for income tax purposes as they are capitalized in the investment basis. Income tax deductibility for the transaction and transition costs were determined based on the nature and timing of the costs in accordance with Internal Revenue Code Section 263(a). Tax regulations consider certain costs incurred in a transaction, such as drafting an acquisition document, to be closely related to facilitating the transaction and prescribe that those costs must be capitalized as part of the investment basis rather than being deducted or amortized for income tax purposes. Tax regulations also require the costs incurred after the parties agree to a transaction, which in the case of this acquisition was the approval of the transaction by each company's Board of Directors, to be capitalized as part of the investment basis rather than being deducted or amortized for income tax purposes. The Company analyzed each transaction and transition cost incurred in the acquisition for tax-deductibility with the assistance from external tax consultants and determined that $908,512 of the transaction costs and all of the transition costs are deductible for income tax purposes, as also shown on Exhibit___MK-3.

Q. HOW DID THE COMPANY DETERMINE THE PORTION OF TRANSACTION COSTS AND TRANSITION COSTS TO BE INCLUDED IN THE REGUALTORY ASSETS?

A. The Company analyzed each type of transaction and transition cost based on the nature and type of those costs for appropriate assignment or allocation to different businesses. First, any costs that benefitted a specific business were assigned to that business. All other costs, which benefitted the overall transaction and integration were allocated to FPUC businesses based on the TIC determined by the E&Y valuation. As a result of these assignments and allocation, the Company determined that $1,650,983 of the transaction costs and $556,175 of the transition costs are related to the FPUC natural gas business and thus included in the Regulatory Assets.

Q. WHAT IS THE TOTAL AMOUNT OF THE REGULATORY ASSETS THAT THE COMPANY IS SEEKING RECOVERY?

A. The total amount of Regulatory Assets that the Company is seeking to recover is $2,207,158. The Company is proposing that the Commission approve the Regulatory Assets in rate base and allow them to be amortized over a five-year period as an "above-the-line" expense in the cost to serve to be included for ratemaking and earnings surveillance purposes. The Company is also requesting approval to gross-up the Regulatory Assets for income taxes as shown in Exhibit __ (MK-2).

Q. IS FPUC REQUESTING AN ADJUSTMENT TO ITS CURRENTLY APPROVED RATES IN THIS PROCEEDING?

A. No. The Company is seeking Commission approval to place the positive acquisition adjustment and Regulatory Assets into rate base and the associated amortization amounts be recorded "above-the-line" in the cost of service.

Q. WHAT IS YOUR UNDERSTANDING OF THE AMORTIZATION POLICY OF THE COMMISSION?

A. The Commission has authorized positive acquisition adjustments in several natural gas cases, including Peoples Gas' acquisition of Southern Gas Company (Order No. 23858); FPUC acquisition of South Florida Natural Gas

(Order No. PSC-04-1110-PAA-GU); AGL acquisition of NUI (Order No. PSC-07-0913-PAA-GU); and Chesapeake's acquisition of Central Florida Gas (Order No. 18716). In most of these cases, the Commission has approved a 30-year amortization period (other than the Chesapeake acquisition of Central Florida Gas where the amortization period was 15-years), beginning at the acquisition closing date using the straight-line method. In addition, in the AGL case, the Commission authorized a five-year amortization period for transaction/transition costs.

Q. IS THE COMPANY PROPOSING SIMILAR TREATMENT?

A. The Company is proposing some slight variations to the Commission's past practices. First, the Company is proposing that the amortization begin on November 1, 2009 instead of the transaction closing date of October 28, 2009. The Company believes that beginning the amortization period at the start of a calendar month makes for less confusion over the life of the acquisition asset and the accounting would be somewhat simpler than if the Commission practice was strictly adhered to. Second, the Company is proposing to modify the straight-line amortization approach. The Company proposes that for the first three-years, the amortization expense be modified such that it provides for a better matching of the operating savings that support the acquisition related revenue requirements.

Q. PLEASE ELABORATE ON THE COMPANY'S PROPOSED AMORTIZATION SCHEDULE.

A. Certainly. The Company is proposing an amortization schedule, which allows the Company to gradually increase the total amortization expense (amortization of both the positive acquisition adjustment and Regulatory Assets) during the first three years of the amortization period as shown in Exhibit ___ (MK-4). After three years, the total amortization will remain constant each year, consistent with the traditional straight-line schedule. The Company's proposed amortization schedule does not vary from the Commission's past practices of a 30-year amortization period for positive acquisition premium and a five-year amortization period for the Regulatory Assets. Except for during the first three years, the Company's proposed amortization schedule does not vary from amortizing the same amount each period during the life of the asset, which is the general concept of straight-line amortization.

Q. WHY DOES THE COMPANY BELIEVE THAT THE MODIFIED STRAIGHT-LINE APPROACH IS APPROPRIATE?

A. Amortization is a way to distribute or recognize expense over a period of time during which the associated benefits from the asset are realized. By proposing the modified approach, the Company is simply trying to better match the revenue requirements of the acquisition and integration of FPUC (premium and transaction/transition costs) with the timing of when the benefits of the acquisition are realized. Under the Commission's past practice of a more traditional straight-line amortization approach, the total revenue requirements for the positive acquisition adjustment and transaction/transition costs are higher during the first five years after the acquisition than the next 25 years. As normally occurs in acquisition transactions, companies immediately seek to achieve synergies and savings that exist due to a variety of circumstances: duplicative services, changes in operations philosophy, etc. Once identified, companies begin to harvest these savings. However, all of the synergies and savings do not occur at the same point in time; rather, they are achieved systematically over time as companies continue to identify and harvest these savings in a systematic fashion such that operational requirements are maintained and the quality of customer service is not degraded. In effect, there is a ramping up of savings that typically occurs over the first three to five years of the post-acquisition period. The Company believes that Chesapeake and FPUC moved quickly to identify the areas where cost savings can be achieved and harvest those savings. The fact that the Company is able to discuss the positive impact of the acquisition in less than 18 months after the completion of the transaction speaks to just how quickly the Company has been able to achieve those benefits and savings. The annual savings of $941,266 attributable to the permanent turn-back of FGT capacity as discussed in the testimony of Mr. Geoffroy is just one of the examples of the savings achieved and shared with its customers in the 18 months since the transaction. Accounting principles would prescribe that there should be a "matching" of the costs (revenue requirements) of the acquisition with the operating savings required to justify and support recovery of the costs. Thus, the Company believes that it is appropriate to modify the amortization of the positive acquisition adjustment and Regulatory Assets over the first three years of the post-acquisition period.

Q. HOW WILL THE MODIFIED AMORTIZATION APPRAOCH AFFECT THE CUSTOMERS?

A. Since the Company is not proposing an adjustment to FPUC's current approved rates, there is no immediate impact to customers. In the early years, the revenue requirements are lower under the Company's proposed method, compared to the revenue requirements under the more traditional straight-line method. The revenue requirements after year 5 are higher under the Company's proposed method. As synergies are fully implemented and sustained in those years, higher cost savings are expected in those years as well.

Q. WHAT WAS THE TIMING OF THE SAVINGS DEMONSTRATED HEREIN ON THE COMPANY'S FINANCIAL STATEMENTS?

A. As described herein, the Company was reluctant to reduce costs in a manner that would result in a reduction of service quality to customers. The Company needed to retain most employees to ensure safe and reliable service. As a result, as shown on Exhibit __(MK-5), the actual and projected savings amounts in the first few years after the acquisition escalate as the Company deliberately proceeded with its post-acquisition actions.

Q. ARE THE SAVINGS ACHIEVED BY THE COMPANY PERMANENT OR TEMPORARY?

A. The savings achieved by the Company are permanent. The Commission's practice has been to continue to review the permanency of the cost savings supporting the approval of the positive acquisition adjustment in all future rate proceedings. It is important to note that while the level of the net operating savings is approximately equal to the revenue requirements of the positive acquisition adjustment and Regulatory Assets by 2011, under the proposed modified straight line amortization schedule; this will not be the case over the amortization life of the positive acquisition adjustment. The level of savings over the 30 year amortization period grows while the revenue requirements of the positive acquisition adjustment and Regulatory Assets decline. For example, the savings related to the eliminated positions grow over time because the Company will have avoided pay increases, benefit cost increases and other employee related cost increases that would otherwise have been incurred. Inflation would have also impacted the costs of certain savings, such as vehicle fuel, uniforms and corporate costs (insurance, legal fees, etc.). As shown on Exhibit __(MK-5), the accumulated savings over the 30 year period are projected to be more than $270 million while the total revenue requirements over the 30 year period are projected to be approximately $119 million in the Company-proposed amortization method. Thus, over the 30 year life of the acquisition premium, savings are expected to exceed revenue requirements by over $150 million.

