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July 30, 2014

Ms. Carlotta Stauffer, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 140025-EI

Dear Ms. Stauffer:

Please find enclosed for filing in the above referenced docket the **REDACTED** Direct Testimony of Donna Ramas. The testimony was originally filed on July 28, 2014 in confidential form.

If you have any questions or concerns; please do not hesitate to contact me. Thank you for your assistance in this matter.

Sincerely,

J. R. Kelly
Public Counsel

Patricia A. Christensen
Associate Public Counsel

CERTIFICATE OF SERVICE
DOCKET NO. 140025-EI

I HEREBY CERTIFY that a true and correct copy of the foregoing REDACTED Direct Testimony of Donna Ramas has been furnished by electronic mail to the following parties on this 30th day of July, 2014:

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for Rate Increase by Florida Public Utilities Company ______________________________/	Docket No. 140025-EI FILED: July 28, 2014

REDACTED VERSION

DIRECT TESTIMONY

OF

DONNA RAMAS

ON BEHALF OF THE CITIZENS OF THE STATE OF FLORIDA

J. R. Kelly
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DIRECT TESTIMONY

OF

DONNA RAMAS

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket No. 140025-EI

INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Donna Ramas. I am a Certified Public Accountant licensed in the State of Michigan and Principal at Ramas Regulatory Consulting, LLC, with offices at 4654 Driftwood Drive, Commerce Township, Michigan 48382.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION?

A. Yes, I have testified before the Florida Public Service Commission ("PSC" or "Commission") on several prior occasions. I have also testified before several other state regulatory commissions.

Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Exhibit DMR-1, which is a summary of my regulatory experience and qualifications.

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. I am appearing on behalf of the Citizens of the State of Florida ("Citizens") for the Office of Public Counsel ("OPC").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I am presenting OPC's overall recommended revenue requirement for Florida Public Utilities Company ("FPUC" or "Company") in this case. I also sponsor specific adjustments to the Company's proposed rate base and operating income.

Q. ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF THE FLORIDA OFFICE OF PUBLIC COUNSEL IN THIS CASE?

A. Yes. Dr. Randall Woolridge presents Citizens' recommended capital structure, short and long-term debt rates and rate of return on equity in this case. Dr. Woolridge also presents an alternative capital structure for the Commission's consideration should Citizens' primary capital structure and cost rate recommendation not be adopted by the Commission.

Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?

A. I first present the overall financial summary for the base rate change, showing the primary revenue requirement recommended by Citizens. This is based on Dr. Woolridge's primary capital structure recommendation and the adjustments sponsored in this testimony. I then present my proposed adjustments which impact the test year revenue requirements. Exhibit DMR-2 presents the schedules and calculations in support of this section of my testimony.

Next, I present the outcome of the revenue requirement calculations using the alternative capital structure presented by Dr. Woolridge. The calculations of the alternative revenue requirement are presented in Exhibit DMR-3. I have also attached Exhibit DMR-4, which is an excerpt of the Chesapeake Utilities Corporation ("CUC" or "Chesapeake") 2014 Proxy Statement.

<u>OVERALL FINANCIAL SUMMARY</u>

Q. PLEASE DISCUSS THE EXHIBIT YOU PREPARED IN SUPPORT OF YOUR TESTIMONY.

A. Exhibit DMR-2, totaling 24 pages, consists of Schedules A-1, B-1 through B-3, C-1 through C-16, and D.

Schedule A-1 presents the revenue requirement calculation, giving effect to all of the adjustments I am recommending in this testimony, along with the impacts of the capital structure, debt and equity cost rates, and overall rate of return recommended by Citizens' witness Dr. Woolridge. Schedule B-1 presents OPC's adjusted rate base and identifies each of the adjustments impacting rate base that I am recommending in this case. Schedules B-2 and B-3 provide supporting calculations for several of the rate base adjustments addressed in this testimony. OPC's adjustments to net operating income are listed on Schedule C-1. Schedules C-2 through C-16 provide supporting calculations for the adjustments I am sponsoring to net operating income, which are presented on Schedule C-1.

Q. WOULD YOU PLEASE DISCUSS SCHEDULE D?

A. Schedule D presents Citizens' recommended capital structure and overall rate of return, based on the revisions to FPUC's proposed capital structure recommended by Dr. Woolridge and the rate of return on equity and debt rates recommended by Dr. Woolridge. The capital structure ratios are based on the ratios recommended by Dr. Woolridge. On Schedule D, I then applied Dr. Woolridge's recommended cost rates to the recommended capital ratios, resulting in OPC's overall recommended rate of return of 5.56%.

Q. WHAT IS THE RESULTING REVENUE REQUIREMENT FOR FLORIDA PUBLIC UTILITIES COMPANY?

A. As shown on Exhibit DMR-2, Schedule A-1, OPC's recommended adjustments in this case result in a recommended revenue increase for FPUC's electric operations of $1,996,096. This is $3,825,113 less than the $5,821,209 base rate increase requested by FPUC in its filing.

<u>RECOMMENDED ADJUSTMENTS</u>

Q. WOULD YOU PLEASE DISCUSS EACH OF YOUR SPONSORED ADJUSTMENTS TO FPUC'S FILING?

A. Yes, I will address each adjustment I am sponsoring below.

<u>eCIS Project Included in CWIP Balance</u>

Q. WHAT IS THE ECIS PROJECT AND WHAT AMOUNT IS INCLUDED IN THE COMPANY'S PROJECTED TEST YEAR RATE BASE FOR THE PROJECT?

A. The Direct Testimony of Cheryl Martin describes the eCIS plus system as a corporate-wide billing system project that is an upgrade from the current billing system. Ms.

Martin indicates that the eCIS plus project is allocated from the corporate CWIP account to each business unit's CWIP based on the number of customers at each business unit that will use the new system. The response to OPC Interrogatory No. 3 indicates that the total budgeted cost of the project is $13.6 million with 19.6% of the costs, or $2,665,600, to be allocated to the FPUC electric operations. MFR Schedule B-13 shows the total projected cost to be allocated to FPUC electric operations of $2,665,600, with $2,385,647 of that amount included in the average projected test year rate base. MFR Schedule C-13 also identifies a project start date of May 6, 2010 and a projected completion date of October 1, 2016. Based on these dates, the project would span over six years.

Q. WHAT AMOUNT HAS BEEN EXPENDED ON THE PROJECT TO DATE?

A. The responses to OPC Interrogatory No. 3 and OPC Interrogatory No. 93 indicate that, as of May 12, 2014, $6,042,120 had been expended on the project. Using the 19.6% FPUC electric allocation factor, the amount expended to date on a FPUC's electric basis would be $1,184,226 ($6,042,120 x 19.6%).

Q. DO THE BUDGETS AND PROJECT REQUISITIONS PROVIDED BY THE COMPANY FOR THE ECIS PLUS PROJECT SUPPORT THE $13.6 MILLION COST ESTIMATE THAT IS USED IN DETERMINING THE AMOUNT INCLUDED IN CWIP IN THE COMPANY'S FILING?

A. No, they do not. The Company provided capital requisition documents, emails and other budget information in support of the project in response to OPC Production of Document Request ("POD") No. 7 (File Name: FPU RC-0904 – OPC FIRST POD 7 Schedule B support 1 of 2 - eCIS.pdf) and OPC Interrogatory No. 93. Several places in the responses identify the total projected capital cost of the project as $8,519,385 (Document FPU RC-

1911 and FPU RC-1923). Additionally, a document provided with the responses titled "Chesapeake Utilities Corp Budget 2013-2023 – ECIS" (Document FPU RC-001915) identifies the total projected ECIS Plus capital cost as $8.5 million, with amortization of the project beginning in April 2015. The capital requisitions provided for the project identify approximately $6 million approved for the project, and an email provided with the responses indicates that the board approved an additional $2.5 million for the project in the 2014 budget process for which there is no capital requisition. Combined, the actual project requisitions and additional board-approved budget total $8.5 million.

Q. WHAT INFORMATION HAS THE COMPANY PROVIDED IN SUPPORT OF THE HIGHER PROJECTED COST OF $13.6 MILLION?

A. As part of its responses to OPC POD No. 7 and OPC Interrogatory No. 93, the Company provided a stream of emails in which an estimated cost of the eCIS plus was requested associated with work on the electric rate case. In an email response dated February 24, 2014, an email from an employee of Bravepoint (an affiliated company) stated, in part: ". . . based on what you need, we feel the 5 Point estimate of $85/meter is accurate. This would total out to be $13.6m based on 160k meters." A subsequent email on the same date which included Cheryl Martin as a recipient indicated: "So to get your Electric rate case ECIS+ costs, take the number of electric customers times $85 to get ECIS+ costs projection. Don't use the total amount of $ $13.6M [sic] for electric." (Document FPU RC-001917). The response to OPC Interrogatory No. 96 indicated that the $85 per meter identified in the email was calculated incorrectly based on 160,000 meters, and that "The correct number of meters and corresponding cost per meter is 170,000 meters at $80/meter."

In response to OPC Interrogatory No. 94, the Company indicated that the eCIS project team estimated that the total project costs, including costs beyond 2014, would be $13.6 million, and that the estimate was provided by ". . . the Consultant, Five Point Partners, LLC." The response also provided a very high level total project estimate totaling $13.6 million; however, it did not detail how the projected remaining costs were determined.

Q. DID THE COMPANY SUBMIT A REQUEST FOR PROPOSAL FOR THE NEW INFORMATION SYSTEM OR SEEK BIDS FROM POTENTIAL VENDORS?

A. No. OPC POD No. 86 asked for a copy of the request for proposal that went to potential bidders for the eCIS system and for a list of potential vendors that received the request for proposal. In response, the Company indicated that there were no documents responsive to the question. In response to OPC POD No. 9, the Company indicated that it did not have any documents that would constitute a cost benefit analysis for the project. Based on the response to OPC Interrogatory No. 98, the eCIS system was in use within FPUC and the eCIS plus system was considered an upgrade with the current vendor. As part of the project, the eCIS plus system is being implemented with the various Florida regulated operations as well as for the CUC regulated operations in Delaware and Maryland.

