

Writer's Direct Dial Number: (850) 521-1706  
Writer's E-Mail Address: bkeating@gunster.com

October 18, 2013

**HAND DELIVERY**

Ms. Ann Cole, Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

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**Re: Docket No. 120311-GU - Petition for approval of positive acquisition adjustment to reflect the acquisition of Indiantown Gas Company by Florida Public Utilities Company**

Dear Ms. Cole:

Enclosed for filing, please find an original and 5 copies of Florida Public Utilities Responses to Staff's Fourth Set of Data Requests in the referenced docket.

As always, please do not hesitate to contact me if you have any questions or concerns. Thank you for your assistance with this filing.

Sincerely,



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

cc:// Staff Counsel (Klancke)  
Office of Public Counsel (Christensen)

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**Re: Docket Number 120311-GU - Petition for approval of positive acquisition adjustment to reflect the acquisition of Indiantown Gas Company by Florida Public Utilities Company.**

The responses of Florida Public Utilities Company ("FPUC" or "Company") to Commission Staff's Fourth Set of Data Requests in the referenced docket are as follows:

1. Per Staff's Audit Finding Number 3, the June 30, 2010 operation and maintenance (O&M) expenses were reported as \$522,308, but based on the general ledgers for the period of July 1, 2009 through June 30, 2010, the O&M expenses should have been \$468,822, a difference of \$53,486. Based on this audit finding, the \$187,792 of annual cost savings should be reduced by \$53,486, resulting in a total of \$134,306. Please update the chart (Attachment 3) provided as part of the Company's response to Question Numbers 3 and 4 of Staff's Third Data Request, to show the revised cost savings in the amount of \$134,306 for "Operating Cost Savings-Personnel Related." Please include with this response updates to any other previously submitted attachments or schedules that should also reflect the revised cost savings of \$134,306.

**Company Response:** The Company has updated the chart (Attachment 3) provided as part of the Company's response to Question Numbers 3 and 4 of Staff's Third Data Request along with Revised Exhibit (CM-3 and CM-4).

2. In response to Question No. 1 contained in Staff's Second Data Request, the Company stated that it could not provide savings by expense account associated with the acquisition of IGC by FPUC because it does not have access to the referenced expense data for IGC prior to its acquisition by FPUC. However, FPUC has a \$50,000 a year O&M Agreement and a \$100,000 a year Consulting Agreement, both with the former owner of IGC. In addition, FPUC has requested a \$450,000 payment to these same former owners be included in the determination of the amount of the positive acquisition adjustment. Recognizing the continuing relationship between FPUC and the former owners of IGC, please explain why the \$187,792 in annual savings referenced in witness Martin's testimony cannot be reported at the expense account level.

**Company Response:** The Company was able to obtain the expense account detail from the former owners and is providing the savings by expense account associated with the acquisition of IGC by FPUC. See Attachment 2.

3. According to the Closing Statement for the acquisition of IGC by FPUC, \$450,000 was paid in connection with certain “non-competition agreements.” This amount is included in the \$745,800 that the Company has requested be recognized as a positive acquisition adjustment. Attached as Exhibit MK-1, page 2 of 2, to witness Kim’s testimony, it states in Note 4 that “the non-compete agreement had no previous book value and determined not to have any material fair value” due to the listed reasons. Please reconcile why the non-compete agreements, which have no book or fair market value according to witness testimony, are assigned a value of \$450,000 in the closing statement. For purposes of this response, please explain with specificity why the \$450,000 associated with the non-compete agreements should be recognized in the requested amount of the positive acquisition adjustment.

**Company Response:** In the acquisition of Indiantown Gas Company, Florida Public Utilities Company (FPUC) paid \$1,188,305, the total purchase price. The purchase price was allocated to the following five components: (a) \$200,000 for real property, (b) \$451,721 for natural gas plant and equipment, (c) \$129,001 for other equipment, (d) \$450,000 for non-competition agreements, and (e) \$42,417 in assumed liabilities, which offset the amount assigned to the previous four components. The purchase price allocation was done primarily for the tax reporting purposes as the seller would have to report the sale of assets and resulting gains and losses based on this purchase price allocation. FPUC, the purchaser, would report the acquired asset value for the tax reporting purposes based on the purchase price allocation.