Q. WHAT HAPPENS TO THE $150 MILLION EXCESS SAVINGS?

A. The excess savings accrues to the benefit of customers. In other words, because the acquisition occurred, the overall cost of service over the 30 year period is projected to be $150 million lower than it would have been if the two companies operated independently. Because customer rates are set on the cost of service, the acquisition produces rates that are $150 million lower than they would have otherwise been over the 30 year period.

Q. ACCORDING TO THE COMPANY, WHAT IS THE STRUCTURE OF THE AMORTIZATION METHOD THAT BENEFITS BOTH CUSTOMERS AND THE COMPANY?

A. As is shown above, the benefits to consumers over the 30-year life of the acquisition premium outweigh the revenue requirements of the transaction (by over $150 million). However, under the current practice, the utility is harmed by the mis-matching of early year savings (which escalate) with the total revenue requirements, based on the straight line amortization method, of the positive acquisition adjustment and Regulatory Assets. It is the Company's belief, therefore, that it is appropriate for the Commission to approve the Company-proposed modified straight-line amortization expense thus providing a better matching of savings with costs (revenue requirements).

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

EXHIBIT___(MK-1)

Calculation of Natural Gas Premium

Chesapeake Utilities Corporation
Calculation of Natural Gas Premium

	NG	
Fair value - enterprise value	$ 88,700,000	A
Excess paid	111,260	B
Reallocation to cover "common" plant	(535,026)	C
Purchase price	$ 88,276,234	

	NG	
Purchase price	$ 88,276,234	
Net asset value	55,859,889	D
Adjustments - pre-merger adjustments:		
Loss on reacquired debt	100,949	E
Bonus accrual reversal	40,610	F
Income tax contingency, net	(42,728)	G
Income tax amendments	-	G
Income tax true-up	-	H
Adjustments - elimination of pre-merger goodwill and intangible assets:		
Existing goodwill	(552,803)	I
Existing intangible assets	(1,900,000)	I
Subtotal - net assets	53,505,917	
Fair value adjustments:	-	J
Deferred tax liability step-up	(290,459)	K
Regulatory asset on deferred tax step-up	381,029	
Revised net assets - After FV adjustments	53,596,487	
Purchase premium	$ 34,679,747	

A Based on the "total invested capital" (i.e., enterprise value - value of equity plus debt) as recommended by the E&Y Valuation report.

B Calculation of the consideration paid in excess of the valuation:

Consideration paid	$ 75,698,624	See below
ST Debt - FPU at merger	4,249,000	Value of the debt
LT Debt - FPU at merger	47,812,431	Value of the debt
Total	$ 127,760,055	
Total fair value per valuation	127,600,000	
Excess paid	$ 160,055	

The "excess paid" represents the amount of consideration paid by Chesapeake above the sum of the fair value of each of the reporting units and their collective debt at the acquisition date. This should be allocated to each of the reporting units based on its respective ratio of the value compared to the sum of their values as follows:

	Fair Value of Reporting Unit		Allocation of "excess paid"
Natural gas	$ 88,700,000	70%	$ 111,260
Electric	$ 30,500,000	24%	$ 38,258
Propane	$ 8,400,000	7%	$ 10,537
	$ 127,600,000		$ 160,055

Calculation of the consideration paid by Chesapeake in the merger

Total CPK shares to be issued	2,487,910
Shares price on October 27, 2009 (one-day prior to effective date)	$30.42
Value of consideration exchanged	$75,682,222
Cash for fractional shares	$ 16,402
Total	$75,698,624

C In preparing the valuation for each reporting unit of FPU, we did not specifically value the remaining "other" net assets, which are primarily consisted of merchandise and other jobbing related assets, due to lack of materiality. Instead, we assumed that there is no fair value adjustment (i.e., book value = fair value) and allocated the value from the natural gas reporting unit.

D These amounts represent the book value of net assets from the FPU natural gas reporting unit, prior to any adjustments based on Chesapeake's review of the accounting records, adjustments allowed/required to be made pursuant to application of US GAAP acquisition accounting (such as fair value adjustment, re-assessment of effective tax rate used in the calculation of deferred taxes, assessment of pre-merger contingencies within the measurement period).

The book value of net assets was prepared by FPU, using the general ledger information and FPU's internal allocation of its "common" assets. Since FPU's general ledger does not maintain the assets and liabilities by each reporting unit on the fully-allocated basis (i.e., including the impact of allocating "common" items), we used the information provided by FPU based on its internal allocation.

E In FPU's calculation described in Note D above, FPU did not include "unamortized loss on required debt" in account 189. This adjustment establishes the book value of that asset. The allocation was done based on the ratio of net book value between natural gas and electric reporting units.

F During the measurement period of the acquisition accounting, we noted that FPU did not pay certain bonuses accrued as of the acquisition date. This adjustment reverses the over-accrual of the bonus expense. The allocation was done based on how the bonus accrual was allocated (based on payroll allocation done by FPU).

G During the measurement period (in September 2010), we amended FPU's income tax return for 2006, 2007 and 2008 as we identified an error in the amount of depreciation deduction included in those returns. As a result, FPU was required to make additional income tax payments for those years. Since the correction involves depreciation (timing difference), this results in adjustments between current tax and deferred tax balances and have no net effect on the book value of net assets. However, it is likely that FPU will be assessed for interest by the IRS on the additional tax payments and we established the contingent liability for such exposure. This adjustment is net of the related deferred tax impact.

H During the measurement period (in September 2010), we finalized FPU's income tax return for the pre-merger period in 2009. All of the adjustments to true-up the income tax accruals to the actual tax return involve timing difference (between current and deferred taxes) and have no net effect on the book value of net assets.

I Any remaining book value of FPU's goodwill and intangible assets (excluding the portion included in its rate base, which are considered a regulatory asset) was reversed for the calculation. Intangible assets, which meets the US GAAP definition to be valued at acquisition, if any, will be valued. Goodwill, if any, will be established by reporting unit based on the calculation.

J There is no fair value adjustment for assets and liabilities subject to rate regulation for FPU.

K After the merger, FPU will file as part of Chesapeake's consolidated federal income tax return. FPU's deferred taxes were previously estimated using its then effective federal income tax rate of 34%. Deferred taxes are supposed to be estimated using the tax rate expected to be in effect when they are utilized/ recognized. Since the effective federal income tax is 35% for FPU after the merger, we have to adjust FPU's deferred tax balance to reflect the increase in the expected tax rate.

EXHIBIT___(MK-2)

Calculation of Income Tax

Gross Up

EXHIBIT___(MK-2)

FLORIDA PUBLIC UTILITIES COMPANY
CALCULATION OF INCOME TAX GROSS-UP
FOR ACQUISITION PREMIUM AND REGULATORY ASSETS AMORTIZATION EXPENSE

	Total Premium		
	$34,192,493		
Non-Deductible	$32,317,493		
Deductible	$1,875,000		
Amortization Expense (tax deductible)			$62,500
Amortization Expense (not tax deductible)			$1,077,250
Tax Gross-up		37.63%	$ 649,943
Return of Capital			$1,789,693

	Total Regulatory Assets		
	$2,207,158		
Non-Deductible	$1,019,439		
Deductible	$1,187,719		
Amortization Expense (tax deductible)			$237,544
Amortization Expense (not tax deductible)			$203,888
Tax Gross-up		37.63%	$123,013
Return of Capital			$564,445

EXHIBIT___(MK-3)

Transaction and Transition Costs

Summary Detail

Transaction and Transition Costs - Summary Detail

	2009	2010 YTD September	Total To-Date
Transaction costs			
Legal - corporate counsel	$ 809,342	$ -	$ 809,342
Financial advisor	809,132	-	809,132
Accounting and valuation consultation	148,937	-	148,937
Other due diligence matters	168,631	-	168,631
Regulatory approval	62,306	-	62,306
Shareholder approval	366,338	-	366,338
Other	10,347	-	10,347
Subtotal - transaction costs	2,375,033	-	2,375,033
Transition costs - subject to recovery			
Severance related	28,044	423,528	451,572
D&O insurance (run off for FPU)	252,832	-	252,832
Legal - mostly HR related matters	58,403	477	58,880
Consulting	47,572	(6,739)	40,833
System conversion	44,867	(48,749)	(3,882)
Subtotal - transition costs subject to recovery	431,718	368,517	800,235
Transition costs - not subject to recovery			
Shareholder litigation	154,229	-	154,229
Propane customer transfer - mostly marketing	2,695	-	2,695
Subtotal - transition costs not subject to recovery	156,924	-	156,924
Transition costs - Total	588,642	368,517	957,159
Total transaction and transition costs	$ 2,963,675	$ 368,517	$ 3,332,192