Q. HAVE THERE BEEN ISSUES WITH THE IMPLEMENTATION OF THE ECIS PLUS SYSTEM?

A. Yes. Based on the review of the information provided by the Company in support of the project, there have been many delays in the project implementation. As previously indicated, MFR Schedule B-13 identifies an initial project start date of May 6, 2010, which is over four years ago. The initial capital requisition provided in response to OPC

Interrogatory No. 93, which was signed in April 2010, identified an expected project end date of May 2012. The various project timelines and revised timelines from the project vendor, Vertex, provided in response to discovery have project in-service or "Go Live" dates for FPUC as early as September 2011. The implementation dates changed to various dates in 2012 and 2013. An email provided in response to OPC POD No. 7 dated February 25, 2014 identifies an install date of April 2015 for the system, which falls within the projected test year (Document FPU RC-001921). When questioned on the in-service date, in response to OPC Interrogatory No. 97, the Company indicates that at the time of the rate case filing the projected in service date was updated and revised to October 2016. The response also states: "The Company is still working through the process to establish the final implementation target date, and key project milestone dates; however, at this time the Company is working towards an October 2016 implementation date." Clearly, there have been numerous project delays and changes to the projected in service date. The extent to which the delays have negatively impacted the overall project cost are not clear from the information provided by FPUC in this case.

Additionally, the response to OPC Interrogatory No. 99 shows that during 2013 and 2014 legal costs were incurred associated with the project. The Company initially recorded some of the legal costs as part of the project capital costs, but subsequently removed the legal costs from the capital costs. The response indicates that the charges from Baker & Hostetler LLP identified as "Vertex Matters" related to ". . . legal review and advices associated with administrative contract matters with a vendor in this project . . ." Apparently, there have been issues with the project that have prompted CUC to seek legal review and advice on the project.

Q. ARE YOU RECOMMENDING ANY REVISIONS TO THE AMOUNT INCLUDED IN CWIP FOR THE ECIS PLUS PROJECT?

A. Yes. The Company has not adequately supported the $13.6 million total project cost upon which the amount it included in CWIP of $2,385,647 is based. Additionally, it is not clear from the information provided by the Company in support of the project in this case and the frequent extensions to the projected in-service date that the project has been prudently and cost effectively managed. I recommend that at this time the amount to be included in the projected test year CWIP balance for eCIS plus be limited to FPUC electric operation's portion of the $8,519,385 that has been supported by the various capital requisitions and internal project budgets. As shown on Exhibit DMR-2, Schedule B-2, the recommended CWIP allowance for the project is $1,669,799 based on a total amount of $8,519,385 times the FPUC electric operation portion of the costs of 19.6%. As shown on the schedule, CWIP should be reduced by $715,848 in order to limit the amount in rate base in this case to the amount supported by the Company.

I also recommend that, at the time of the Company's next rate case proceeding, the Commission require a full review and investigation of the total in-service project costs as well as the amount that is allocated to the various Florida regulated operations to ensure that ratepayers are not harmed by potential project mismanagement resulting in cost over-runs. In other words, prior to allowing the full project cost as part of plant in service in rate base, a prudence review should be performed on the project.

<u>Correction of Accumulated Depreciation Error</u>

Q. ARE YOU AWARE OF ANY ERRORS IN THE ACCUMULATED DEPRECIATION BALANCES INCORPORATED IN THE COMPANY'S FILING?

A. Yes. OPC Interrogatory No. 48 asked the Company to provide a revised version of the monthly depreciation reserve balances schedule, MFR Schedule B-10, replacing projected amounts for the period September 2013 through April 2014 with actual balances. The interrogatory also asked FPUC to explain any amounts that differ from the original projections by more than $50,000. The response showed a fairly large variance in the accumulated depreciation (or depreciation reserve) balance for transportation equipment. According to the response, the variance in sub-account 3923 – Transportation Equip-Heavy Duty Trucks was ". . . caused by a retirement made in December being duplicated in the forecast." The amount included in the filing on MFR Schedule B-10, at page 4 of 6, for accumulated depreciation on transportation equipment as of December 2013 is $1,513,910. The actual balance as of December 2013, based on the response to OPC Interrogatory No. 48, was $1,777,201, which is $263,291 higher than the balance incorporated in the filing. Thus, the error or duplication of the vehicle retirements causes the accumulated depreciation balance to be understated. Since the balances in accumulated depreciation are built up from the historic levels in the filing into the projected test year ending September 30, 2015, the duplication error reflected in December 2013 carries forward into the projected test year.

Q. HAS THE COMPANY PROVIDED ADDITIONAL INFORMATION REGARDING THE DUPLICATION ERROR?

A. Yes. In response to OPC Interrogatory No. 101, the Company indicated that the duplication of the retirement for Transportation Equipment-Heavy Duty Trucks in the MFRs for the projected test year was $260,834. The response also agrees that rate base is overstated by this amount.

Q. WERE THE PLANT IN SERVICE BALANCES ASSOCIATED WITH VEHICLES ALSO IMPACTED BY THE DUPLICATION OF THE VEHICLE RETIREMENTS CONTAINED IN FPUC'S FORECASTS?

A. No, apparently not. Based on a comparison of the actual transportation equipment plant in service balances provided in response to OPC Interrogatory No. 47 to the balance contained in FPUC's filing on MFR Schedule B-8, the December 2013 balances are the same. Thus, the duplication of the retirements in FPUC's forecast incorporated in the MFRs only impacted the accumulated depreciation (or depreciation reserve) balances and not the plant in service balances.

Q. WHAT ADJUSTMENT DO YOU RECOMMEND TO CORRECT THE DUPLICATION ERROR CONTAINED IN THE FILING?

A. As shown on Exhibit DMR-2, Schedule B-1, page 2 of 2, accumulated depreciation should be increased by $260,834 in order to remove the impacts of the duplication of the December 2013 vehicle retirements incorporated in FPUC's forecast. This results in a $260,834 reduction to rate base.

<u>Working Capital – Deferred Rate Case Expense</u>

Q. DID FPUC INCLUDE THE PROJECTED TEST YEAR BALANCE OF UNAMORTIZED RATE CASE EXPENSE IN ITS WORKING CAPITAL REQUEST?

A. Yes. MFR Schedule B-3, at page 11 of 12, shows that FPUC included 50% of the projected 13-month average test year balance of unamortized rate case expense. The total projected test year 13-month average unamortized balance is $692,056, with 50%, or $346,028, removed from working capital.

Q. SHOULD THE COMPANY BE PERMITTED TO INCLUDE 50% OF THE UNAMORTIZED RATE CASE EXPENSE BALANCE IN RATE BASE?

A. No, it should not. While the Commission did allow 50% of FPUC's unamortized rate case expense in working capital in its order in FPUC's prior electric rate case, Order No. PSC-08-0327-FOF-EI, issued May 19, 2008, it is my understanding that the Commission has consistently disallowed the inclusion of unamortized rate case expense in working capital for electric utilities. This long-standing Commission policy was reaffirmed in Commission Order No. PSC-10-0131-FOF-EI involving Progress Energy Florida. At pages 71 – 72 of that Order, the Commission stated the following with regard to unamortized rate case expense:

> We have a long-standing policy in electric and gas rate cases of excluding unamortized rate expense from working capital, as demonstrated in a number of prior cases. The rationale for this position was that ratepayers and shareholders should share the cost of a rate case: i.e., the cost of the rate case would be included in the O&M expenses, but the unamortized portion would be removed from working capital. It espouses the belief that customers should not be required to pay a return on funds expended to increase their rates.
>
> While this is the approach that has been used in electric and gas cases, water and wastewater cases have included unamortized rate case expense in working capital. The difference stems from a statutory requirement that water and wastewater rates be reduced at the end of the amortization period (Section 367.0816, F.S.). While unamortized rate case expense is not allowed to earn a return in working capital for electric and gas companies, it is offset by the fact that rates are not reduced after the amortization period ends.
>
> We agree with the long-standing policy that the cost of the rate case should be shared, and therefore find that the unamortized rate case expense amount of $2,787,000 shall be removed from working capital. (footnote 33 omitted)

At page 71 of the Order, in footnote 33, the Commission identified the following cases that confirm and validate its long-standing policy of excluding the unamortized rate case expense from working capital in electric and gas cases:

> Order No. 23573, issued October 3, 1990, in Docket No. 891345-EI, In re: Application of Gulf Power Company for a rate increase; Order No. PSC-09-0283-FOF-EI, issued April 30, 2009; in Docket No. 08317-EI, In re: Petition for rate increase by Tampa Electric Company; Order No. PSC-09-0375-PAA-GU, issued May 27, 2009, in Docket No. PSC-09-0375-PAA-GU, In re: Petition for rate increase by Florida Public Utilities Company.

In addition, in Order No. PSC-10-0153-FOF-EI involving Florida Power & Light Company, dated March 17, 2010, at page 164, the Commission stated in part:

> We do not agree with the Company that the unamortized balance of rate case expense should be included in rate base. Historically, the unamortized balance of rate case expense has been excluded from rate base to reflect a sharing of the rate case cost between the ratepayers and the shareholders. Rate case expenses are recovered from ratepayers through the amortization process as a cost of doing business in a regulated environment. However, the unamortized balance of rate case expense has been excluded from rate base to reflect that an increase in rates is a benefit to the shareholders.
> (footnote omitted)

This policy was again affirmed in Commission Order No. PSC-12-0179-FOF-EI involving Gulf Power Company, dated April 3, 2012, where the Commission stated at pages 30 and 31:

> . . . [w]e have a long-standing practice in electric and gas rate cases of excluding unamortized rate case expense from working capital, as demonstrated in a number of prior cases. The rationale for this position is that ratepayers and shareholders should share the cost of a rate case; i.e., the cost of the rate case would be included in O&M expense, but the unamortized portion would be removed from working capital. This practice underscores the belief that customers should not be required to pay a return on funds spent to increase their rates.
>
> . . .
>
> For the foregoing reasons, we find that the unamortized rate case expense of $2,450,000 shall be removed from working capital consistent with our long standing practice.
> (footnote 17 omitted)

In footnote 17 on page 30 of the same Gulf Power Company Order, the Commission identified the same cases referenced in the footnote and also included the Florida Power

& Light Order and Order No. PSC-10-0131-EI-FOF, issued March 5, 2010, in Docket No. 090079-EI, In re: Petition for increase in rates by Progress Energy Florida, Inc., at pages 71-72.

FPUC has provided no compelling reasons in this case for receiving special or different treatment from the other Florida electric utilities with regards to the treatment of unamortized rate case expense in working capital.

Q. WAS THIS ISSUE ADDRESSED FOR FPUC SUBSEQUENT TO THE PRIOR ELECTRIC RATE CASE?

A. Yes. In Docket No. 080366-GU, FPUC included 50% of its projected rate case costs in working capital for its natural gas division. In Order No. 09-0375-PAA-GU, issued May 27, 2009, the Commission stated at page 22 of the Order that ". . . none of the unamortized rate case expense shall be included in working capital for the projected test year." At page 21 of the Order, the Commission indicated that while it had allowed one half of the balance of unamortized rate case expense to be included in working capital in previous cases involving FPUC, it's long-standing policy in electric and gas rate cases is to exclude unamortized rate case expense from working capital. Thus, the Commission rejected FPUC's request to include rate case expense in working capital.

