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Public Service Commission

June 17, 2011

Ms. Beth Keating
Gunster, Yoakley & Stewart, P.A.
215 South Monroe Street, Suite 601
Tallahassee, FL 32301-1804

STAFF'S FIRST DATA REQUEST

Re: Docket No. 110133-GU - Petition for approval of acquisition adjustment and recovery of regulatory assets, and request for consolidation of regulatory filings and records of Florida Public Utilities Company and Florida Division of Chesapeake Utilities Corporation

Dear Ms. Keating:

By this letter, the Commission staff requests that Florida Public Utilities Company (FPUC) and Florida Division of Chesapeake Utilities Corporation (Chesapeake) provide responses to the following data requests.

1. Please provide a copy of the purchase agreement between Chesapeake Utilities Corporation and Florida Public Utilities Company.
2. Please explain what portion of the acquisition adjustment that is being allocated to the natural gas operations of Florida Public Utilities Company is for "intangible assets."
3. Please explain what portion of the acquisition adjustment that is being allocated to the electric operations of Florida Public Utilities Company is for "intangible assets."
4. Please explain what portion of the acquisition adjustment that is being allocated to the non regulated propane operations of Florida Public Utilities Company is for "intangible assets."
5. Please explain what portion of the transition and transaction costs are being allocated to the electric operations of Florida Public Utilities Company.
6. Please explain what portion of the transition and transaction costs are being allocated to the non regulated propane operations of Florida Public Utilities Company.
7. What was the book value of the FPUC electric business at the time of the acquisition?
8. What was the book value of the FPUC propane business at the time of the acquisition?

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9. What was the fair market value of the FPUC electric business using a bottom-up valuation calculation?
10. What was the fair market value of the FPUC propane business using a bottom-up valuation calculation?
11. Referring to Mr. Matthew Kim's testimony, page 3, lines 16 through 19, "The total value of Chesapeake stock issued, cash paid and FPUC debt assumed in the acquisition was \$127,760,055." Please complete the following schedule for the acquisition:

| | <u>Short-term Debt</u> | <u>Long-term Debt</u> | <u>Value of Consideration Exchanged</u> | <u>TOTAL Stock Value</u> |
|--------------------|------------------------|-----------------------|---|--------------------------|
| Natural Gas | | | | |
| Electric | | | | |
| Propane | | | | |
| FPUC TOTAL | \$4,249,000 | \$47,812,431 | \$75,698,624 | \$127,760,055 |

12. According to page 4, lines 11 through 14 of Mr. Kim's testimony, the amount paid for the FPUC natural gas business in the acquisition was \$88,276,234. Please complete the following schedule for FPUC:

| | <u>Amount Paid</u> | <u>Book Value</u> | <u>Premium</u> |
|--------------------|--------------------|-------------------|----------------|
| Natural Gas | \$88,276,234 | \$53,596,487 | \$34,679,747 |
| Electric | | | |
| Propane | | | |
| FPUC TOTAL | | | |

13. Please refer to page 4, lines 15 through 19 of Mr. Kim's testimony. Please detail the adjustments recorded after the acquisition was completed that are referenced in your testimony.
14. Please explain the "underlying assumptions underpinning" the Projected Financial Information referred to on page 12 of Exhibit MF-1.
15. In Witness Geoffroy's testimony, pages 44 through 46, Witness Geoffroy requests the benchmark analysis as a methodology to be applied in a future proceeding to address incremental cost increases. In a benchmark analysis, what customer growth and inflation percentages would be used to determine the appropriate dollars amount for 2012 O&M expenses?
16. Please provide Witness Kim's proposed amortization schedules Exhibit MK-4 in an excel format.