Transaction and Transition Costs - Summary Detail

CONSOLIDATED	Tax Deductible	Non Deductible	Total	Allocated to Utilities	Non-recoverable or Allocated to Propane	Total	% Allocated to Utilities	% Allocated to Non-recoverable and Propane
Transaction Costs								
2009	$ 908,512	$ 1,466,521	$ 2,375,033	$ 2,218,683	$ 156,350	$ 2,375,033	93.4%	6.6%
Transition Costs								
2009 - transition costs	431,718	-	431,718	403,225	28,493	431,718	93.4%	6.6%
2009 - shareholder litigation	154,229	-	154,229	-	154,229	154,229	0.0%	100.0%
2009 - propane transfer marketing costs	2,695	-	2,695	-	2,695	2,695	0.0%	100.0%
2010 (YTD Sept)	368,517	-	368,517	344,195	24,322	368,517	93.4%	6.6%
	957,159	-	957,159	747,419	209,740	957,159		
Total transaction and transition costs	$ 1,865,671	$ 1,466,521	$ 3,332,192	$ 2,966,102	$ 366,090	$ 3,332,192		

Break-down of transaction/transition costs allocated to utilities	Natural Gas	Electric	Total Utilities	Allocate to Natural Gas	Allocate to Electric
Transaction Costs					
2009	$ 1,650,983	$ 567,700	$ 2,218,683	74.4%	25.6%
Transition Costs					
2009 - transition costs	300,051	103,174	403,225	74.4%	25.6%
2009 - shareholder litigation	-	-	-		
2009 - propane transfer marketing costs	-	-	-		
2010 (YTD Sept)	256,125	88,070	344,195	74.4%	25.6%
	556,175	191,244	747,419	74.4%	25.6%
Total transaction and transition costs	$ 2,207,158	$ 758,944	$ 2,966,102	74.4%	25.6%

	Natural Gas	Electric	Total Utilities	Propane	Total
Base - enterprise value assessed at acquisition	$ 88,700,000	$ 30,500,000	$ 119,200,000	$ 8,400,000	$ 127,600,000
% allocation between NG and Electric	74.4%	25.6%	100.0%		
% allocation from total	69.5%	23.9%	93.4%	6.6%	100.0%

EXHIBIT___(MK-4)

Proposed Amortization Schedule

FLORIDA PUBLIC UTILITIES COMPANY
PROPOSED AMORTIZATION SCHEDULE

$ 34,192,493	Acquisition Premium
$ 2,207,158	Regulatory Assets
$ 36,399,651	Total

Per the Commission Practice (Straight Line)

Calendar Year	No of Months	Amortization Expense: Reg Asset Amortization	Amortization Expense: Acq Premium Amortization	Amortization Expense: Total Amortization	Remaining Balance - at year-end: Reg Asset	Remaining Balance - at year-end: Acq Premium	Remaining Balance - at year-end: Total
					$ 2,207,158	$ 34,192,493	$ 36,399,651
2009	2	$ 73,572	$ 189,958	$ 263,530	$ 2,133,586	$ 34,002,535	$ 36,136,121
2010	12	$ 441,432	$ 1,139,750	$ 1,581,181	$ 1,692,154	$ 32,862,785	$ 34,554,939
2011	12	$ 441,432	$ 1,139,750	$ 1,581,181	$ 1,250,723	$ 31,723,035	$ 32,973,758
2012	12	$ 441,432	$ 1,139,750	$ 1,581,181	$ 809,291	$ 30,583,285	$ 31,392,577
2013	12	$ 441,432	$ 1,139,750	$ 1,581,181	$ 367,860	$ 29,443,536	$ 29,811,395
2014	12	$ 367,860	$ 1,139,750	$ 1,507,609	$ -	$ 28,303,786	$ 28,303,786
2015	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 27,164,036	$ 27,164,036
2016	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 26,024,286	$ 26,024,286
2017	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 24,884,537	$ 24,884,537
2018	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 23,744,787	$ 23,744,787
2019	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 22,605,037	$ 22,605,037
2020	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 21,465,287	$ 21,465,287
2021	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 20,325,538	$ 20,325,538
2022	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 19,185,788	$ 19,185,788
2023	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 18,046,038	$ 18,046,038
2024	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 16,906,288	$ 16,906,288
2025	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 15,766,538	$ 15,766,538
2026	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 14,626,789	$ 14,626,789
2027	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 13,487,039	$ 13,487,039
2028	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 12,347,289	$ 12,347,289
2029	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 11,207,539	$ 11,207,539
2030	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 10,067,790	$ 10,067,790
2031	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 8,928,040	$ 8,928,040
2032	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 7,788,290	$ 7,788,290
2033	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 6,648,540	$ 6,648,540
2034	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 5,508,791	$ 5,508,791
2035	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 4,369,041	$ 4,369,041
2036	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 3,229,291	$ 3,229,291
2037	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 2,089,541	$ 2,089,541
2038	12	$ -	$ 1,139,750	$ 1,139,750	$ -	$ 949,791	$ 949,791
2039	10	$ -	$ 949,791	$ 949,791	$ -	$ 0	$ 0
	360	$ 2,207,158	$ 34,192,493	$ 36,399,651			

FLORIDA PUBLIC UTILITIES COMPANY
PROPOSED AMORTIZATION SCHEDULE

$ 34,192,493	Acquisition Premium
$ 2,207,158	Regulatory Assets
$ 36,399,651	Total

Per Company Proposed Amortization Schedule

Calendar Year	No of Months	Amortization Expense: Reg Asset Amortization	Amortization Expense: Acq Premium Amortization	Amortization Expense: Total Amortization	Remaining Balance - at year-end: Reg Asset	Remaining Balance - at year-end: Acq Premium	Remaining Balance - at year-end: Total
					$ 2,207,158	$ 34,192,493	$ 36,399,651
2009	2	$ 36,549	$ 16,667	$ 53,216	$ 2,170,609	$ 34,175,826	$ 36,346,435
2010	12	$ 272,511	$ 100,000	$ 372,511	$ 1,898,098	$ 34,075,826	$ 35,973,924
2011	12	$ 543,227	$ 148,579	$ 691,806	$ 1,354,871	$ 33,927,247	$ 35,282,118
2012	12	$ 545,580	$ 465,522	$ 1,011,101	$ 809,291	$ 33,461,725	$ 34,271,016
2013	12	$ 441,432	$ 835,749	$ 1,277,181	$ 367,860	$ 32,625,976	$ 32,993,836
2014	12	$ 367,860	$ 909,321	$ 1,277,181	$ -	$ 31,716,655	$ 31,716,655
2015	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 30,439,474	$ 30,439,474
2016	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 29,162,293	$ 29,162,293
2017	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 27,885,113	$ 27,885,113
2018	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 26,607,932	$ 26,607,932
2019	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 25,330,751	$ 25,330,751
2020	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 24,053,571	$ 24,053,571
2021	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 22,776,390	$ 22,776,390
2022	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 21,499,209	$ 21,499,209
2023	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 20,222,028	$ 20,222,028
2024	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 18,944,848	$ 18,944,848
2025	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 17,667,667	$ 17,667,667
2026	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 16,390,486	$ 16,390,486
2027	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 15,113,305	$ 15,113,305
2028	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 13,836,125	$ 13,836,125
2029	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 12,558,944	$ 12,558,944
2030	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 11,281,763	$ 11,281,763
2031	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 10,004,582	$ 10,004,582
2032	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 8,727,402	$ 8,727,402
2033	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 7,450,221	$ 7,450,221
2034	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 6,173,040	$ 6,173,040
2035	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 4,895,859	$ 4,895,859
2036	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 3,618,679	$ 3,618,679
2037	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 2,341,498	$ 2,341,498
2038	12	$ -	$ 1,277,181	$ 1,277,181	$ -	$ 1,064,317	$ 1,064,317
2039	10	$ -	$ 1,064,317	$ 1,064,317	$ -	$ 0	$ 0
	360	$ 2,207,158	$ 34,192,493	$ 36,399,651			