Q. DO YOU RECOMMEND THAT THE UNAMORTIZED RATE CASE EXPENSE BE EXCLUDED FROM RATE BASE IN THIS CASE?

A. Yes. I recommend that the Commission continue following its long-standing policy in electric and gas cases to exclude the unamortized rate case expense from rate base. Consistent with the Commission's findings in past Progress Energy Florida, Gulf Power

Company and Florida Power & Light Company base rate cases, as well as the previous FPUC natural gas rate case, it would be unfair for customers to pay a return on the rate case costs incurred by the Company in this case when the costs are being used to increase customer rates. On Exhibit DR-2, Schedule B-1, page 2, I have removed the remaining 50% of unamortized rate case expense from working capital in this case, reducing rate base by $346,028. This adjustment is necessary to ensure that none of the rate case costs are included in the rate base upon which a return is applied.

Working Capital – Reduction to Cash Balance

Q. HOW DOES THE OVERALL WORKING CAPITAL REQUEST IN THIS CASE COMPARE TO THE AMOUNT APPROVED BY THE COMMISSION IN THE PRIOR FPUC RATE CASE?

A. In the current case, FPUC included working capital of $2,213,542 in projected test year rate base. In the Commission's Order in the prior rate case, Order No. 08-0327-FOF-EI, the Commission-adjusted working capital allowance in rate base was a negative balance of ($4,246,823).

Q. WHAT AMOUNT IS INCLUDED IN FPUC'S WORKING CAPITAL REQUEST FOR CASH?

A. MFR Schedule B-3, at page 3 of 12, shows that the 13-month average historic test year ended September 30, 2013 balance in Account 1310 – Depository Account - Cash included in working capital was $501,251. The same schedule at page 11 of 12 shows the balance was increased to $504,312 for the projected test year ending September 30, 2015. In addition to the $504,312 included for Account 1310 - Depository Account – Cash, FPUC also included $8,000 for Account 1350 – Working Funds – Petty Cash. This results in $512,312 being included in working capital for both cash accounts.

Q. HOW DOES THE $512,312 INCLUDED FOR CASH IN WORKING CAPITAL IN THE CURRENT CASE COMPARE TO THE BALANCE IN FPUC'S PRIOR RATE CASE?

A. The balance has increased significantly. The Commission's Order in the prior rate case, Order No. 08-0327-FOF-EI, at page 25, indicates that the Company included projected cash balances in working capital for the electric operations of $70,678 in the 2008 projected test year in that case. The $512,312 included in this case is a $441,634 or 625% increase from the level included in the prior rate case.

Q. HAS THE COMPANY SUPPORTED THE SIGNIFICANT INCREASE IN THE CASH BALANCE IT SEEKS TO INCLUDE IN WORKING CAPITAL?

A. No, it has not. The Company has not supported the significant increase in the level of cash it seeks to include in working capital, nor has it demonstrated that its working cash needs have increased so significantly from the amount requested in the prior rate case. The acquisition by CUC should not cause such a large increase in the working cash needs of the FPUC electric operations.

Q. WHAT ADJUSTMENT DO YOU RECOMMEND?

A. As shown on Exhibit DMR-2, Schedule B-3, I recommend that the amount of cash included in working capital be limited to $100,000. This allows for a 41.5% increase above the $70,678 included for cash in the prior rate case. FPUC has not justified the 625% increase in the cash balance reflected in this case as compared to the prior rate case. As shown on Schedule B-3, working capital should be reduced by $412,312.

Forfeited Discounts / Late Payment Fee Revenues

Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO TEST YEAR REVENUES?

A. Yes, I recommend that the amount of revenues included in Account 450 – Forfeited Discounts for late payment fee revenues be increased by $55,349. The calculation of this adjustment is provided on Exhibit DMR-2, Schedule C-2. As shown on Schedule C-2, the amount is based on increasing the historic test year late payment fee revenues by $55,000 with the applications of the revenue growth factors that were applied by FPUC to Account 450 for 2014 and 2015.

Q. WHY SHOULD THE AMOUNT OF LATE PAYMENT FEE REVENUES BOOKED DURING THE HISTORIC TEST YEAR BE INCREASED BY $55,000 BEFORE THE REVENUE GROWTH FACTORS ARE APPLIED IN DETERMINING THE PROJECTED TEST YEAR REVENUE LEVEL?

A. FPUC provided several budget variance reports in response to OPC POD No. 10. According to the March 2013 variance report, there was a $55,891 unfavorable variance in fees and other service charges when comparing the amount booked in March 2013 to the amount booked in March 2012. The year-to-year monthly variance explanation stated: "Approximately 40K Credit refund was given to the customers for Jan and Feb issues with the lockbox causing a late fees variance vs last march of ($55K)". Similarly, the same file indicated that in March 2013 fees and other service charges were $55,744 under budget. The budget variance explanation stated: "Primarily a decrease in late fees due to a mail forwarding issue all late fees from January and February were reversed in March ($55K)". (FPU RC-11068 – OPC FIRST POD 10 FE Analytics 03-2013 WIP.pdf) Thus, the historic test year late payment fee revenues were apparently understated by $55,000 as a result of a problem with mail being forwarded from a lockbox. Presumably, the issue has been remedied and should not recur in the future test year.

Q. IS THERE ANY ADDITIONAL INFORMATION THAT WOULD INDICATE THAT THE PROBLEM WITH THE MAIL FORWARDING ISSUE AND SUBSEQUENT REFUNDS CAUSED THE HISTORIC TEST YEAR LATE PAYMENT FEE REVENUES TO NOT BE REPRESENTATIVE OF A NORMAL RECURRING LEVEL?

A. Yes. In response to Staff Interrogatory No. 47, the Company indicated that the amounts booked in Account 450 – Forfeited Discounts represent late payment fees. As shown on Exhibit DMR-2, Schedule C-2, lines A.1 through A.3, the Forfeited Discounts for the Company during 2011 and 2012 were $437,000 and $434,000, respectively, and declined substantially to $380,000 during the historic test year ended September 30, 2013. Additionally, the response to OPC Interrogatory No. 159(d) indicates that the late payment fees for the first six months of 2014 were $220,000. On an annualized basis, the amount for 2014 would be $440,000. MFR Schedule C-5, page 3, shows that the projected test year Forfeited Discounts, or late payment fees, which are based on an escalation of the historic test year amount, are $381,931. Clearly, the amount recorded during the historic test year was inconsistent with the prior year levels and the amount realized subsequent to the historic test year to date. Thus, as shown on Exhibit DMR-2, Schedule C-2, I recommend that the projected test year late payment fee revenues be increased by $55,349. This results in projected test year late payment fee revenues of $437,280, which is consistent with the amount realized by FPUC in 2011, 2012 and for 2014 to date.

Remove Non-Recurring Severance Costs

Q. DO HISTORIC TEST YEAR AND PROJECTED TEST YEAR EXPENSES INCLUDE COSTS FOR EMPLOYEE SEVERANCE PAYOUTS?

A. According to the Florida Public Utility Electric Division variance reports provided in response to OPC POD No. 10 for July 2013 (Document FPU RC-11076) and September 2013 (Document FPU RC-11080), test year payroll and benefit costs included costs for one-time severance payouts associated with employees accepting the Voluntary Exit Program. The September 2013 variance report identifies the costs as ". . . $120,000 in Severance." The workpapers provided in response to OPC POD No. 21 in support of the adjustments made to the filing do not show that the severance payments were removed from historic test year expenses prior to the labor costs being escalated to the projected test year level. Thus, the costs apparently remain in the projected test year at the historic test year level plus escalation.

In response to OPC Interrogatory No. 108, the Company stated that "[t]he Company included $0 in the projected test year for severance to employees." However, as indicated above, the variance reports provided by the Company for July 2013 and September 2013 indicate that severance costs were incurred during the historic test year. Additionally, the severance payments that were recorded during the historic test year were not removed in the various adjustments made by the Company in its filing prior to escalating the labor costs to the projected test year levels.

Q. DID THE COMPANY REVISE ITS POSITION REGARDING SEVERANCE COSTS INCLUDED IN THE PROJECTED TEST YEAR?

A. Yes. In a subsequent response to OPC Interrogatory No. 151, the Company indicated that the historic test year ended September 30, 2013 included $108,204.50 in severance costs for direct electric employees and $11,464.61 for FPUC common employees allocated to the electric operations. This resulted in a total severance expense of $119,669.11 on an FPUC electric operations basis included the historic test year. The attachment to the interrogatory shows that the $119,669 was escalated to $127,628 in the projected test year. The response to Interrogatory No. 151 also stated:

> In preparing the MFR's the Company assumed that the severance costs in the historic year offset the lack of payroll and related benefits expenses while the positions were vacant in the same historic year. Therefore, in projecting the test year ended 9/30/15, the assumption was made that severance costs were excluded, only salaries and related benefits for the replacements of positions remain.

Q. IS IT A VALID ASSUMPTION THAT THE SEVERANCE COSTS INCORPORATED IN THE TEST YEAR ARE OFFSET BY THE LACK OF PAYROLL AND RELATED BENEFIT EXPENSES FOR THE PERIOD THE POSITIONS WERE VACANT IN THE COMPANY'S FILING?

A. No, it is not. In the attachment to the response to OPC Interrogatory No. 151, the Company presented a calculation showing that if each of the positions that accepted the severance were vacant for 2 ½ months, the impact on expenses for filling those positions for the 2 ½ months would be $89,364 when escalated to the projected test year, which is $38,264 less than the impact of the severance expense on the projected test year. The response also indicates that "The estimated salary and benefits during the historic year were lower than the severance payments by $38,264."

However, in the "Over and Under" adjustments made by FPUC on MFR Schedule C-7, the Company accounted for employee changes that occurred during the historic test year.

At page 46 of her direct testimony, Ms. Martin states: "Due to new hires, organization changes, or revised employee allocations made during the historic test year, expenses were adjusted to reflect costs for a full year."

Q. WILL THE SEVERANCE COSTS ASSOCIATED WITH THE VOLUNTARY EXIT PROGRAM BE INCURRED BY FPUC IN THE PROJECTED TEST YEAR?

A. No. The response to OPC Interrogatory No. 16 states: ". . . the Company does not anticipate any further work force reduction, attrition or early retirement programs during the next three years." The response also states: "All planned work force reduction programs since FPUC was acquired by Chesapeake Utilities Corporation have been implemented." Thus, FPUC should not incur additional severance costs in the projected test year.