The amount assigned to the non-competition agreements represented a portion of the premium that FPUC agreed to pay to acquire these assets. From the Company’s standpoint, FPUC did not make a distinction between goodwill (a more conventional asset category to include a premium paid in acquisitions) and non-competition agreements, because either approach would have resulted in essentially the same tax treatment. However, it is our understanding that the seller preferred to categorize it as non-compete agreements.

After completing the acquisition, FPUC’s accounting staff prepared the bottoms-up valuation calculation for the sole purpose of accounting and in accordance with the accounting principles generally accepted in the United States of America. This valuation calculation, which followed the similar methodology as the valuation prepared by an external valuation expert for the acquisition of FPUC by Chesapeake Utilities Corporation in October 2009, resulted in a fair value of the acquired assets of approximately \$1.2 million. This further supports the total purchase price of \$1,188,305, which includes \$450,000 allocated to non-competition agreements. As such, since the \$450,000 allocated to non-competition agreements is a part of the overall purchase price in this transaction, it is therefore appropriate to include this amount in the calculation of the positive acquisition adjustment.

An acquisition adjustment is a premium paid in an acquisition transaction, which is the difference between the purchase price paid and book value of the acquired assets. The purchase price of \$1,188,305 less book value of acquired assets of \$442,505 equals acquisition adjustment of \$745,800.

FLORIDA PUBLIC UTILITIES COMPANY - INDIANTOWN DIVISION  
CALCULATION OF OPERATING SAVINGS

Revised Exhibit\_\_\_(CM-3)

Page 1 of 1

June 30, 2010 IGC ESR - O&M Expense	\$468,822
Dec 31, 2011 FPUC - IND. DIV. O&M Expense	<u>\$334,516</u>
Annual Operating Savings	<u><u>\$134,306</u></u>

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

Revised Exhibit\_\_\_(CM-4)

Page 1 of 2

			2010	2011	2012	2013	2014	2015	2016	2017	
	\$	745,800	Average Premium	\$ 735,442	\$ 700,223	\$ 650,503	\$ 600,783	\$ 551,063	\$ 501,343	\$ 451,623	\$ 401,903
	\$	-	Non-Deductible	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	\$	745,800	Deductible	\$ 725,083	\$ 675,363	\$ 625,643	\$ 575,923	\$ 526,203	\$ 476,483	\$ 426,763	\$ 377,043
	Cost Rate	Ratio	Weighted Cost								
Equity	11.50%	55.65%	6.40%	\$ 19,611	\$ 44,813	\$ 41,631	\$ 38,449	\$ 35,267	\$ 32,085	\$ 28,903	\$ 25,721
LT Debt	6.91%	25.87%	1.79%	\$ 5,478	\$ 12,517	\$ 11,629	\$ 10,740	\$ 9,851	\$ 8,962	\$ 8,073	\$ 7,184
LT Debt - Refinance	6.33%	3.15%	0.20%	\$ 611	\$ 1,396	\$ 1,297	\$ 1,198	\$ 1,099	\$ 1,000	\$ 901	\$ 801
ST Debt	1.24%	5.72%	0.07%	\$ 217	\$ 497	\$ 461	\$ 426	\$ 391	\$ 356	\$ 320	\$ 285
Cust Deposits	6.57%	3.36%	0.22%	\$ 676	\$ 1,546	\$ 1,436	\$ 1,326	\$ 1,216	\$ 1,107	\$ 997	\$ 887
Deferred Inc Tax	0.00%	6.25%	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subtotal		100.00%	8.68%	\$ 26,594	\$ 60,768	\$ 56,454	\$ 52,139	\$ 47,824	\$ 43,509	\$ 39,194	\$ 34,879
Income Taxes		38.575%	4.02%	\$ 12,316	\$ 28,142	\$ 26,144	\$ 24,146	\$ 22,148	\$ 20,149	\$ 18,151	\$ 16,153
Pre-tax Return on Capital			12.70%	\$ 38,909	\$ 88,911	\$ 82,598	\$ 76,284	\$ 69,971	\$ 63,658	\$ 57,345	\$ 51,032
Amortization Expense (tax deductible)				\$ 20,717	\$ 49,720	\$ 49,720	\$ 49,720	\$ 49,720	\$ 49,720	\$ 49,720	\$ 49,720
Amortization Expense (not tax deductible)				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Gross-up				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue Requirement (Premium)				\$ 59,626	\$ 138,631	\$ 132,318	\$ 126,004	\$ 119,691	\$ 113,378	\$ 107,065	\$ 100,752
O&M Savings	0.00%			\$ 55,961	\$ 134,306	\$ 134,306	\$ 134,306	\$ 134,306	\$ 134,306	\$ 134,306	\$ 134,306
Cost of Capital Savings	0.00%			\$ 923	\$ 2,215	\$ 2,215	\$ 2,215	\$ 2,215	\$ 2,215	\$ 2,215	\$ 2,215
Total Savings				\$ 56,884	\$ 136,521	\$ 136,521	\$ 136,521	\$ 136,521	\$ 136,521	\$ 136,521	\$ 136,521
Net Annual Savings				\$ (2,742)	\$ (2,110)	\$ 4,204	\$ 10,517	\$ 16,830	\$ 23,143	\$ 29,456	\$ 35,770
Cumulative Savings				\$ (2,742)	\$ (4,852)	\$ (648)	\$ 9,869	\$ 26,699	\$ 49,842	\$ 79,298	\$ 115,068