FLORIDA PUBLIC UTILITIES COMPANY
PROPOSED AMORTIZATION SCHEDULE

$ 34,192,493	Acquisition Premium
$ 2,207,158	Regulatory Assets
$ 36,399,651	Total

Difference between the Proposed Amortization and Straight Line

	Amortization Expense			Remaining Balance - at year-end		
Calendar Year	Reg Asset Amortization	Acq Premium Amortization	Total Amortization	Reg Asset	Acq Premium	Total
				$ -	$ -	$ -
2009	$ (37,023)	$ (173,292)	$ (210,314)	$ 37,023	$ 173,292	$ 210,314
2010	$ (168,921)	$ (1,039,750)	$ (1,208,670)	$ 205,943	$ 1,213,041	$ 1,418,985
2011	$ 101,795	$ (991,170)	$ (889,375)	$ 104,148	$ 2,204,212	$ 2,308,360
2012	$ 104,148	$ (674,228)	$ (570,080)	$ -	$ 2,878,440	$ 2,878,440
2013	$ -	$ (304,001)	$ (304,001)	$ -	$ 3,182,440	$ 3,182,440
2014	$ -	$ (230,429)	$ (230,429)	$ -	$ 3,412,869	$ 3,412,869
2015	$ -	$ 137,431	$ 137,431	$ -	$ 3,275,438	$ 3,275,438
2016	$ -	$ 137,431	$ 137,431	$ -	$ 3,138,007	$ 3,138,007
2017	$ -	$ 137,431	$ 137,431	$ -	$ 3,000,576	$ 3,000,576
2018	$ -	$ 137,431	$ 137,431	$ -	$ 2,863,145	$ 2,863,145
2019	$ -	$ 137,431	$ 137,431	$ -	$ 2,725,714	$ 2,725,714
2020	$ -	$ 137,431	$ 137,431	$ -	$ 2,588,283	$ 2,588,283
2021	$ -	$ 137,431	$ 137,431	$ -	$ 2,450,852	$ 2,450,852
2022	$ -	$ 137,431	$ 137,431	$ -	$ 2,313,421	$ 2,313,421
2023	$ -	$ 137,431	$ 137,431	$ -	$ 2,175,990	$ 2,175,990
2024	$ -	$ 137,431	$ 137,431	$ -	$ 2,038,559	$ 2,038,559
2025	$ -	$ 137,431	$ 137,431	$ -	$ 1,901,128	$ 1,901,128
2026	$ -	$ 137,431	$ 137,431	$ -	$ 1,763,697	$ 1,763,697
2027	$ -	$ 137,431	$ 137,431	$ -	$ 1,626,266	$ 1,626,266
2028	$ -	$ 137,431	$ 137,431	$ -	$ 1,488,836	$ 1,488,836
2029	$ -	$ 137,431	$ 137,431	$ -	$ 1,351,405	$ 1,351,405
2030	$ -	$ 137,431	$ 137,431	$ -	$ 1,213,974	$ 1,213,974
2031	$ -	$ 137,431	$ 137,431	$ -	$ 1,076,543	$ 1,076,543
2032	$ -	$ 137,431	$ 137,431	$ -	$ 939,112	$ 939,112
2033	$ -	$ 137,431	$ 137,431	$ -	$ 801,681	$ 801,681
2034	$ -	$ 137,431	$ 137,431	$ -	$ 664,250	$ 664,250
2035	$ -	$ 137,431	$ 137,431	$ -	$ 526,819	$ 526,819
2036	$ -	$ 137,431	$ 137,431	$ -	$ 389,388	$ 389,388
2037	$ -	$ 137,431	$ 137,431	$ -	$ 251,957	$ 251,957
2038	$ -	$ 137,431	$ 137,431	$ -	$ 114,526	$ 114,526
2039	$ -	$ 114,526	$ 114,526	$ -	$ (0)	$ (0)
	$ (0)	$ (0)	$ (0)			

Composite

EXHIBIT___(MK-5)

Calculation of Acquisition Premium

Revenue Requirements – Straight Line Method

And Company-Proposed Method

FLORIDA PUBLIC UTILITIES COMPANY
CALCULATION OF ACQUISITION PREMIUM
REVENUE REQUIREMENTS - STRAIGHT LINE METHOD
AND COMPARISON TO OPERATING SAVINGS

Exhibit___(MK-5)
Schedule 1
Page 1 of 4

	Cost Rate	Ratio	Weighted Cost	2009	2010	2011	2012	2013	2014	2015	2016
Average Premium		$ 34,192,493		$ 34,050,024	$ 33,432,660	$ 32,292,910	$ 31,153,160	$ 30,013,410	$ 28,873,660	$ 27,733,910	$ 26,594,160
Non-Deductible		$ 32,317,493		$ 32,137,951	$ 31,060,701	$ 29,983,451	$ 28,906,201	$ 27,828,951	$ 26,751,701	$ 25,674,451	$ 24,597,201
Deductible		$ 1,875,000		$ 1,864,583	$ 1,802,083	$ 1,739,583	$ 1,677,083	$ 1,614,583	$ 1,552,083	$ 1,489,583	$ 1,427,083
Equity	10.85%	46.67%	5.06%	$ 287,365	$ 1,692,928	$ 1,635,214	$ 1,577,501	$ 1,519,788	$ 1,462,074	$ 1,404,361	$ 1,346,647
LT Debt	6.96%	30.76%	2.14%	$ 121,496	$ 715,758	$ 691,358	$ 666,957	$ 642,556	$ 618,155	$ 593,754	$ 569,353
ST Debt	1.76%	0.00%	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cust Deposits	6.21%	10.85%	0.67%	$ 38,237	$ 225,264	$ 217,585	$ 209,905	$ 202,226	$ 194,546	$ 186,867	$ 179,187
Deferred Inc Tax	0.00%	11.60%	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ITC	9.01%	0.12%	0.01%	$ 614	$ 3,615	$ 3,492	$ 3,368	$ 3,245	$ 3,122	$ 2,999	$ 2,875
Subtotal		100.00%	7.89%	$ 447,712	$ 2,637,565	$ 2,547,648	$ 2,457,731	$ 2,367,814	$ 2,277,897	$ 2,187,980	$ 2,098,063
Income Taxes		37.63%	3.06%	$ 173,377	$ 1,021,403	$ 986,582	$ 951,761	$ 916,941	$ 882,120	$ 847,300	$ 812,479
Pre-tax Return on Capital			10.94%	$ 621,089	$ 3,658,968	$ 3,534,230	$ 3,409,493	$ 3,284,755	$ 3,160,018	$ 3,035,280	$ 2,910,543
Amortization Expense (tax deductible)				$ 10,417	$ 62,500	$ 62,500	$ 62,500	$ 62,500	$ 62,500	$ 62,500	$ 62,500
Amortization Expense (not tax deductible)				$ 179,542	$ 1,077,250	$ 1,077,250	$ 1,077,250	$ 1,077,250	$ 1,077,250	$ 1,077,250	$ 1,077,250
Tax Gross-up				$ 108,324	$ 649,943	$ 649,943	$ 649,943	$ 649,943	$ 649,943	$ 649,943	$ 649,943
Revenue Requirement (Premium)				$ 919,371	$ 5,448,661	$ 5,323,923	$ 5,199,185	$ 5,074,448	$ 4,949,710	$ 4,824,973	$ 4,700,235
Revenue Requirement (T&T)				$ 133,327	$ 773,794	$ 725,483	$ 677,171	$ 628,860	$ 484,564	$ -	$ -
				$ 1,052,698	$ 6,222,455	$ 6,049,406	$ 5,876,357	$ 5,703,307	$ 5,434,275	$ 4,824,973	$ 4,700,235
O&M Savings		3.00%		$ -	$ 2,077,727	$ 3,247,818	$ 4,983,797	$ 5,133,311	$ 5,287,310	$ 5,445,930	$ 5,609,307
Fuel Savings		3.00%		$ -	$ 392,194	$ 969,504	$ 998,589	$ 1,028,547	$ 1,059,403	$ 1,091,185	$ 1,123,921
Cost of Capital Savings		0.00%		$ -	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124
Total Savings				$ -	$ 2,800,045	$ 4,547,446	$ 6,312,510	$ 6,491,982	$ 6,676,837	$ 6,867,239	$ 7,063,352