Q. DO YOU RECOMMEND THAT THE SEVERANCE COSTS BE REMOVED FROM THE PROJECTED TEST YEAR?

A. Yes. As shown on Exhibit DMR-2, Schedule C-3, projected test year expenses should be reduced by $127,628 to remove the non-recurring severance costs charged to the FPUC electric division. These severance costs will not be realized by FPUC in the projected test year.

<u>Remove Marianna Litigation Bonus Payout</u>

Q. PLEASE DISCUSS YOUR ADJUSTMENT ON EXHIBIT DMR-2, SCHEDULE C-4, TITLED "REMOVE MARIANNA LITIGATION BONUS PAYOUT".

A. According to the Florida Public Utility Electric Division variance report provided in response to OPC POD No. 10, at FPU RC-11076 for July 2013, test year payroll and benefit costs include $24,000 ". . . due to the Marianna Bonus payout to employees for help with Litigation and referendum. . ." After the payroll escalation factor is applied, projected test year expenses include $25,462 associated with the special bonus payouts. I recommend that these costs be removed from the projected test year, reducing expenses by $25,462.

Q. WHY DO YOU RECOMMEND THESE COSTS BE REMOVED FROM THE PROJECTED TEST YEAR?

A. Ratepayers should not be asked to fund the special bonuses that the Company decided to pay out to employees who assisted on the Marianna litigation and referendum. Additionally, these one-time special bonuses are non-recurring and not reflective of costs that will be realized in the projected test year.

<u>Stock-Based Compensation Expense</u>

Q. ARE ANY COSTS INCLUDED IN THE TEST YEAR FOR STOCK-BASED COMPENSATION?

A. Yes. The response to OPC Interrogatory No. 14 identifies a total of $97,287 included in projected test year expenses on an FPUC Electric Division basis for stock-based compensation. The confidential attachment to the response identifies four individuals as projected to receive the stock-based compensation during the projected test year, with the total amount for the four individuals combined totaling $97,287. The individuals include the President of FPUC and three CUC executives.

Q. WHAT IS THE STOCK-BASED INCENTIVE COMPENSATION BASED UPON?

A. The Company's long-term incentive compensation plan, which is a stock and incentive compensation plan, is described in CUC's proxy statement that was issued March 31, 2014. In the 2014 Proxy Statement, CUC provides a detailed description of the executive compensation design and components, which includes the stock-based compensation. According to the 2014 Proxy Statement, at page 34, "The equity incentive awards are designed to reward executives for improving stockholder value by achieving growth in earnings while investing in the future growth of both our regulated and unregulated businesses." According to page 35 of the 2014 Proxy Statement, there are three performance components in the 2013 to 2015 performance period under the plan. See Exhibit DMR-4 CUC 2014 Proxy Statement Excerpt.

Q. WHAT ARE THE THREE PERFORMANCE COMPONENTS IN THE 2013 TO 2015 PERFORMANCE PERIOD, AS DESCRIBED IN THE 2014 PROXY STATEMENT?

A. The first component is shareholder return in which the total shareholder return is compared to the total shareholder returns of peer group companies. The description of this component, which accounts for 30% of the target award, is "Shareholder Return incentivizes executives to generate additional value for our stockholders."

The second component, which accounts for 35% of the target award, is growth in long-term earnings in which total capital expenditures as a percent of total capitalization is compared to peer group companies. The description of this component states: "In the long-term, the Company's growth is dependent upon continuous investment of capital at levels sufficient to drive growth."

The final component, accounting for 35% of the target award, is Earning Performance which is the average return on equity as compared to pre-determined targets. The description of the Earning Performance target states: "Return on equity measures the Company's ability to generate current income using equity investors' capital."

The 2014 Proxy Statement indicates that for Mr. Jeffrey M. Householder, the President of Florida Public Utilities, the Shareholder Return component is the same as the other named executive officers, but that the Growth in Long-Term Earnings and Earnings Performance components for him include the ". . . combined investment levels and financial results for several regulated and unregulated businesses in Florida."

Q. DO YOU RECOMMEND THAT THE STOCK-BASED COMPENSATION COSTS BE INCLUDED IN THE PROJECTED TEST YEAR EXPENSES?

A. No, I do not. The components in determining the stock-based compensation awards are clearly focused on CUC's shareholders and are based on regulated and unregulated businesses. Clearly, the goals are not focused on benefitting Florida Public Utility's electric ratepayers. As indicated at page 34 of the 2014 Proxy Statement: "The equity incentive awards are designed to reward executives for <u>improving stockholder value</u> by achieving growth in earnings while investing the future growth of both our regulated and unregulated businesses." (Emphasis added) Given that the determination of the awards is focused entirely on CUC's shareholders, I recommend that the cost be removed from the projected test year. As shown on Exhibit DMR-2, Schedule C-1, page 2 of 2, test year expenses should be reduced by $97,287 to remove stock-based compensation expense.

Corporate Bonuses Allocated to FPUC Electric Operations

Q. HOW MUCH IS INCLUDED IN THE TEST YEAR FOR CORPORATE BONUSES ALLOCATED TO THE FPUC ELECTRIC OPERATIONS?

A. According to the response to OPC Interrogatory No. 13, historic test year expenses include $195,887 and projected test year expenses include $173,491 for ". . . Corporate Bonus amounts allocated to the Electric Florida Business Unit . . ."

Q. HAS THE COMPANY PROVIDED ANY INFORMATION DEMONSTRATING THAT THE CORPORATE BONUS OR INCENTIVE PLAN FOR WHICH COSTS ARE ALLOCATED TO THE FLORIDA ELECTRIC OPERATIONS ARE FOCUSED ON GOALS THAT BENEFIT THE FLORIDA ELECTRIC RATEPAYERS?

A. No, the Company has provided no information demonstrating that the corporate bonus plans in which the costs are allocated to the Florida electric operations are focused on goals and targets that would benefit the Florida electric ratepayers. OPC Interrogatory No. 14 requested a copy of each of the Company's incentive compensation plans, bonus plans and stock option plans for 2012, 2013 and 2014. While the Company provided a copy of the 2013 Incentive Performance Plan specific to Florida Business Unit employees with the response, as well as information regarding the long-term equity based compensation plan previously addressed in this testimony, it did not include the incentive plan information for the Corporate employees of which part of the cost is allocated to the Florida electric operations.

Q. SHOULD THE ALLOCATED CORPORATE BONUS EXPENSE AMOUNTS INCLUDED IN THE PROJECTED TEST YEAR BE PASSED ON TO THE COMPANY'S ELECTRIC CUSTOMERS?

A. No, they should not. The Company has not justified the recovery of the allocated corporate bonus expenses from Florida electric ratepayers. There has been no information provided regarding the plan goals and targets and no information has been provided indicating that the costs are driven by factors that benefit FPUC's customers. As such, I recommend that the allocated corporate bonus expense be removed. Later in this testimony, I recommend that charges from CUC to the FPUC electric operations be limited to the historic test year expense amount plus escalation. Under this approach, projected test year expenses would include $209,031 for allocated corporate bonus expense, calculated as the historic test year expense of $195,887 times the payroll and customer growth factor of 1.0671. As shown on Exhibit DMR-2, Schedule C-1, page 2 of 2, test year expenses should be reduced by $209,031 to remove these unsupported CUC Corporate Bonuses. If the Commission does not adopt my recommended adjustment that limits the CUC corporate charges to FPUC electric operations to the historic test year level plus escalation, then projected test year expenses should be reduced by $173,491 to remove the corporate bonuses included by the Company in the projected test year.

<u>Incentive Performance Plan – FPUC</u>

Q. IN ADDITION TO THE CORPORATE BONUS EXPENSES ALLOCATED TO THE FLORIDA ELECTRIC OPERATIONS, ARE THERE COSTS INCLUDED IN THE TEST YEAR FOR INCENTIVE COMPENSATION SPECIFIC TO FPUC?

A. Yes. According to the response to OPC Interrogatory No. 13, test year expenses include $407,095 on an FPUC electric operations basis for the Incentive Performance Plan.

Q. HAVE THERE BEEN ANY RECENT CHANGES IN THE INCENTIVE PERFORMANCE PLAN ("IPP") THAT IMPACT THE AMOUNT OF EXPENSE INCURRED AT THE FLORIDA ELECTRIC OPERATIONS LEVEL?

A. Yes. According to the direct testimony of Mr. Householder, at pages 6 – 7, a Company-wide performance based pay system was recently introduced. The response to OPC Interrogatory No. 11 indicates that "The IPP Company wide performance based pay system was implemented in Florida for all employees in 2013." Thus, the IPP was expanded to include all Florida employees in 2013. The response to OPC Interrogatory No. 10 indicates that the IPP was offered to the unions beginning in 2013. The response also indicates that in 2012, 171 employees were eligible to receive incentive compensation with the number of eligible employees expanding to 305 in 2013.

Q. DID THE EXPANSION OF THE IPP TO ALL FLORIDA EMPLOYEES IN 2013 IMPACT THE OVERALL EXPENSE ASSOCIATED WITH THE PLAN?

A. Yes, the modifications had a significant impact on the overall costs to the electric operations. The response to OPC Interrogatory No. 13 shows that the actual expense to the Florida electric business unit associated with the IPP increased from $211,562 for the twelve months ended September 2012 to $382,590 in the historic test year ended September 2013, which is an increase of 81%. The response shows that the amount included in the projected test year is $407,095. The response also indicates that the expense to the electric operations was $157,423 for the twelve months ended September

2011, or less than half of the amount incurred in the historic test year. In other words, the cost more than doubled in a two-year period.

Q. DURING THE PERIOD THAT PARTICIPATION IN THE IPP WAS EXTENDED TO ALL OF THE FLORIDA EMPLOYEES, WERE BASE WAGES ALSO INCREASED FOR THE EMPLOYEES?

A. Yes. The response to OPC Interrogatory No. 9 shows that in the period the IPP was expanded to include the union employees during 2013, the union merit increase was 2.5% and the Target IPP % payout implemented was 4.0% in 2013. The response also shows that in 2013 non-union category merit increases were 3.0% and the Target IPP % payout was increased from 2.0% in 2012 to 4.0% in 2013. For Supervisor level employees, the 2013 merit increase was 3.0% while the Target IPP % payout was increased from 3.0% in 2012 to 5.0% in 2013. For Manager-First Line employees, the merit increase was 3.0% in 2013 and the Target IPP % payout was increased from 4.0% to 6.0%. For Managers-Direct employees, the merit increase was 3.0% in 2013 while the IPP Target % payout increased from 5.0% in 2012 to 8.0% in 2013. For directors, the merit increase was 3.0% in 2013 and the Target IPP % increased from 8.0% in 2012 to 15.0% in 2013. Thus, the IPP target payouts as a percentage of base pay increased significantly between 2012 and 2013 for all of the employee groups at the Director level or below.