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

Revised Exhibit\_\_(CM-4)

Page 2 of 2

			2018	2019	2020	2021	2022	2022	2023	2024	
	\$	745,800	Average Premium	\$ 352,183	\$ 302,463	\$ 252,743	\$ 203,023	\$ 153,303	\$ 103,583	\$ 53,863	\$ 14,502
	\$	-	Non-Deductible	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	\$	745,800	Deductible	\$ 327,323	\$ 277,603	\$ 227,883	\$ 178,163	\$ 128,443	\$ 78,723	\$ 29,003	\$ 0
	<b>Cost Rate</b>	<b>Ratio</b>	<b>Weighted Cost</b>								
Equity	11.50%	55.65%	6.40%	\$ 22,539	\$ 19,357	\$ 16,175	\$ 12,993	\$ 9,811	\$ 6,629	\$ 3,447	\$ 541
LT Debt	6.91%	25.87%	1.79%	\$ 6,296	\$ 5,407	\$ 4,518	\$ 3,629	\$ 2,740	\$ 1,852	\$ 963	\$ 151
LT Debt - Refinance	6.33%	3.15%	0.20%	\$ 702	\$ 603	\$ 504	\$ 405	\$ 306	\$ 207	\$ 107	\$ 17
ST Debt	1.24%	5.72%	0.07%	\$ 250	\$ 215	\$ 179	\$ 144	\$ 109	\$ 73	\$ 38	\$ 6
Cust Deposits	6.57%	3.36%	0.22%	\$ 777	\$ 668	\$ 558	\$ 448	\$ 338	\$ 229	\$ 119	\$ 19
Deferred Inc Tax	0.00%	6.25%	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subtotal		100.00%	8.68%	\$ 30,564	\$ 26,249	\$ 21,934	\$ 17,619	\$ 13,304	\$ 8,989	\$ 4,674	\$ 734
Income Taxes		38.575%	4.02%	\$ 14,154	\$ 12,156	\$ 10,158	\$ 8,160	\$ 6,161	\$ 4,163	\$ 2,165	\$ 340
Pre-tax Return on Capital			12.70%	\$ 44,718	\$ 38,405	\$ 32,092	\$ 25,779	\$ 19,466	\$ 13,152	\$ 6,839	\$ 1,074
Amortization Expense (tax deductible)				\$ 49,720	\$ 49,720	\$ 49,720	\$ 49,720	\$ 49,720	\$ 49,720	\$ 49,720	\$ 29,003
Amortization Expense (not tax deductible)				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Gross-up				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue Requirement (Premium)				\$ 94,438	\$ 88,125	\$ 81,812	\$ 75,499	\$ 69,186	\$ 62,872	\$ 56,559	\$ 30,077
O&M Savings	0.00%			\$ 134,306	\$ 134,306	\$ 134,306	\$ 134,306	\$ 134,306	\$ 134,306	\$ 134,306	\$ 78,345
Cost of Capital Savings	0.00%			\$ 2,215	\$ 2,215	\$ 2,215	\$ 2,215	\$ 2,215	\$ 2,215	\$ 2,215	\$ 1,292
Total Savings				\$ 136,521	\$ 136,521	\$ 136,521	\$ 136,521	\$ 136,521	\$ 136,521	\$ 136,521	\$ 79,637
Net Annual Savings				\$ 42,083	\$ 48,396	\$ 54,709	\$ 61,022	\$ 67,336	\$ 73,649	\$ 79,962	\$ 49,560
Cumulative Savings				\$ 157,151	\$ 205,547	\$ 260,256	\$ 321,278	\$ 388,614	\$ 462,263	\$ 542,225	\$ 591,785