FLORIDA PUBLIC UTILITIES COMPANY
CALCULATION OF ACQUISITION PREMIUM
REVENUE REQUIREMENTS - STRAIGHT LINE METHOD
AND COMPARISON TO OPERATING SAVINGS

Exhibit___(MK-5)
Schedule 1
Page 2 of 4

	Cost Rate	Ratio	Weighted Cost	2017	2018	2019	2020	2021	2022	2023	2024
Average Premium		$ 34,192,493		$ 25,454,410	$ 24,314,660	$ 23,174,910	$ 22,035,160	$ 20,895,410	$ 19,755,660	$ 18,615,910	$ 17,476,160
Non-Deductible		$ 32,317,493		$ 23,519,951	$ 22,442,701	$ 21,365,451	$ 20,288,201	$ 19,210,951	$ 18,133,701	$ 17,056,451	$ 15,979,201
Deductible		$ 1,875,000		$ 1,364,583	$ 1,302,083	$ 1,239,583	$ 1,177,083	$ 1,114,583	$ 1,052,083	$ 989,583	$ 927,083
Equity	10.85%	46.67%	5.06%	$ 1,288,934	$ 1,231,220	$ 1,173,507	$ 1,115,793	$ 1,058,080	$ 1,000,366	$ 942,653	$ 884,939
LT Debt	6.96%	30.76%	2.14%	$ 544,952	$ 520,552	$ 496,151	$ 471,750	$ 447,349	$ 422,948	$ 398,547	$ 374,146
ST Debt	1.76%	0.00%	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cust Deposits	6.21%	10.85%	0.67%	$ 171,508	$ 163,829	$ 156,149	$ 148,470	$ 140,790	$ 133,111	$ 125,431	$ 117,752
Deferred Inc Tax	0.00%	11.60%	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ITC	9.01%	0.12%	0.01%	$ 2,752	$ 2,629	$ 2,506	$ 2,382	$ 2,259	$ 2,136	$ 2,013	$ 1,890
Subtotal		100.00%	7.89%	$ 2,008,146	$ 1,918,229	$ 1,828,312	$ 1,738,395	$ 1,648,478	$ 1,558,561	$ 1,468,644	$ 1,378,727
Income Taxes		37.63%	3.06%	$ 777,659	$ 742,838	$ 708,018	$ 673,197	$ 638,377	$ 603,556	$ 568,735	$ 533,915
Pre-tax Return on Capital			10.94%	$ 2,785,805	$ 2,661,067	$ 2,536,330	$ 2,411,592	$ 2,286,855	$ 2,162,117	$ 2,037,380	$ 1,912,642
Amortization Expense (tax deductible)				$ 62,500	$ 62,500	$ 62,500	$ 62,500	$ 62,500	$ 62,500	$ 62,500	$ 62,500
Amortization Expense (not tax deductible)				$ 1,077,250	$ 1,077,250	$ 1,077,250	$ 1,077,250	$ 1,077,250	$ 1,077,250	$ 1,077,250	$ 1,077,250
Tax Gross-up				$ 649,943	$ 649,943	$ 649,943	$ 649,943	$ 649,943	$ 649,943	$ 649,943	$ 649,943
Revenue Requirement (Premium)				$ 4,575,498	$ 4,450,760	$ 4,326,022	$ 4,201,285	$ 4,076,547	$ 3,951,810	$ 3,827,072	$ 3,702,335
Revenue Requirement (T&T)				$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
				$ 4,575,498	$ 4,450,760	$ 4,326,022	$ 4,201,285	$ 4,076,547	$ 3,951,810	$ 3,827,072	$ 3,702,335
O&M Savings		3.00%		$ 5,777,587	$ 5,950,914	$ 6,129,442	$ 6,313,325	$ 6,502,725	$ 6,697,806	$ 6,898,741	$ 7,105,703
Fuel Savings		3.00%		$ 1,157,638	$ 1,192,368	$ 1,228,139	$ 1,264,983	$ 1,302,932	$ 1,342,020	$ 1,382,281	$ 1,423,749
Cost of Capital Savings		0.00%		$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124
Total Savings				$ 7,265,349	$ 7,473,406	$ 7,687,704	$ 7,908,432	$ 8,135,781	$ 8,369,951	$ 8,611,145	$ 8,859,576

FLORIDA PUBLIC UTILITIES COMPANY
CALCULATION OF ACQUISITION PREMIUM
REVENUE REQUIREMENTS - STRAIGHT LINE METHOD
AND COMPARISON TO OPERATING SAVINGS

	Cost Rate	Ratio	Weighted Cost	2025	2026	2027	2028	2029	2030	2031	2032
		$ 34,192,493	Average Premium	$ 16,336,410	$ 15,196,660	$ 14,056,910	$ 12,917,160	$ 11,777,410	$ 10,637,660	$ 9,497,910	$ 8,358,160
		$ 32,317,493	Non-Deductible	$ 14,901,951	$ 13,824,701	$ 12,747,451	$ 11,670,201	$ 10,592,951	$ 9,515,701	$ 8,438,451	$ 7,361,201
		$ 1,875,000	Deductible	$ 864,583	$ 802,083	$ 739,583	$ 677,083	$ 614,583	$ 552,083	$ 489,583	$ 427,083
Equity	10.85%	46.67%	5.06%	$ 827,226	$ 769,512	$ 711,799	$ 654,086	$ 596,372	$ 538,659	$ 480,945	$ 423,232
LT Debt	6.96%	30.76%	2.14%	$ 349,746	$ 325,345	$ 300,944	$ 276,543	$ 252,142	$ 227,741	$ 203,340	$ 178,940
ST Debt	1.76%	0.00%	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cust Deposits	6.21%	10.85%	0.67%	$ 110,072	$ 102,393	$ 94,713	$ 87,034	$ 79,354	$ 71,675	$ 63,995	$ 56,316
Deferred Inc Tax	0.00%	11.60%	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ITC	9.01%	0.12%	0.01%	$ 1,766	$ 1,643	$ 1,520	$ 1,397	$ 1,273	$ 1,150	$ 1,027	$ 904
Subtotal		100.00%	7.89%	$ 1,288,810	$ 1,198,893	$ 1,108,976	$ 1,019,059	$ 929,142	$ 839,225	$ 749,308	$ 659,391
Income Taxes		37.63%	3.06%	$ 499,094	$ 464,274	$ 429,453	$ 394,633	$ 359,812	$ 324,992	$ 290,171	$ 255,350
Pre-tax Return on Capital			10.94%	$ 1,787,904	$ 1,663,167	$ 1,538,429	$ 1,413,692	$ 1,288,954	$ 1,164,217	$ 1,039,479	$ 914,741
Amortization Expense (tax deductible)				$ 62,500	$ 62,500	$ 62,500	$ 62,500	$ 62,500	$ 62,500	$ 62,500	$ 62,500
Amortization Expense (not tax deductible)				$ 1,077,250	$ 1,077,250	$ 1,077,250	$ 1,077,250	$ 1,077,250	$ 1,077,250	$ 1,077,250	$ 1,077,250
Tax Gross-up				$ 649,943	$ 649,943	$ 649,943	$ 649,943	$ 649,943	$ 649,943	$ 649,943	$ 649,943
Revenue Requirement (Premium)				$ 3,577,597	$ 3,452,859	$ 3,328,122	$ 3,203,384	$ 3,078,647	$ 2,953,909	$ 2,829,172	$ 2,704,434
Revenue Requirement (T&T)				$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
				$ 3,577,597	$ 3,452,859	$ 3,328,122	$ 3,203,384	$ 3,078,647	$ 2,953,909	$ 2,829,172	$ 2,704,434
O&M Savings		3.00%		$ 7,318,874	$ 7,538,440	$ 7,764,593	$ 7,997,531	$ 8,237,457	$ 8,484,581	$ 8,739,118	$ 9,001,292
Fuel Savings		3.00%		$ 1,466,462	$ 1,510,456	$ 1,555,769	$ 1,602,442	$ 1,650,516	$ 1,700,031	$ 1,751,032	$ 1,803,563
Cost of Capital Savings		0.00%		$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124
Total Savings				$ 9,115,460	$ 9,379,020	$ 9,650,487	$ 9,930,097	$ 10,218,097	$ 10,514,736	$ 10,820,274	$ 11,134,979

FLORIDA PUBLIC UTILITIES COMPANY
CALCULATION OF ACQUISITION PREMIUM
REVENUE REQUIREMENTS - STRAIGHT LINE METHOD
AND COMPARISON TO OPERATING SAVINGS