Q. HAS THE COMPANY PROVIDED INFORMATION DESCRIBING THE IPP AND IDENTIFYING HOW THE AWARDS UNDER THE PLAN ARE DETERMINED?

A. Yes. In a confidential attachment to the response to OPC POD No. 14, the Company provided a copy of the 2013 IPP for FPUC employees. Additionally, as a confidential attachment to OPC Interrogatory No. 12, the Company provided details on the goals in place for the IPP, including the various goals and targets, for 2012 through 2014.

Q. WHAT ARE THE GOALS AND PERFORMANCE MEASURES IN THE IPP?

A. Based on the confidential attachments provided in response to OPC Interrogatory No. 12 and OPC POD No. 14, *****BEGIN CONFIDENTIAL***** [redacted]

[redacted]

[redacted]

Q. COULD YOU PLEASE DISCUSS SOME OF THE GOALS IDENTIFIED IN THE TABLE ABOVE?

A. [redacted]

[redacted]

[redacted]

[redacted]

[redacted] *****END CONFIDENTIAL*****

Q. DO YOU HAVE A BREAKDOWN OF THE TOTAL PROJECTED TEST YEAR INCENTIVE PERFORMANCE PLAN COSTS BETWEEN EACH OF THE IPP GOALS?

A. No, I do not. While the Company provided total projected test year IPP expense of $407,095 in response to OPC Interrogatory No. 13, it did not provide the breakdown of that amount by goal category. Since the weighting of various goals varies by employee level, I am unable to provide a breakdown of the $407,095 by each of the IPP goals.

Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO THE IPP EXPENSE INCLUDED IN THE TEST YEAR?

A. Yes. As shown on Exhibit DMR-3, Schedule C-5, I recommend that 45% of IPP expense be funded by shareholders instead of FPUC's electric ratepayers. This reduces test year expenses by $183,193. After the adjustment, rates would still include $223,902 for IPP costs to be funded by ratepayers, which exceeds the full expense level for the year ended September 30, 2012 of $211,562.

Q. HOW WAS YOUR RECOMMENDED SHAREHOLDER FUNDING LEVEL OF 45% DETERMINED?

A. Based on the table provided in the confidential section of this testimony, *****BEGIN CONFIDENTIAL***** [redacted]

[redacted]

[redacted] *****END CONFIDENTIAL***** Thus, I recommend that 45% of the costs be funded by shareholders.

<u>Update Pension Expense to Current Projections</u>

Q. HOW DID THE COMPANY ESTIMATE THE PROJECTED TEST YEAR PENSION EXPENSE INCORPORATED INTO THE FILING?

A. The direct testimony of Cheryl Martin, at page 40, indicates that the projected test year pension expense totals $280,218 and the amount was projected by the CUC corporate office. According to the direct Testimony of Matthew Kim, at pages 19 through 21, the Company decided to base the projected cost on an average of historic costs due to the volatility in the past discount rate assumptions and the difficulty in projecting future discount rate assumptions. Based on a review of the Company's workpapers, the Company determined the average pension expense using the years 2010 through 2013. This resulted in a four-year average pension expense of $6,235 on an FPUC electric operations basis. This amount was increased by $273,983 associated with the electric operations portion of a pension regulatory asset that resulted from the 2009 merger with CUC.

Q. DO YOU AGREE THAT THE PROJECTED TEST YEAR PENSION EXPENSE SHOULD BE BASED ON THE HISTORIC FOUR-YEAR AVERAGE AMOUNT?

A. No, I do not. FPUC has provided no information demonstrating that the historic four-year average cost level is reflective of the expense it will incur in the projected test year. While pension expense is impacted by the discount rate selected, it is also impacted by other actuarial assumptions, such as the expected long-term rate of return, and by the funding status of the pension plan assets. Since the pension plan was frozen by the Company many years ago, the Company no longer incurs a service cost associated with the pension plan. Thus, the annual pension expense consists largely of the interest cost and the expected return on plan assets, as well as the amortization of the pension regulatory asset. In both 2013 and as projected for 2014, the expected return on plan assets exceeds the plan interest costs. Thus, absent the amortization of the pension regulatory asset, the Company is currently in a negative pension expense, or pension income, situation.

While the discount rate assumption used in the actuarial projection has fluctuated from year to year, the response to OPC POD No. 57 shows that the long-term rate of return assumption has remained at 7.0% since at least 2010. Additionally, the response shows that contributions have been made to the pension plan assets each year since at least 2010. The workpapers provided in response to OPC POD No. 1, at FPU RC-24, also show that a significant cash contribution is anticipated for 2014. These cash contributions put downward pressure on the actuarially determined pension expense. The response to OPC Interrogatory No. 23 also indicates that the discount rate for 2014 has been selected and is 4.75%, and the 7.0% long-term rate of return assumption remains in place for 2014.

Q. WHAT DO YOU RECOMMEND THE PROJECTED TEST YEAR PENSION EXPENSE BE BASED ON?

A. I recommend that projected test year pension expense be based on the most recent actuarial projections received by the Company. The Company was required to select the actuarial assumptions for use in the 2014 pension plan year at the end of 2013. The most recent estimates of the net periodic pension cost, or pension expense, were provided by the Company in response to OPC POD No. 15. These projections include the impact of the discount rate assumption and the long-term rate of return assumption selected by the Company for use in determining 2014 pension expense. They were prepared by an actuarial firm and are dated January 29, 2014. The projected 2014 amounts identified in the response are also consistent with the 2014 pension expense amounts identified in the workpapers provided by FPUC in response to OPC POD No. 1. They would also include the impact of pension plan funding that has been made in recent years, whereas the historic average would not fully factor in such impacts.

Q. WHAT ADJUSTMENT IS NEEDED TO BASE THE PROJECTED TEST YEAR PENSION EXPENSE ON THE MOST RECENT ACTUARIAL PROJECTIONS FOR THE COMPANY?

A. As shown on Exhibit DMR-2, Schedule C-6, the projected test year pension expense should be reduced by $151,914 to reflect the most recent projections provided by the Company's actuarial firm. This would include the impact of the actuarial assumptions selected by the Company for the 2014 pension plan year and would more fully reflect the plan funding status as compared to the historic average methodology proposed by the Company. It also includes the amortization of the pension regulatory asset. The most recent projections result in a projected test year pension expense, inclusive of the pension regulatory asset amortization, of $128,304.

<u>Paid Time Off Policy Change – Regulatory Liability</u>

Q. PLEASE DISCUSS THE PAID TIME OFF ("PTO") POLICY CHANGE THAT OCCURRED DURING THE HISTORIC TEST YEAR.

A. At page 33 of her direct testimony, Ms. Martin indicates that during 2013, CUC made a change to the PTO policy for FPUC employees to align them with the company-wide PTO policy. The prior policy was in place at the time of FPUC's last electric rate case proceeding and continued through the date during the historic test year in which the policy was changed to align the FPUC policy with the CUC policy. According to Ms. Martin's testimony, the change triggered a one-time reversal of the total accumulated PTO liability existing on the books during the historic test year, resulting in a $141,687 reduction to historic test year electric division expenses. In Ms. Martin's testimony, she indicates that the historic test year was adjusted in the Company's filing to remove the impact of the change, increasing test year expenses by $141,687. According to the Company's response to OPC interrogatory No. 65, the accrued vacation pay was built up over a long period under the old PTO policy.

Q. DO YOU AGREE THAT THE FULL AMOUNT OF THE ONE-TIME REVERSAL OF THE TOTAL ACCUMULATED PTO LIABILITY SHOULD BE REMOVED FROM THE HISTORIC TEST YEAR?

A. No. Rates set in the prior FPUC electric division rate case would have been based on the prior PTO policy for FPUC employees. As indicated in the response to OPC Interrogatory No. 65, the liability associated with the prior PTO policy was built-up over a long period of time. During the time the liability was built-up on the electric division's books, rates charged to customers were based on the prior PTO policy that resulted in the liability. As such, I recommend that the one-time reversal of the liability or gain resulting from the change in the PTO policy that was implemented in the historic test year be returned to ratepayers who paid for it. I further recommend that this amount be returned over a five-year period.

Q. WHAT ADJUSTMENTS ARE NEEDED TO REFLECT YOUR RECOMMENDATION THAT THE ONE-TIME REVERSAL OF THE LIABILITY BE RETURNED TO RATEPAYERS OVER A FIVE-YEAR PERIOD?

A. As shown on Exhibit DMR-2, Schedule C-1, page 2, projected test year expenses should be reduced by $28,337 in order to flow the one-time gain associated with the liability reversal back to ratepayers over a five-year period ($141,687 / 5 years = $28,337 per year). Additionally, the average unamortized balance for the projected test year needs to be reflected as a regulatory liability that offsets working capital. The reduction to working capital, totaling $127,518, is reflected on Schedule B-1, page 2 of 2. The amount is based on the full recommended regulatory liability to be returned to ratepayers of $141,687 less $14,169 in average test year accumulated amortization (or half a year of amortization).

General Liability Insurance and Reserve

Q. COULD YOU PLEASE DESCRIBE THE COMPANY'S REQUEST WITH REGARDS TO GENERAL LIABILITY COSTS AND CLAIMS?

A. Yes. In addition to the projected cost of liability insurance, the Company is proposing to increase historic test year expenses by $120,000 to cover three separate general liability-related requests. The $120,000 increase consists of: 1) $50,000 to amortize a requested regulatory asset associated with a large claim against FPUC over a five-year period; 2) $50,000 for annual contributions to a proposed new self-insurance reserve to cover potential future large claims against FPUC; and 3) $20,000 for annual contributions to the proposed new self-insurance reserve to cover potential small claims against FPUC. Thus, under the Company's proposal, $50,000 per year would be collected from ratepayers to recover a claim already paid by FPUC and $70,000 would be collected each year to establish a self-insurance reserve for claims that fall within the deductible limits.

Q. COULD YOU PLEASE ELABORATE ON THE LARGE CLAIM AGAINST FPUC THAT IT IS REQUESTING TO RECOVER FROM RATEPAYERS IN THIS CASE?

A. The direct testimony of Mr. Kim, at page 12, indicates that over the last five years ". . . FPU's electric operations had one large insurance claim, which was settled for $2.75 million." The general liability insurance policy covered the claim; however, there is a maximum deductible on the policy of $250,000 per claim. Thus, FPUC is seeking to recover the $250,000 it paid to satisfy the deductible over a five-year period. The response to OPC Interrogatory No. 53 indicates that the incident that gave rise to the claim occurred in July 2012, which predates the historic test year in this case. The final payment related to the matter was made in February 2014.

