State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: November 22, 2011

TO: Ann Cole, Commission Clerk - PSC, Office of Commission Clerk

FROM: Andrew L. Maurey, Bureau Chief, Division of Economic Regulation ALM

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.

Please include the attached supplemental response to staff's fourth data request in the docket file for the above referenced docket.

Florida Public Utilities Company **Attachment 1**

Natural Gas October 31, 2009 Detail Balance Sheet

Net Utility Plant:	**Detail Amount**	**Net Amount**
Utility Plant	$ 117,400,493	
Non-utility plant adjustment	(1,568,385)	
Plant in Service		115,832,108
Accumulated Depreciation	(35,362,166)	
Customer Advances for Construction	(2,328,305)	
Accrued Asset Removal Costs	(5,071,638)	
Total Accumulated Depreciation		(42,762,109)
Net Utility Plant		$ 73,069,999

Working Capital:		
Assets		
Cash	3,035,920	
Special Deposits	3,518,821	
Accounts Receivable	3,053,102	
Notes Receivable	3,211,934	
Allowance for Bad Debt	(107,210)	
Unbilled Revenue	1,734,031	
Other Investment	8,263	
Other Assets	544,716	
Goodwill	552,803	
Intangible Assets	1,900,000	
Other Work In Progress	638,610	
Misc Deferred Debits	2,871,806	
Regulatory Asset Environmental	6,700,418	
Regulatory Asset Retirement	4,868,279	
Accumulated Deferred Income Taxes	4,094,173	
Net Assets		$ 36,625,666
Liabilities		
Accounts Payable	3,786,190	
Payable to Associated Company	2,891,404	
Customer Deposits	7,442,551	
Taxes Accrued	1,262,598	
Interest Accrued	471,379	
Other Taxes Accrued	261,791	
Vacation Pay Liability	702,156	
Rate Refund Pending	165,729	
Other Current Liabilities	25,300	
Over recoveries of Fuel and Conservation	3,207,196	
Environmental Insurance Proceeds	5,611,007	
Environmental Liabilities	6,802,982	
Storm Damage Reserve	791,204	
Medical and Pension Reserve	7,113,340	
Investment Tax Credit	104,466	
Current Portion of Deferred Income Taxes	637,539	
Accumulated Deferred Income Tax Liability	10,851,041	
Accumulated Deferred Income Tax Liability	1,707,903	
Net Liabilities		$ 53,835,776
Net Working Capital		$ (17,210,110)
Total Net Plant and Working Capital		$ 55,859,889

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.