	Cost Rate	Ratio	Weighted Cost	2033	2034	2035	2036	2037	2038	2039
		$ 34,192,493	Average Premium	$ 7,218,410	$ 6,078,660	$ 4,938,910	$ 3,799,160	$ 2,659,410	$ 1,519,660	$ 401,830
		$ 32,317,493	Non-Deductible	$ 6,283,951	$ 5,206,701	$ 4,129,451	$ 3,052,201	$ 1,974,951	$ 897,701	$ (0)
		$ 1,875,000	Deductible	$ 364,583	$ 302,083	$ 239,583	$ 177,083	$ 114,583	$ 52,083	$ (0)
Equity	10.85%	46.67%	5.06%	$ 365,518	$ 307,805	$ 250,091	$ 192,378	$ 134,664	$ 76,951	$ 16,956
LT Debt	6.96%	30.76%	2.14%	$ 154,539	$ 130,138	$ 105,737	$ 81,336	$ 56,935	$ 32,534	$ 7,169
ST Debt	1.76%	0.00%	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cust Deposits	6.21%	10.85%	0.67%	$ 48,637	$ 40,957	$ 33,278	$ 25,598	$ 17,919	$ 10,239	$ 2,256
Deferred Inc Tax	0.00%	11.60%	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ITC	9.01%	0.12%	0.01%	$ 780	$ 657	$ 534	$ 411	$ 288	$ 164	$ 36
Subtotal		100.00%	7.89%	$ 569,474	$ 479,557	$ 389,640	$ 299,723	$ 209,806	$ 119,889	$ 26,418
Income Taxes		37.63%	3.06%	$ 220,530	$ 185,709	$ 150,889	$ 116,068	$ 81,248	$ 46,427	$ 10,230
Pre-tax Return on Capital			10.94%	$ 790,004	$ 665,266	$ 540,529	$ 415,791	$ 291,054	$ 166,316	$ 36,648
Amortization Expense (tax deductible)				$ 62,500	$ 62,500	$ 62,500	$ 62,500	$ 62,500	$ 62,500	$ 52,083
Amortization Expense (not tax deductible)				$ 1,077,250	$ 1,077,250	$ 1,077,250	$ 1,077,250	$ 1,077,250	$ 1,077,250	$ 897,701
Tax Gross-up				$ 649,943	$ 649,943	$ 649,943	$ 649,943	$ 649,943	$ 649,943	$ 541,615
Revenue Requirement (Premium)				$ 2,579,696	$ 2,454,959	$ 2,330,221	$ 2,205,484	$ 2,080,746	$ 1,956,009	$ 1,528,047
Revenue Requirement (T&T)				$ -	$ -	$ -	$ -	$ -	$ -	$ -
				$ 2,579,696	$ 2,454,959	$ 2,330,221	$ 2,205,484	$ 2,080,746	$ 1,956,009	$ 1,528,047
								Total Revenue Requirement:		**$ 113,238,319**
O&M Savings		3.00%		$ 9,271,331	$ 9,549,470	$ 9,835,955	$ 10,131,033	$ 10,434,964	$ 10,748,013	$ 11,070,453
Fuel Savings		3.00%		$ 1,857,670	$ 1,913,400	$ 1,970,802	$ 2,029,926	$ 2,090,824	$ 2,153,549	$ 2,218,155
Cost of Capital Savings		0.00%		$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124
Total Savings				$ 11,459,124	$ 11,792,994	$ 12,136,881	$ 12,491,083	$ 12,855,912	$ 13,231,686	$ 13,618,732
									Total Savings:	**$ 273,420,317**

FLORIDA PUBLIC UTILITIES COMPANY
CALCULATION OF ACQUISITION PREMIUM
REVENUE REQUIREMENTS - COMPANY PROPOSED METHOD
AND COMPARISON TO OPERATING SAVINGS

Exhibit___(MK-5)
Schedule 2
Page 1 of 4

	Cost Rate	Ratio	Weighted Cost	2009	2010	2011	2012	2013	2014	2015	2016
Average Premium		$ 34,192,493		$ 34,179,993	$ 34,125,826	$ 34,001,537	$ 33,694,486	$ 33,043,851	$ 32,171,316	$ 31,078,065	$ 29,800,884
Non-Deductible		$ 32,317,493		$ 32,301,741	$ 32,207,230	$ 32,066,806	$ 31,626,836	$ 30,836,960	$ 29,977,550	$ 28,770,472	$ 27,563,393
Deductible		$ 1,875,000		$ 1,874,085	$ 1,868,596	$ 1,860,441	$ 1,834,889	$ 1,789,016	$ 1,739,105	$ 1,669,003	$ 1,598,900
Equity	10.85%	46.67%	5.06%	$ 288,486	$ 1,728,176	$ 1,721,882	$ 1,706,332	$ 1,673,383	$ 1,629,197	$ 1,573,833	$ 1,509,155
LT Debt	6.96%	30.75%	2.14%	$ 121,968	$ 730,651	$ 727,990	$ 721,415	$ 707,485	$ 688,804	$ 665,397	$ 638,051
ST Debt	1.76%	0.00%	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cust Deposits	6.21%	10.85%	0.67%	$ 38,420	$ 230,153	$ 229,314	$ 227,243	$ 222,855	$ 216,971	$ 209,598	$ 200,984
Deferred Inc Tax	0.00%	11.60%	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ITC	9.01%	0.12%	0.01%	$ 601	$ 3,597	$ 3,584	$ 3,552	$ 3,483	$ 3,391	$ 3,276	$ 3,142
Subtotal		100.00%	7.89%	$ 449,475	$ 2,692,576	$ 2,682,770	$ 2,658,543	$ 2,607,207	$ 2,538,363	$ 2,452,104	$ 2,351,332
Income Taxes		37.63%	3.06%	$ 174,054	$ 1,042,669	$ 1,038,871	$ 1,029,490	$ 1,009,611	$ 982,951	$ 949,549	$ 910,526
Pre-tax Return on Capital			10.95%	$ 103,922	$ 3,735,245	$ 3,721,641	$ 3,688,033	$ 3,616,818	$ 3,521,314	$ 3,401,652	$ 3,261,858
Amortization Expense (tax deductible)			3.33%	$ 915	$ 5,489	$ 8,155	$ 25,552	$ 45,873	$ 49,911	$ 70,102	$ 70,102
Amortization Expense (not tax deductible)			3.33%	$ 15,752	$ 94,511	$ 140,424	$ 439,970	$ 789,876	$ 859,410	$ 1,207,078	$ 1,207,078
Tax Gross-up			2.01%	$ 9,504	$ 57,022	$ 84,723	$ 265,449	$ 476,560	$ 518,512	$ 728,272	$ 728,272
Revenue Requirement (Premium)			16.28%	$ 130,092	$ 3,892,267	$ 3,954,943	$ 4,419,004	$ 4,929,127	$ 4,949,147	$ 5,407,106	$ 5,267,312
Revenue Requirement (T&T)				$ 86,452	$ 570,864	$ 872,428	$ 815,918	$ 628,792	$ 484,549	$ -	$ -
				$ 216,544	$ 4,463,132	$ 4,827,371	$ 5,234,922	$ 5,557,919	$ 5,433,697	$ 5,407,106	$ 5,267,312
O&M Savings		3.00%		$ -	$ 2,077,727	$ 3,247,818	$ 4,983,797	$ 5,133,311	$ 5,287,310	$ 5,445,930	$ 5,609,307
Fuel Savings		3.00%		$ -	$ 392,194	$ 969,504	$ 998,589	$ 1,028,547	$ 1,059,403	$ 1,091,185	$ 1,123,921
Cost of Capital Savings		0.00%		$ -	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124
Total Savings				$ -	$ 2,800,045	$ 4,547,446	$ 6,312,510	$ 6,491,982	$ 6,676,837	$ 6,867,239	$ 7,063,352

FLORIDA PUBLIC UTILITIES COMPANY
CALCULATION OF ACQUISITION PREMIUM
REVENUE REQUIREMENTS - COMPANY PROPOSED METHOD
AND COMPARISON TO OPERATING SAVINGS