Q. DID THE COMPANY PROVIDE A COPY OF THE SETTLEMENT AGREEMENT IN THE MATTER OR OTHER INFORMATION JUSTIFYING THE RECOVERY OF THE DEDUCTIBLE FROM FPUC'S ELECTRIC RATEPAYERS?

A. No, it did not. OPC POD No. 55 requested a copy of the Settlement Agreement referenced in Mr. Kim's testimony. In response, FPUC objected to this request and indicated that the Settlement Agreement included terms that require the Parties to treat the agreement as confidential. While additional information was provided by FPUC to OPC counsel, that information is considered confidential. I was able to discover additional information regarding the matter and the claim that was filed through further research, which caused concern regarding the appropriateness and reasonableness of passing the costs on to FPUC's electric ratepayers; however, I am not disclosing the information in this testimony in the interest of the parties involved as the Company has indicated that the terms of the Settlement Agreement are confidential.

The Company has provided no information in the record in this case to date to demonstrate that the deductible paid by FPUC in the matter is a cost that should be recovered from FPUC's electric ratepayers. FPUC has the burden of proof in seeking special regulatory asset treatment to demonstrate that its actions were reasonable and prudent, that it was not negligent, and that the costs are costs that ratepayers should be required to fund. FPUC has not met this burden. Given FPUC's failure to support the recovery of this historic cost from customers, I recommend that the requested regulatory asset and the amortization thereof be disallowed.

Q. WHAT INFORMATION HAS FPUC PROVIDED IN SUPPORT OF ITS REQUEST TO COLLECT $70,000 PER YEAR TO ESTABLISH A SELF-INSURANCE RESERVE?

A. At pages 12 and 13 of the direct testimony of Mr. Kim, he states: ". . . FPU is requesting an additional $250,000 to be included in the next five-year period to establish a general liability reserve sufficient to cover another potential claim with similar financial exposure that may arise during that period, as well as $20,000 per year to cover any other smaller general liability claims." Similarly, at pages 44 and 45 of her direct testimony, Ms. Martin indicates that the Company is seeking to establish a self-insurance reserve to cover future general liability claims and ". . . is proposing to accrue $50,000 per year to cover large claims, and $20,000 of smaller claims on an annual basis for the basis of the self-insurance reserve."

Q. HAS THE COMPANY SUPPORTED THE NEED TO ESTABLISH A SELF-INSURANCE RESERVE WITH $70,000 OF ANNUAL FUNDING TO THE RESERVE?

A. No, it has not. In response to OPC Interrogatory No. 77, the Company provided the total amount of claims incurred for each year, 2009 through 2014 year to date, separated between large and small claims. As previously indicated, FPUC is requesting $20,000 per year associated with small claims. The response identifies the following amounts incurred by the Company associated with small claims during the last 5 ½ years: $12,694 in 2009, $3,847 in 2010, $20,541 in 2012, $5,020 in 2013 and $9,239 for 2014 year to date. This results in an average cost associated with small claims over the past 5 ½ years of $9,335 per year, which is well below the $20,000 per year requested by the Company in this case. Similarly, the Company is requesting to collect $50,000 per year from customers to go towards potential large claims. However, based on the amounts provided in response to OPC Interrogatory No. 77 and OPC POD No. 55, the only amount paid in the last five years associated with large claims is for the amount the Company is requesting to recover in the regulatory asset in this case, which is based on a single claim. Thus, the Company has only experienced one large claim over the last 5 ½ years.

Q. ARE THERE ANY ADDITIONAL REASONS FOR NOT ESTABLISHING A SELF-INSURANCE RESERVE FOR FPUC ELECTRIC OPERATIONS?

A. Yes. If a self-insurance reserve is established to cover the liability claims incurred by FPUC that fall within the insurance deductible of $250,000, there is a concern that potential future liabilities that may not be appropriate to charge to ratepayers would be recorded in the liability reserve account. By recording claims expenses in the reserve account between rate cases, there may be less future regulatory scrutiny in evaluating whether or not the costs charged to the account are appropriate for recovery from customers. As indicated previously in this testimony, there are concerns regarding whether or not the costs associated with the one large claim paid by the Company are appropriate costs that should be the responsibility of ratepayers. If a reserve had been in place, such claim costs would presumably be booked by FPUC to the reserve between rate case proceedings. Given the potential reduction in regulatory scrutiny with charges to a self-insurance reserve, coupled with the Company's failure to establish that such a reserve approach is necessary, I recommend that the Commission reject FPUC's self-insurance reserve request.

Q. DO YOU RECOMMEND THAT ANY COSTS BE INCLUDED IN RATES ASSOCIATED WITH LIABILITY COSTS THAT FALL UNDER THE GENERAL LIABILITY DEDUCTIBLE?

A. Yes. I recommend that base rates include liability expense for amounts that would fall within the $250,000 deductible for the general liability coverage based on the most recent 5 ½ year average of actual claims paid by the Company. As shown on Exhibit DMR-2, Schedule C-7, this would allow for expense in rates of $54,289. The $54,289 is based on the most recent 5 ½ years of actual claims experience for the Company, which includes several small claims discussed previously and the one large claim paid over that period. While I do not agree that the Company should be permitted to establish a regulatory asset for the large deductible it paid on the single claim, it is not unreasonable to include the cost associated with a single large claim in determining an average expense level to include in rates. However, since only one large claim has been paid by the Company over the past 5 ½ years, and there are questions regarding the appropriateness of the associated costs to the Company, I recommend that this issue be revisited in FPUC's next rate case and a longer period (i.e., longer than 5 ½ years) be reviewed and considered in establishing a normalized expense level to include in rates.

Q. WHAT IS THE OVERALL ADJUSTMENT THAT NEEDS TO BE MADE TO GENERAL LIABILITY COSTS IN THIS CASE?

A. As shown on Exhibit DMR-2, Schedule C-7, test year expenses should be reduced by $65,711. This adjustment results in the following: 1) removes the proposed regulatory asset for the large claim and the $50,000 amortization thereof; 2) removes the Company's requested $70,000 for funding of a self-insurance reserve; and 3) allows for a normalized claims expense to be included in rates of $54,289.

Tree Trimming Expense

Q. WHAT AMOUNT WAS RECORDED DURING THE HISTORIC TEST YEAR ENDED SEPTEMBER 30, 2013 FOR TREE TRIMMING EXPENSE AND HOW DOES IT COMPARE TO THE AMOUNT INCLUDED IN THE PROJECTED TEST YEAR?

A. According to the response to OPC Interrogatory No. 79, historic test year expenses include $828,915 for tree trimming expense. The response shows that the Company escalated the $828,915, using a combined inflation and customer growth trend factor of 1.0516, to $871,687 in the projected test year. For both the historic test year and the projected test year, the Company increased the costs by $50,500 to "normalize" the historic test year amount. As a result of the trending and "normalization" adjustment, the projected test year includes $922,187 for tree trimming expense, which is $93,272 higher than the recorded historic test year amount of $828,915.

Q. WHAT IS THE BASIS OF THE COMPANY'S $50,500 NORMALIZATION ADJUSTMENT?

A. The response to OPC Interrogatory No. 79 indicates that the ". . . normalization of the historic 12 months ending September 2013 . . ." was based on the annualization of the tree trimming expense recorded in April 2013 and May 2013. The resulting annualized amount based on two months of data was then compared to the amount recorded during the historic test year to determine the $50,500 "normalization" adjustment. The response indicates that since the monthly amount varies, the ". . . electric operations managers identified April 2013 and May 2013 as typical months." No further information was provided to explain why the full amount recorded during the test year ended September

30, 2013 would be considered abnormal or not reflective of normal tree trimming operations. There was also no indication that the Company cut back during the test year on the needed level of tree trimming. Additionally, there was no explanation regarding why the amounts recorded in April and May were expected to be reflective of the "typical" level of costs or reflective of a normal annual level when annualized.

Q. DOES THE HISTORIC TEST YEAR TREE TRIMMING EXPENSE APPEAR TO BE ABNORMAL WHEN COMPARED TO PRIOR YEAR EXPENSE AMOUNTS?

A. No, it does not. In fact, the amount actually recorded during the historic test year, while slightly lower than the amount recorded for the year ended December 31, 2013, is higher than the average cost for the past three calendar years. According to the response to OPC Interrogatory No. 79, in which the Company provided the historic cost levels, tree trimming is done on a three-year tree trimming cycle. Based on the response, the table below presents the amount of tree trimming expense recorded each year, 2011 through 2013. The table also presents the most recent three-year average cost level as compared to the amount recorded by the Company during the historic test year.

	Amount
2011	$ 753,971
2012	$ 691,885
2013	$ 843,000
3 Year Average	$ 762,952
Historic TYE 9/30/13	$ 828,915
Amount Above 3 Yr Avg.	$ 65,963

As shown in the table, the amount recorded in the historic test year is higher than the most recent three-year average. While the historic test year amount is slightly lower than the expense recorded in the calendar year ended December 31, 2013, the Company has escalated the historic test year expense based on both CPI and customer growth factors in determining the projected test year balance.

Q. DO YOU RECOMMEND THAT THE AMOUNT INCLUDED IN THE PROJECTED TEST YEAR FOR TREE TRIMMING EXPENSE BE ADJUSTED?

A. Yes. I recommend that FPUC's proposed "normalization" adjustment of $50,500 be removed from the projected test year. This is shown on Exhibit DMR-2, Schedule C-1, page 2 of 2. FPUC has not demonstrated that the amount recorded during the historic test year was abnormal and not reflective of normal tree trimming cost levels, nor has it demonstrated that its methodology of normalizing the costs based on only two months of expenditures is reasonable or reflective of a typical annual cost level. As indicated above, tree trimming is based on a three-year cycle for FPUC, and the amount recorded in the historic test year is higher than the historic three-year average. After removal of the $50,500 "normalization" adjustment proposed by FPUC, the adjusted test year tree trimming expense is $871,687, which is higher than the actual costs incurred in each of the last three calendar years and the historic test year. Because the amount that I am recommending exceeds the historic three-year average cost level, it also allows for the impact of potential increases in rates and labor costs charged by contractors that perform the tree trimming service on behalf of FPUC.

<u>Pole Attachments – Joint Use Audit Costs</u>

Q. COULD YOU PLEASE DISCUSS THE ADJUSTMENT MADE BY FPUC FOR THE POLE ATTACHMENT AND JOINT USE INVENTORY AUDIT?

A. Yes. On MFR Schedule C-7 (2015), at page 9 of 9, FPUC increased test year expenses by $10,756 to reflect one-fifth of the costs of an audit on pole attachments and joint use inventory. The workpapers for the adjustment provided in response to OPC POD No. 21 indicate the following:

- The pole attachment and joint use inventory audit is anticipated to be performed in 2014.
- The joint use audit is to be performed on all poles every 5 years.
- The total projected cost is based on 15,366 poles at an estimated cost per pole of $3.50, resulting in total projected costs of $53,781. The annual amortization of the total projected cost of $53,781 over five years results in the annual cost of $10,756 added by FPUC to test year expenses ($53,781 / 5 years = $10,756 per year).