17. Please explain why the weighted average cost of capital for December 2009 Capital Structure Exhibit TAG-2 page 1 of 2 is higher than the average capital structure contained on Schedule 4 of the December 2009 FPUC surveillance report.
18. Please explain the elimination of both short-term debt and preferred stock in the 2010 Capital Structure Exhibit TAG-2 page 2 of 2.
19. Please provide the full capital structure with all the amounts, cost rates and ratios for the two capital structures contained in Exhibit TAG-2 Florida Public Utilities Natural Gas 13-month average.
20. Please provide the impact, if any, on applying FPUC's Commission-approved return on equity of 10.85 percent for the combined Earnings Surveillance Report versus using the Commission's authorized return on equity for each separate entity for years 2009 through 2011.
21. Refer to Exhibit MK-1. The exhibit shows allocation of premium to gas, electric and propane. Is Chesapeake asking for approval of an acquisition adjustment for electric? Explain why or why not.
22. Refer to the testimony of Thomas A. Geoffroy, page 7, lines 14 through 16, where he states that "[a]t this time, the Company is not seeking any Commission action related to the acquisition premium associated with the Indiantown Gas company transaction."
 - a.) Does Chesapeake plan to request approval of an acquisition adjustment for Indiantown at a later date?
 - b.) If not, why does Chesapeake believe it is appropriate to request approval of an acquisition adjustment for FPUC gas, but not for Indiantown?
23. Refer to the testimony of Thomas A. Geoffroy, page 9, lines 2 through 5, where he explains that prior un consummated merger transaction costs were expensed by both companies in 2008. Were those costs included in the expenses in any rate case before this Commission by either company?
24. Refer to the testimony of Thomas A. Geoffroy, page 9, line 11, where he states that both FPUC and Chesapeake filed Form 8-Ks describing the key terms and conditions of the intended transaction between the two companies. Please provide the referenced Form 8-Ks.
25. Refer to the testimony of Thomas A. Geoffroy, page 13, lines 18 through 20, where he states that "[s]everal substantial main construction projects are budgeted that will introduce natural gas to communities that currently have no access to gas."
 - a.) Where are these communities located?
 - b.) What indication has Chesapeake had that gas is wanted in those communities?

- c.) When will these projects take place?
 - d.) What are the anticipated costs?
26. Refer to the testimony of Thomas A. Geoffroy, page 14, lines 13 through 15, where he states that “Chesapeake has a long history of safe operations [and is a] multiple winner of the AGA Safety Award”
- a.) Please describe the AGA Safety Award.
 - b.) When did Chesapeake receive this award?
 - c.) Is the award state-specific? If so, where was it received?
 - d.) Has Chesapeake received any awards or other recognition for safety in Florida?
27. Refer to the testimony of Thomas A. Geoffroy, page 14, lines 17 through 19, where he states that “[t]he Company will be able to accelerate its efforts to replace bare steel and cast iron pipe that remain in the FPUC distribution system.”
- a.) Please describe the benefit to the customers that will result from the replacement of the bare steel and cast iron pipe.
 - b.) Over what time period will the replacement take place?
 - c.) Will the acceleration of the replacements cause an increase in future rates?
28. Refer to the testimony of Thomas A. Geoffroy, page 28, lines 15 through 16, where he states that customers “are paying less for the natural gas commodity than they did previously through Chesapeake’s PGA mechanism.” What is the average savings per customer?
29. Refer to the testimony of Thomas A. Geoffroy, page 29, lines 6 through 8, where he states that “[t]he Company fully intends to bring [Energy Conservation programs], and the associated benefits, to FPUC customers in the near future.” When will the FPUC customers receive these programs and benefits?
30. Refer to the testimony of Thomas A. Geoffroy, page 29, lines 1 through 4, where he states that “Chesapeake has also implemented a rate design that produces a high percentage of margins from fixed charges, allowing Chesapeake to more aggressively promote Energy Conservation programs, resulting in high participation rates with Consumers.”
- a.) Please describe the Energy Conservation Programs.
 - b.) Do all of the Chesapeake customers have access to the Energy Conservation programs? If not, please explain.