				2017	2018	2019	2020	2021	2022	2023	2024
		$ 34,192,493	Average Premium	$ 28,523,703	$ 27,246,522	$ 25,969,342	$ 24,692,161	$ 23,414,980	$ 22,137,799	$ 20,860,619	$ 19,583,438
		$ 32,317,493	Non-Deductible	$ 26,356,315	$ 25,149,237	$ 23,942,159	$ 22,735,080	$ 21,528,002	$ 20,320,924	$ 19,113,846	$ 17,906,767
		$ 1,875,000	Deductible	$ 1,528,798	$ 1,458,695	$ 1,388,593	$ 1,318,490	$ 1,248,388	$ 1,178,285	$ 1,108,183	$ 1,038,080
	Cost Rate	**Ratio**	**Weighted Cost**								
Equity	10.85%	46.67%	5.06%	$ 1,444,477	$ 1,379,799	$ 1,315,121	$ 1,250,443	$ 1,185,765	$ 1,121,087	$ 1,056,409	$ 991,731
LT Debt	6.96%	30.75%	2.14%	$ 610,706	$ 583,361	$ 556,016	$ 528,671	$ 501,326	$ 473,981	$ 446,636	$ 419,291
ST Debt	1.76%	0.00%	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cust Deposits	6.21%	10.85%	0.67%	$ 192,371	$ 183,757	$ 175,143	$ 166,530	$ 157,916	$ 149,302	$ 140,689	$ 132,075
Deferred Inc Tax	0.00%	11.60%	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ITC	9.01%	0.12%	0.01%	$ 3,007	$ 2,872	$ 2,738	$ 2,603	$ 2,468	$ 2,334	$ 2,199	$ 2,064
Subtotal		100.00%	7.89%	$ 2,250,561	$ 2,149,790	$ 2,049,018	$ 1,948,247	$ 1,847,475	$ 1,746,704	$ 1,645,933	$ 1,545,161
Income Taxes		37.63%	3.06%	$ 871,504	$ 832,481	$ 793,458	$ 754,436	$ 715,413	$ 676,391	$ 637,368	$ 598,346
Pre-tax Return on Capital			10.95%	$ 3,122,064	$ 2,982,271	$ 2,842,477	$ 2,702,683	$ 2,562,889	$ 2,423,095	$ 2,283,301	$ 2,143,507
Amortization Expense (tax deductible)			3.33%	$ 70,102	$ 70,102	$ 70,102	$ 70,102	$ 70,102	$ 70,102	$ 70,102	$ 70,102
Amortization Expense (not tax deductible)			3.33%	$ 1,207,078	$ 1,207,078	$ 1,207,078	$ 1,207,078	$ 1,207,078	$ 1,207,078	$ 1,207,078	$ 1,207,078
Tax Gross-up			2.01%	$ 728,272	$ 728,272	$ 728,272	$ 728,272	$ 728,272	$ 728,272	$ 728,272	$ 728,272
Revenue Requirement (Premium)			16.28%	$ 5,127,518	$ 4,987,724	$ 4,847,930	$ 4,708,136	$ 4,568,342	$ 4,428,548	$ 4,288,754	$ 4,148,960
Revenue Requirement (T&T)				$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
				$ 5,127,518	$ 4,987,724	$ 4,847,930	$ 4,708,136	$ 4,568,342	$ 4,428,548	$ 4,288,754	$ 4,148,960
O&M Savings		3.00%		$ 5,777,587	$ 5,950,914	$ 6,129,442	$ 6,313,325	$ 6,502,725	$ 6,697,806	$ 6,898,741	$ 7,105,703
Fuel Savings		3.00%		$ 1,157,638	$ 1,192,368	$ 1,228,139	$ 1,264,983	$ 1,302,932	$ 1,342,020	$ 1,382,281	$ 1,423,749
Cost of Capital Savings		0.00%		$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124
Total Savings				$ 7,265,349	$ 7,473,406	$ 7,687,704	$ 7,908,432	$ 8,135,781	$ 8,369,951	$ 8,611,145	$ 8,859,576

FLORIDA PUBLIC UTILITIES COMPANY
CALCULATION OF ACQUISITION PREMIUM
REVENUE REQUIREMENTS - COMPANY PROPOSED METHOD
AND COMPARISON TO OPERATING SAVINGS

	Cost Rate	Ratio	Weighted Cost	2025	2026	2027	2028	2029	2030	2031	2032
Average Premium		$ 34,192,493		$ 18,306,257	$ 17,029,076	$ 15,751,896	$ 14,474,715	$ 13,197,534	$ 11,920,354	$ 10,643,173	$ 9,365,992
Non-Deductible		$ 32,317,493		$ 16,699,689	$ 15,492,611	$ 14,285,532	$ 13,078,454	$ 11,871,376	$ 10,664,298	$ 9,457,219	$ 8,250,141
Deductible		$ 1,875,000		$ 967,978	$ 897,875	$ 827,773	$ 757,670	$ 687,568	$ 617,465	$ 547,363	$ 477,261
Equity	10.85%	46.67%	5.06%	$ 927,052	$ 862,374	$ 797,696	$ 733,018	$ 668,340	$ 603,662	$ 538,984	$ 474,306
LT Debt	6.96%	30.75%	2.14%	$ 391,946	$ 364,601	$ 337,256	$ 309,911	$ 282,566	$ 255,221	$ 227,876	$ 200,530
ST Debt	1.76%	0.00%	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cust Deposits	6.21%	10.85%	0.67%	$ 123,462	$ 114,848	$ 106,234	$ 97,621	$ 89,007	$ 80,394	$ 71,780	$ 63,166
Deferred Inc Tax	0.00%	11.60%	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ITC	9.01%	0.12%	0.01%	$ 1,930	$ 1,795	$ 1,661	$ 1,526	$ 1,391	$ 1,257	$ 1,122	$ 987
Subtotal		100.00%	7.89%	$ 1,444,390	$ 1,343,618	$ 1,242,847	$ 1,142,076	$ 1,041,304	$ 940,533	$ 839,762	$ 738,990
Income Taxes		37.63%	3.06%	$ 559,323	$ 520,301	$ 481,278	$ 442,256	$ 403,233	$ 364,210	$ 325,188	$ 286,165
Pre-tax Return on Capital			10.95%	$ 2,003,713	$ 1,863,919	$ 1,724,125	$ 1,584,331	$ 1,444,537	$ 1,304,743	$ 1,164,949	$ 1,025,155
Amortization Expense (tax deductible)			3.33%	$ 70,102	$ 70,102	$ 70,102	$ 70,102	$ 70,102	$ 70,102	$ 70,102	$ 70,102
Amortization Expense (not tax deductible)			3.33%	$ 1,207,078	$ 1,207,078	$ 1,207,078	$ 1,207,078	$ 1,207,078	$ 1,207,078	$ 1,207,078	$ 1,207,078
Tax Gross-up			2.01%	$ 728,272	$ 728,272	$ 728,272	$ 728,272	$ 728,272	$ 728,272	$ 728,272	$ 728,272
Revenue Requirement (Premium)			16.28%	$ 4,009,166	$ 3,869,372	$ 3,729,578	$ 3,589,784	$ 3,449,991	$ 3,310,197	$ 3,170,403	$ 3,030,609
Revenue Requirement (T&T)				$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
				$ 4,009,166	$ 3,869,372	$ 3,729,578	$ 3,589,784	$ 3,449,991	$ 3,310,197	$ 3,170,403	$ 3,030,609
O&M Savings		3.00%		$ 7,318,874	$ 7,538,440	$ 7,764,593	$ 7,997,531	$ 8,237,457	$ 8,484,581	$ 8,739,118	$ 9,001,292
Fuel Savings		3.00%		$ 1,466,462	$ 1,510,456	$ 1,555,769	$ 1,602,442	$ 1,650,516	$ 1,700,031	$ 1,751,032	$ 1,803,563
Cost of Capital Savings		0.00%		$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124
Total Savings				$ 9,115,460	$ 9,379,020	$ 9,650,487	$ 9,930,097	$ 10,218,097	$ 10,514,736	$ 10,820,274	$ 11,134,979

FLORIDA PUBLIC UTILITIES COMPANY
CALCULATION OF ACQUISITION PREMIUM
REVENUE REQUIREMENTS - COMPANY PROPOSED METHOD
AND COMPARISON TO OPERATING SAVINGS