Q. BASED ON THE WORKPAPERS PROVIDED BY THE COMPANY IN SUPPORT OF THE ADJUSTMENT, DO YOU AGREE THAT THE FULL $10,756, WHICH IS REPRESENTATIVE OF 1/5 OF THE TOTAL PROJECTED COSTS, SHOULD BE INCLUDED IN THE PROJECTED TEST YEAR?

A. No, I do not. The workpapers provided in response to OPC POD No. 21 state: "Could cost FPU up to $3.50 but FPU hopes to share cost with joint attachers." The workpapers also included a proposal to conduct the joint use audit submitted to FPUC by the vendor TRC dated January 17, 2014. The proposal identifies the proposed cost of $3.50 per location, but also states under the Fee Proposal section: "Based upon TRC's review of FPUC's attachment billing it is anticipated that these costs will be divided equally between the cable companies, telephone companies, and FPUC." Based on both FPUC's "hopes" to share the costs with the joint users of the poles and the statement that the vendor anticipates the costs will be divided equally between the cable companies, telephone companies, and FPUC, the full cost of the audit should not be passed on to FPUC's ratepayers.

Q. WHAT ADJUSTMENT DO YOU RECOMMEND?

A. I recommend that two-thirds of the annual amortization be removed from the projected test year expenses in order to reflect equal sharing of the costs between: 1) FPUC; 2) the telephone companies; and, 3) the cable companies. Under this sharing, presumably FPUC will be responsible for 1/3 of the cost, which is $17,927 ($53,781 total cost divided by 3 parties), or $3,585 per year over the 5-year amortization period ($17,927 / 5 years). Thus, projected test year expenses should be reduced by $7,171 to reflect only FPUC's projected cost share in rates. This is calculated as the recommended annual allowance based on the cost sharing of $3,585 less the amount included in the filing by FPUC of $10,756. The $7,171 reduction to projected test year expenses to reflect the cost sharing is shown on Exhibit DMR-2, Schedule C-1, page 2 of 2.

<u>Advertising Expense</u>

Q. WHAT AMOUNT IS INCLUDED IN THE PROJECTED TEST YEAR IN ACCOUNT 913 – ADVERTISING EXPENSE, AND HOW WAS THAT AMOUNT DETERMINED?

A. Projected test year expenses in Account 913 – Advertising Expense includes $207,648. During the historic test year, the Company recorded $226,202 in the account. In the filing, the Company moved $28,750 from Account 913 to Account 930.2 associated with Economic Development costs, resulting in $197,452 in the adjusted historic test year for advertising expense. The Company then applied a 1.0516 escalation factor to the remaining historic test year balance, resulting in the projected test year advertising expense of $207,648. Thus, the projected test year cost is based on the historic test year level, less the portion applicable to economic development, with escalation applied.

Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO ADVERTISING EXPENSE?

A. Yes. I am recommending three separate adjustments to advertising expense. In the first adjustment, presented on Exhibit DMR-2, Schedule C-8, I recommend that the test year advertising expense be reduced by $57,561 to remove the costs associated with sponsorships, donations, golf tournaments and golf-related costs. In the second adjustment, shown on Exhibit DMR-2, Schedule C-9, I recommend that test year advertising expense be reduced by an additional $67,134 to remove public relations campaign costs and image building advertising costs that should not be passed on to FPUC's customers. Finally, on Exhibit DMR-2, Schedule C-1, page 2 of 2, I recommend test year advertising expense be reduced an additional $23,465 to remove Shrimp Festival costs that should not be passed on to the ratepayers. These three adjustments result in a total reduction to Account 913 – Advertising expense of $148,160. After the $148,160 is removed from the projected test year, the remaining advertising expense in Account 913 is $59,488 ($207,648 - $148,160).

Q. PLEASE DISCUSS YOUR FIRST RECOMMENDED ADVERTISING EXPENSE ADJUSTMENT.

A. In response to OPC POD 49, the Company provided numerous invoices for the various costs it recorded in Account 913 – Advertising expense during the historic test year. A review of those invoices made it clear that the Company included numerous charges in the account for corporate donations, sponsorships, charity golf tournament sponsorships and participation, golf balls with the Company logo, and golf towels with the Company logo. While it is commendable that the Company is making numerous donations and sponsorships to various organizations within the communities in which it operates, it is not appropriate to pass the costs associated with the donations and sponsorships to the Company's captive ratepayers. If the ratepayers chose to fund and sponsor such causes and organizations, they may do so of their own volition. They should not be forced to provide sponsorships and donations to various charity groups and organizations as part of the electric rates paid to FPUC. The donations, sponsorships and golf outings are not costs that are necessary for the provision of electric service to customers. If FPUC chooses to donate to and sponsor events for the various organizations and charities, it should do so with shareholder funds, not with ratepayer funds.

Q. IS IT COMMON FOR PUBLIC UTILITIES TO MAKE DONATIONS AND SPONSORSHIPS FOR CHARTITY AND COMMUNITY ORGANIZATIONS?

A. Yes. Based on my 20 plus years of experience in evaluating and addressing revenue requirements in regulatory proceedings, it is very common for public utilities to make donations to charity and community organizations and pay sponsorships for charity events. However, my experience has been that such costs are typically recorded in Account 426.1 – Donations, which is a below-the-line account that is excluded from the revenue requirements of utilities. In other words, utilities do not typically seek to recover such costs from ratepayers. In fact, the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts defines Account 426.1 – Donations, which is a below-the-line account, as follows: "This account shall include all payments or donations for charitable, social or community welfare purposes." Instead of recording the donations and payments to charitable, social and community welfare associations in Account 426.1, FPUC is recording such costs in Account 913 – Advertising Expense.

Q. HAVE YOU ITEMIZED THE VARIOUS SPONSORSHIPS, DONATIONS, AND GOLF-RELATED COSTS THAT YOU RECOMMEND BE REMOVED FROM THE TEST YEAR?

A. Yes. On Exhibit DMR-2, Schedule C-8, pages 1 and 2 of 2, I provide a list of all such costs that I recommend be removed from test year costs to be charged to customers. The list identifies 73 separate payments made by FPUC that were included in Account 913 – Advertising expense for the electric operations, totaling $54,737 in the historic test year. After escalation to the projected test year, I recommend that advertising expense be reduced by $57,561.

While some of the sponsorships listed on the schedule may have included a provision that FPUC can have a banner at an event or include small advertisements in pamphlets or brochures associated with the charity event, such costs should not qualify as advertising costs to be passed on to ratepayers. Additionally, FPUC's name association with various charity events may serve to enhance or promote FPUC's image and name recognition in the community, and such image-enhancing costs should not be passed on to ratepayers.

Q. PLEASE DISCUSS YOUR SECOND RECOMMENDED ADJUSTMENT TO ADVERTISING EXPENSE?

A. Exhibit DMR-2, Schedule C-9, lists eight separate charges to advertising expense during the test year associated with public relations and image-building efforts totaling $63,840 in the historic test year and $67,134 in the projected test year after escalation.

As shown on lines 1 and 2 of the schedule, the charges include $35,000 paid to Ron Sachs Communications/Sachs Media Group, Inc. for public relations consulting

(Documents FPU RC-004965 - 004967 and FPU RC-005120 – 005121). The entry made by the Company in recording the charges describes the costs as "Initial PR Campaign Preparation for Marianna" and "2 of 2 Installments, PR Firm, Marianna Lawsuit." The first invoice from the vendor describe the charges as:

> Initial campaign plan to be launched March 7, pending the Board's vote of the sale of the system. Creation of campaign name, theme, key messages and preparation of material and campaign collateral including but not limited to news releases, ads, open letter to the community.

The second invoice from the vendor describes the charges as "Public relations consulting and media services – Installment 2 of 2 per proposal/agreement."

Clearly these costs are associated with public relations and promoting FPUC's images during the City of Marianna's referendum to acquire FPUC electric assets. Such costs should not be passed on to customers. Additionally, because the referendum resulted in voters rejecting the purchase of FPUC's facilities by the City of Marianna, the costs are non-recurring.

The remaining charges identified on Schedule C-9 are for payments to MTN Advertising. They include advertising costs associated with the "Vote NO Campaign", "Vote NO Thank You Ads", news updates described as "Thank You Marianna" and other community campaign and public relations-related costs. These costs related to the City of Marianna referendum and image building should not be passed onto FPUC's ratepayers.

As shown on Exhibit DMR-2, Schedule C-9, test year expenses should be reduced by $67,134 to remove these charges from Ron Sachs Communications/Sachs Media Group, Inc. and MTN Advertising.

Q. PLEASE DISCUSS YOUR THIRD ADVERTISING EXPENSE ADJUSTMENT, WHICH REMOVES SHRIMP FESTIVAL COSTS FROM THE TEST YEAR.

A. The response to OPC Interrogatory No. 150 identifies $22,314 incurred during the historic test year and $23,465 included in the projected test year expenses in Account 913 – Advertising expense associated with the annual Shrimp Festival. The response indicates that the annual Shrimp Festival is included in FPUC's ". . . overall community development and outreach effort." I recommend that the costs spent by FPUC associated with the annual Shrimp Festival not be included in rates charged to FPUC's electric ratepayers. While FPUC's expenditures for the Shrimp Festival may enhance the Company's image in the community, the costs are not necessary for providing electric service to the Company's customers. As shown on Exhibit DMR-2, Schedule C-1, page 2 of 2, I recommend that test year expenses be reduced by $23,465 to remove these costs.

Q. ON WHAT BASIS IS THE COMPANY INCLUDING THE COSTS IN EXPENSES TO BE FACTORED INTO RATES CHARGED TO THE ELECTRIC CUSTOMERS?

A. In response to OPC Interrogatory No. 150, the Company states the following with regards to the Shrimp Festival costs:

> In addition to supporting general community outreach efforts, at this event, the Company has a booth manned by Company personnel, who provide information to festival participations [sic] regarding the Company's conservation programs. Our support of this festival is consistent with our economic development objectives, because this is a significant event in the community, which attracts numerous visitors to the area, as well as revenue, and provides an additional avenue to the City to showcase all it has to offer to new residents and potential new businesses.