- c.) Please explain what Chesapeake means by “high percentage of margins from fixed charges.”
 - d.) Is the rate design referenced by witness Geoffroy in place for the FPUC customers?
 - e.) If the response to (d) is negative, does Chesapeake plan to seek such a rate design in the future?
 - f.) If your response to (d) is negative, will the FPUC customers have access to the Energy Conservation Programs and benefits without such a rate design in place?
31. Refer to the testimony of Thomas A. Geoffroy, page 31, lines 9 through 12, where he states that “[t]he Company used the O&M costs approved in the previous rate proceedings for both FPUC and Chesapeake as the basis for comparison to determine the level of operating savings achieved as a result of the acquisition.”
- a.) By “O&M costs approved in the previous rate proceedings,” does Chesapeake mean that it has used actual O&M costs or the numbers approved in the respective rate cases?
 - b.) If the Company has not used actual O&M costs, please explain rationale.
32. If the Company is allowed to combine the accounting records and earnings surveillance reports as requested, would this allow overearnings of Chesapeake to be offset by the earnings of FPUC, or vice versa? Since Chesapeake will not be combining tariffs at this time, how will the FPSC be able to determine if the Company is overearning?
33. Refer to Exhibit TAG-3. Please explain why some of the numbers shown in the Allocated \$\$\$ columns are negative.
34. Refer to Exhibit TAG-4. In the row “Corporate Allocations to Florida Division” is the amount of \$432,279 a decrease in costs to Chesapeake? If your answer is affirmative, were the costs increased somewhere else to offset the \$432,279? Please explain.
35. Refer to the testimony of Jeffrey S. Sylvester, page 7, lines 5 through 11, where he describes the installation of state-of-the-art telephone systems.
- a.) Have customer metrics such as call waiting times and call abandonments improved since the Company installed its state-of-the-art telephone systems? Please explain.
 - b.) If your responses are negative, please explain why the Company believes no improvement has been shown.
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36. Refer to the testimony of Jeffrey S. Sylvester, page 8, lines 17 through 20, where he describes an agreement with Fiserv, Inc. to accept customer payments at various locations.
- a.) Has this agreement been implemented?
 - b.) If your response is negative, when will it be implemented?
 - c.) Will both Chesapeake and FPUC customers have payment locations in their service areas?
 - d.) If your responses to (c) is negative, please explain?
 - e.) Do all customer bills contain information explaining where payments can be made in person? Please provide a sample.
 - f.) Does the Fiserv, Inc. contract include accepting payments for the non-regulated propane business unit?
37. Refer to the testimony of Jeffrey S. Sylvester, page 9, lines 8 through 14, where he describes the Dealer Network program and states that its use has “resulted in timelier customer connections at a lower cost to the company.”
- a.) Are these cost savings included in the savings shown in the Company’s request for approval of the acquisition adjustment? If so, where?
 - b.) Have these cost savings been passed on to the consumer?
38. Refer to the testimony of Matthew Kim, page 4, beginning on line 22 and continuing on page 5, where he describes the valuations prepared by Ernst & Young.
- a.) What date was the engagement letter signed between Chesapeake and Ernst and Young?
 - b.) Was a different valuation used to determine the purchase price than was filed in Exhibit MF-1?
 - c.) If your response to (b) is affirmative, why was a different valuation used?
 - d.) If your response to (b) is affirmative, please include a copy of the initial valuation report.
 - e.) What was the dollar amount of the valuation prepared by Ernst & Young for the purchase of FPUC?

Ms. Beth Keating

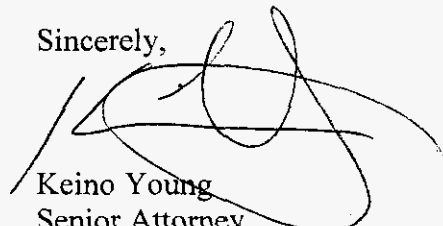
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39. Refer to the testimony of Matthew Kim, page 6, lines 9 through 14, where he describes the weighting of the three valuation methods used by Ernst & Young.
- a.) Please explain the assessment of accuracy and application of each method to the business based on size, risk and relevance.
 - b.) How was accuracy determined?
40. Refer to Exhibit MK-1. Line B shows \$111,260, labeled "excess paid."
- a.) Is it correct that the Company has included an allocated portion of the excess paid over the fair value in the purchase premium of \$34,679,747?
 - b.) If the response to (a) is affirmative, has the "excess paid" been eliminated from the \$34,192,493 acquisition adjustment that the Company is requesting?

Please file the original and five copies of the requested information by Friday, July 8, 2011, with Ms. Ann Cole, Commission Clerk, Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida, 32399-0850. Please feel free to call me at (850) 413-6226 if you have any questions.

Sincerely,



Keino Young
Senior Attorney
Office of the General Counsel

KY/sh

cc: Office of Commission Clerk
Division of Economic Regulation (Davis)
Office of Public Counsel

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