	Cost Rate	Ratio	Weighted Cost	2033	2034	2035	2036	2037	2038	2039
		$ 34,192,493	Average Premium	$ 8,088,811	$ 6,811,631	$ 5,534,450	$ 4,257,269	$ 2,980,088	$ 1,702,908	$ 450,288
		$ 32,317,493	Non-Deductible	$ 7,043,063	$ 5,835,985	$ 4,628,906	$ 3,421,828	$ 2,214,750	$ 1,007,672	$ 1,773
		$ 1,875,000	Deductible	$ 407,158	$ 337,056	$ 266,953	$ 196,851	$ 126,748	$ 56,646	$ (1,773)
Equity	10.85%	46.67%	5.06%	$ 409,628	$ 344,950	$ 280,272	$ 215,594	$ 150,916	$ 86,237	$ 19,003
LT Debt	6.96%	30.75%	2.14%	$ 173,185	$ 145,840	$ 118,495	$ 91,150	$ 63,805	$ 36,460	$ 8,034
ST Debt	1.76%	0.00%	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cust Deposits	6.21%	10.85%	0.67%	$ 54,553	$ 45,939	$ 37,326	$ 28,712	$ 20,098	$ 11,485	$ 2,531
Deferred Inc Tax	0.00%	11.60%	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ITC	9.01%	0.12%	0.01%	$ 853	$ 718	$ 583	$ 449	$ 314	$ 180	$ 40
Subtotal		100.00%	7.89%	$ 638,219	$ 537,447	$ 436,676	$ 335,905	$ 235,133	$ 134,362	$ 29,607
Income Taxes		37.63%	3.06%	$ 247,143	$ 208,120	$ 169,098	$ 130,075	$ 91,053	$ 52,030	$ 11,465
Pre-tax Return on Capital			10.95%	$ 885,362	$ 745,568	$ 605,774	$ 465,980	$ 326,186	$ 186,392	$ 41,072
Amortization Expense (tax deductible)			3.33%	$ 70,102	$ 70,102	$ 70,102	$ 70,102	$ 70,102	$ 70,102	$ 58,419
Amortization Expense (not tax deductible)			3.33%	$ 1,207,078	$ 1,207,078	$ 1,207,078	$ 1,207,078	$ 1,207,078	$ 1,207,078	$ 1,005,899
Tax Gross-up			2.01%	$ 728,272	$ 728,272	$ 728,272	$ 728,272	$ 728,272	$ 728,272	$ 606,894
Revenue Requirement (Premium)			16.28%	$ 2,890,815	$ 2,751,021	$ 2,611,227	$ 2,471,433	$ 2,331,639	$ 2,191,845	$ 1,712,283
Revenue Requirement (T&T)				$ -	$ -	$ -	$ -	$ -	$ -	$ -
				$ 2,890,815	$ 2,751,021	$ 2,611,227	$ 2,471,433	$ 2,331,639	$ 2,191,845	$ 1,712,283
									Total Revenue Requirement:	**$ 118,633,276**
O&M Savings		3.00%		$ 9,271,331	$ 9,549,470	$ 9,835,955	$ 10,131,033	$ 10,434,964	$ 10,748,013	$ 11,070,453
Fuel Savings		3.00%		$ 1,857,670	$ 1,913,400	$ 1,970,802	$ 2,029,926	$ 2,090,824	$ 2,153,549	$ 2,218,155
Cost of Capital Savings		0.00%		$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124	$ 330,124
Total Savings				$ 11,459,124	$ 11,792,994	$ 12,136,881	$ 12,491,083	$ 12,855,912	$ 13,231,686	$ 13,618,732
									Total Savings:	**$ 273,420,317**

FLORIDA PUBLIC UTILITIES COMPANY
CALCULATION OF REGULATORY ASSETS
REVENUE REQUIREMENTS - STRAIGHT LINE METHOD

Exhibit___(MK-5)
Schedule 3
Page 1 of 1

	Cost Rate	Ratio		Weighted Cost	2009	2010	2011	2012	2013	2014
		$ 2,207,158	Average Reg Assets		$ 2,151,979	$ 1,912,870	$ 1,471,439	$ 1,030,007	$ 588,575	$ 155,633
		$ 1,019,439	Non-Deductible		$ 985,458	$ 781,570	$ 577,682	$ 373,794	$ 169,907	$ -
		$ 1,187,719	Deductible		$ 1,148,128	$ 910,585	$ 673,041	$ 435,497	$ 197,953	$ -
Equity	10.85%	46.67%		5.06%	$ 18,162	$ 96,862	$ 74,509	$ 52,156	$ 29,804	$ 6,567
LT Debt	6.96%	30.76%		2.14%	$ 7,679	$ 40,953	$ 31,502	$ 22,051	$ 12,601	$ 2,777
ST Debt	1.76%	0.00%		0.00%	$ -	$ -	$ -	$ -	$ -	$ -
Cust Deposits	6.21%	10.85%		0.67%	$ 2,417	$ 12,889	$ 9,914	$ 6,940	$ 3,966	$ 874
Deferred Inc Tax	0.00%	11.60%		0.00%	$ -	$ -	$ -	$ -	$ -	$ -
ITC	9.01%	0.12%		0.01%	$ 39	$ 207	$ 159	$ 111	$ 64	$ 14
Subtotal		100.00%		7.89%	$ 28,296	$ 150,910	$ 116,085	$ 81,259	$ 46,434	$ 10,232
Income Taxes		37.63%		3.06%	$ 10,958	$ 58,440	$ 44,954	$ 31,468	$ 17,982	$ 3,962
Pre-tax Return on Capital				10.94%	$ 39,253	$ 209,350	$ 161,039	$ 112,727	$ 64,415	$ 14,194
Amortization Expense (tax deductible)					$ 39,591	$ 237,544	$ 237,544	$ 237,544	$ 237,544	$ 197,953
Amortization Expense (not tax deductible)					$ 33,981	$ 203,888	$ 203,888	$ 203,888	$ 203,888	$ 169,907
Tax Gross-up					$ 20,502	$ 123,013	$ 123,013	$ 123,013	$ 123,013	$ 102,511
Revenue Requirement					$ 133,327	$ 773,794	$ 725,483	$ 677,171	$ 628,860	$ 484,564

Total Revenue Requirement: **$ 3,423,199**

FLORIDA PUBLIC UTILITIES COMPANY
CALCULATION OF REGULATORY ASSETS
REVENUE REQUIREMENTS - COMPANY PROPOSED METHOD

Exhibit___(MK-5)
Schedule 4
Page 1 of 1

	Cost Rate	Ratio	Weighted Cost	2009	2010	2011	2012	2013	2014
		$ 2,207,158	Average Reg Assets	$ 2,179,746	$ 2,034,353	$ 1,626,484	$ 1,082,081	$ 588,575	$ 155,633
		$ 1,019,439	Non-Deductible	$ 1,002,558	$ 876,691	$ 625,786	$ 373,794	$ 169,907	$ -
		$ 1,187,719	Deductible	$ 1,168,051	$ 1,021,407	$ 729,085	$ 435,497	$ 197,953	$ -
Equity	10.85%	46.67%	5.06%	$ 18,383	$ 102,938	$ 82,300	$ 54,753	$ 29,782	$ 6,563
LT Debt	6.96%	30.75%	2.14%	$ 7,774	$ 43,535	$ 34,807	$ 23,157	$ 12,596	$ 2,775
ST Debt	1.76%	0.00%	0.00%	$ -	$ -	$ -	$ -	$ -	$ -
Cust Deposits	6.21%	10.85%	0.67%	$ 2,434	$ 13,630	$ 10,897	$ 7,250	$ 3,943	$ 869
Deferred Inc Tax	0.00%	11.60%	0.00%	$ -	$ -	$ -	$ -	$ -	$ -
ITC	9.01%	0.12%	0.01%	$ 36	$ 203	$ 163	$ 108	$ 59	$ 13
Subtotal		100.00%	7.88%	$ 28,627	$ 160,307	$ 128,167	$ 85,268	$ 46,380	$ 10,220
Income Taxes		37.63%	3.05%	$ 11,091	$ 62,106	$ 49,655	$ 33,035	$ 17,968	$ 3,959
Pre-tax Return on Capital			10.93%	$ 39,718	$ 222,413	$ 177,821	$ 118,303	$ 64,348	$ 14,179
Amortization Expense (tax deductible)				$ 19,668	$ 146,644	$ 292,322	$ 293,588	$ 237,544	$ 197,953
Amortization Expense (not tax deductible)				$ 16,881	$ 125,867	$ 250,905	$ 251,992	$ 203,888	$ 169,907
Tax Gross-up				$ 10,185	$ 75,940	$ 151,380	$ 152,035	$ 123,013	$ 102,511
Revenue Requirement				$ 86,452	$ 570,864	$ 872,428	$ 815,918	$ 628,792	$ 484,549

Total Revenue Requirement: **$ 3,459,004**