**Indiantown Gas Company**  
**Savings by FERC**  
**Attachment 2**

	<u>6/30/2010</u>	<u>12/31/2011</u>	<u>Savings</u>
800 — NATURAL O&M			
870 — Operation Supv & Eng	42,000.00	1,576.19	40,423.81
871 — Operation Supv & Eng	0.00	694.31	(694.31)
874 — Mains & Service Labor	23,400.00	15,989.40	7,410.60
875 — Meas & Reg Stn Expense	650.08		650.08
876 — Meas & Reg Exp-Industrial	495.29		495.29
878 — Meter & House Reg. Exp.	11,600.00	22.77	11,577.23
880 — Misc Distribution Exp.	19,730.63		19,730.63
885— Maint. Supv & Eng		100.33	(100.33)
887 — Maintenance of Mains	22,157.78	767.27	21,390.51
889 — Maint. of Meters & Regs.	19,457.49		19,457.49
891 — Maint of M & Rg Stat Equip - City Gate	0.00	575.67	(575.67)
892 — Maint of Services	5,400.00		5,400.00
893 — Maint of Meter & House Regulators	0.00	307.59	(307.59)
894 — Maint of Equipment	5,400.00		5,400.00
901 — Supervision		390.24	(390.24)
902 — Meter Reading Labor	6,584.50		6,584.50
903 — Acct. & Collection Labor	48,000.00	54,973.82	(6,973.82)
904 — Uncollectible Accts	551.67	26,688.00	(26,136.33)
907 — Supervision		1,098.26	(1,098.26)
908 — Customer Assistance Expense		1,344.18	(1,344.18)
910 — Sales Promotion Exp.	938.00	3,126.89	(2,188.89)
911 — Supervision		289.31	(289.31)
912 — Demonstrating & Selling		228.49	(228.49)
913 — Advertising Exp		82.92	(82.92)
916 — Misc Sales Expense		48.39	(48.39)
920 — A & G Salaries	119,995.94	25,992.02	94,003.92
921 — Office Supplies	31,941.16	8,258.04	23,683.12
923 — Outside Services	29,979.44	183,237.36	(153,257.92)
924 — Property Insurance	20,844.57	31.75	20,812.82
925 — Injuries & Damages	0.00	273.86	(273.86)
926 — Employee Pens. & Ben.	17,758.10	5,258.43	12,499.67
930 — Misc. Gen. Expense	7,692.16	2,897.42	4,794.74
931 — O & M Rents	6,420.00	163.70	6,256.30
933 — Transportation Exp.	17,347.25		17,347.25
935 — Gen Plant Maintenance	10,478.58	100.18	10,378.40
Total 800 — NATURAL O&M	<u>468,822.64</u>	<u>334,516.79</u>	<u>134,305.85</u>
Total Expense			



Florida Public Utilities Company - Indiantown Division  
Docket Number 120311-GU  
Staff's Fourth Data Request  
Response to Question 1  
Attachment 3

	Pro-Rated 2010	Actual 2011	Projected 2012	Projected 2025	Total Anticipated Net Savings
Operating Cost Savings – Capacity	\$0	\$0	\$0	\$0	\$0
Operating Cost Savings – Cost of Capital	\$923	\$2,215	\$2,215	\$1,292	\$33,225
Operating Cost Savings – Personnel Related	\$195,343	\$468,822	\$468,822	\$273,480	\$7,032,330
Operating Cost Savings – Corporate	\$0	\$0	\$0	\$0	\$0
Operating Cost Increases – Personnel Related	\$6,358	\$15,258	\$30,258	\$17,651	\$432,620
Operating Cost Increases – Corporate & Benefits	\$435	\$1,043	\$1,043	\$608	\$15,645
Operating Cost Increases - Transportation costs	\$419	\$1,005	\$6,004	\$3,502	\$82,978
Operating Cost Increases - Other	\$132,171	\$317,210	\$297,211	\$173,373	\$4,486,497
<b>Total Net Operating Cost Savings</b>	<b>\$56,884</b>	<b>\$136,521</b>	<b>\$136,521</b>	<b>\$79,637</b>	<b>\$2,047,815</b>