Q. DOES THIS EXPLANATION PURSUADE YOU THAT THE COSTS SHOULD BE INCLUDED IN RATES CHARGED TO FPUC'S ELECTRIC CUSTOMERS?

A. No, it does not. While the Company attempts to tie the Shrimp Festival expenditures with conservation programs and economic development objectives, economic development expenditures should be focused on more targeted programs to promote economic development in the community than on an annual festival. While the festival may be an enjoyable annual event for the attendees and participants, ratepayers should not be required to fund costs associated with the festival and FPUC's corporate sponsorship of the festival in their electric rates. If FPUC chooses to sponsor the festival, the sponsorship costs should be recorded below-the-line to be excluded from costs charged to ratepayers.

Q. IS THE COMPANY INCLUDING THE SHRIMP FESTIVAL COSTS IN THE ECONOMIC DEVELOPMENT COSTS IT IS SEEKING TO INCLUDE IN RATES?

A. As will be discussed further in the next section of this testimony, the Company has historically considered the festival costs as Economic Development costs. However, in projecting the test year Economic Development cost, the Company did not include the festival costs. Rather, the Company classified the festival costs as advertising expense in the projected test year and not as part of the Economic Development request.

<u>Economic Development Expense</u>

Q. HOW MUCH IS THE COMPANY REQUESTING FOR INCLUSION IN THE PROJECTED TEST YEAR FOR ECONOMIC DEVELOPMENT EXPENDITURES?

A. In the Commission's Order in FPUC's last electric rate case, Order No. 08-0327-FOF-EI, the Commission allowed recovery of $15,701 annually for economic development expense. The Order also indicated, at page 56, that any unused economic development funds should be transferred to the storm reserve. In this case, FPUC is requesting to increase the annual economic development expense to be included in rates to $50,000, which is substantially higher than the amount requested in the prior rate case.

Q. HOW DOES THE REQUESTED ANNUAL EXPENSE OF $50,000 COMPARE TO THE ANNUAL EXPENDITURES INCURRED BY FPUC SINCE THE LAST RATE CASE?

A. The requested $50,000 is substantially higher than what FPUC has expended, on average, since the last rate case. In response to OPC Interrogatory No. 36, FPUC provided the historic economic development expenditures for the electric operations for each year, 2009 through 2013. Additionally, in response to OPC POD No. 42 the Company provided a breakdown of the costs it classified as economic development, by year, since the last rate case. The amounts presented by the Company, by year, are presented on Exhibit DMR-2, Schedule C-10, and total $195,051 over the five-year period from 2009 to 2013. However, included in the five-year total cost of $195,051 is $60,096 associated with Shrimp Festival expenditures. The breakdown of items associated with the Shrimp Festival that FPUC classified as "economic development" are provided on Schedule C-10, lines 7 through 13. While a detail of the festival charges was not provided for 2012 and 2013 (only dollar amounts provided and not an itemization of the costs), the 2011 charges included $426 for helium rental, $14,254 on an electric operations basis for pencils and balloons acquired for the festival and costs associated with festival T-shirts.

Once the festival costs are removed, the five-year total amount spent on Economic Development was $134,955, which averages to $26,991 per year.

Q. WHAT AMOUNT DO YOU RECOMMEND FOR INCLUSION IN BASE RATES FOR ECONOMIC DEVELOPMENT EXPENSE?

A. I recommend that the amount to be included in rates for economic development on a FPUC electric operations basis be limited to $27,000 per year. I also recommend the continuation of the current Commission requirement that economic development costs included in FPUC's electric rates that are not expended on qualifying activities in a given year be applied to the storm reserve. Specifically, I recommend that Shrimp Festival sponsorship and expenditures not qualify as "Economic Development" costs. My recommended annual allowance of $27,000 is 72% higher than the $15,701 factored into current rates and is consistent with the average amount of expenditures (excluding festival costs) incurred over the last five years of $26,991. As shown on Exhibit DMR-2, Schedule C-10, projected test year expenses should be reduced by $23,000 to limit the allowance to $27,000 annually.

<u>Chesapeake Utilities Corporation Cost Allocations</u>

Q. DID YOU REVIEW AND ANALYZE THE AMOUNT INCLUDED IN PROJECTED TEST YEAR EXPENSES FOR COSTS CHARGED FROM THE CUC CORPORATE OPERATIONS TO THE FPUC ELECTRIC OPERATIONS?

A. Yes, I did. As part of my review and analysis, I compared the amounts included in the historic base year to the projected test year levels, reviewed CUC Corporate Department budget variance reports for 2012 through April 2014, and reviewed the Company's benchmark analysis comparing the O&M expenses from the last 2008 test year to the projected test year ending September 30, 2015 requested levels. My analysis reflects that the Company's requested corporate allocations included in the projected test year expenses are excessive. I discuss each of these areas below.

Q. WHAT AMOUNT IS INCLUDED IN THE PROJECTED TEST YEAR EXPENSES FOR CHARGES FROM CUC, AND HOW DOES THAT AMOUNT COMPARE TO THE AMOUNT RECORDED IN THE HISTORIC TEST YEAR?

A. In the filing, the Company has projected a significant increase in the costs charged from CUC to the FPUC electric operations. The table below provides a breakdown of the payroll and non-payroll charges from CUC to FPUC electric operations in the adjusted historic test year as compared to the amounts included in the projected test year. For purposes of this comparison, I have excluded the $120,000 increase to the projected test year for the general liability reserve for past and future claims addressed previously in this testimony. FPUC included the $120,000 adjustment as part of the CUC expense category in its filing.

	Payroll Expense	Non-Payroll Expense	Total Expense
Projected Test Year	$ 968,454	$ 1,974,242	$ 2,942,696
Historic Test Year Adjusted	$ 779,551	$ 1,641,846	$ 2,421,397
Increase Above Historic	$ 188,903	$ 332,396	$ 521,299
Percentage Increase	24.2%	20.2%	21.5%

As shown above, the filing includes an $188,903 or 24.2% increase in CUC payroll costs charged to FPUC, a $332,396 or 20.2% increase in non-payroll costs charged to FPUC, and an overall increase in expenses charged from CUC of $521,299 or 21.5%.[1] This projected $521,299 increase is over a short two-year period.

[1] As discussed later in this testimony, FPUC shifted costs allocated from the CUC Strategic Development Department from the Corporate O&M expenses category to the Non-Corporate O&M Expense category. If the

Q. ARE THE PROJECTED TEST YEAR EXPENSES FROM CUC TO THE FPUC ELECTRIC OPERATIONS BASED ON THE HISTORIC TEST YEAR ACTUAL BALANCES WITH SPECIFIC ADJUSTMENTS FOR KNOWN AND MEASURABLE CHANGES AND ESCALATION APPLIED?

A. No. The projected test year charges to FPUC electric operations from CUC are based on CUC's budgets. Thus, the CUC expenses incorporated in the filing are not based on the actual historic test year expense with known and measurable adjustments and escalation applied. Rather, the expenses are based on CUC's internal budgets and the amount CUC projects it will charge to the FPUC electric operations in the projected test year, which greatly exceeds the costs charged to FPUC electric operations in the historic test year. Conversely, the specific FPUC operation-level allocations to FPUC's electric division are based predominately on historic test year expenses escalated to the projected test year with specific normalization adjustments and adjustments for known and measurable changes.

Q. CAN YOU GIVE EXAMPLES OF CUC DEPARTMENTS FOR WHICH THE CHARGES TO FPUC ELECTRIC OPERATIONS ARE PROJECTED TO INCREASE?

A. Yes. As part of its response to OPC POD No. 1, at FPU RC-1155 and FPU RC-1199, breakdowns of the historic test year and the projected test year charges to FPUC electric operations from CUC were provided by department. For example, the response shows that the charges for Information Technology ("IT") General Staff are projected to increase from $222,224 in the historic test year to $318,071 in the projected test year.

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expenses from the CUC Strategic Development Department were included in the table, the increase would be even greater at $598,244 or 24.4%.

Charges from the Human Resources ("HR") Department, which includes "HR staff and related consulting fees," are projected to increase from $188,868 in the historic test year to $231,974 in the projected test year. Charges from the Communications Department, described as "Corporate communications (branding, communications, annual report, etc.)," are projected to increase from $103,197 to $145,756.

Q. WERE THERE ADDITIONAL CUC CORPORATE DEPARTMENTS FOR WHICH THE CHARGES TO THE FPUC ELECTRIC OPERATIONS WERE PROJECTED TO INCREASE SIGNIFICANTLY FROM THE HISTORIC TEST YEAR TO THE PROJECTED TEST YEAR?

A. Yes, there were four additional CUC corporate departments for which the costs were projected to increase significantly. The departments are Senior Vice President ("SVP") of Strategic Development, New Energy Development, Strategic Development and Other Overhead Costs.

Q. PLEASE EXPLAIN THE INCREASES FOR EACH OF THESE DEPARTMENTS.

A. The charges from the SVP of Strategic Development are projected to increase from $113,140 to $157,272. Charges from the New Energy Development Department, described as "Development of new energy-related business opportunities" increase from $83,912 in the historic test year to $183,796 in the projected test year. Additionally, charges from the Strategic Development Department, which is described as "Strategic corporate planning, assessment of business opportunities" increase from $35,510 in the historic test year to $115,848 in the projected test year. The charges from "Other Overhead Costs" increase from $87,699 in the historic test year to $186,747 in the projected test year. A further breakdown of these charges shows that the cost of "Outside services for general corporate matters" is projected to increase from $46,465 in the historic test year to $157,263 in the projected test year (which is related to strategic development costs as detailed later in my testimony).

Q. PLEASE EXPLAIN YOUR REVIEW OF THE CUC BUDGET VARIANCE REPORTS FOR THE CORPORATE DEPARTMENTS FOR 2012 THROUGH APRIL 2014.

A. In response to OPC POD No. 52, at FPU RC-5428, the Company provided a copy of the CUC operating expense variance reports for the Corporate Departments for 2012, 2013, and thru April 2014. I reviewed these variance reports to evaluate the accuracy of CUC's past budgets. The CUC Corporate Departments are the departments for which a portion of the expenses are charged or allocated to the FPUC electric operations. The 2012 variance report shows that on a total CUC Corporate Department basis, actual expenses were $1,006,816 or 4.1% below budget and expenses charged to FPUC electric were $207,247 or 8.5% below budget. The 2013 variance report shows that on a total CUC Corporate Department basis, actual expenses were $1,763,260 or 6.1% below budget and expenses charged to FPUC electric were $164,762 or 5.6% below budget. For the four-month period January 2014 to April 2014, total actual CUC expenses were $860,506 or 8% below budget, and charges to the electric operations were $38,672 or 4% below budget. Thus, for the last two calendar years and for 2014 through April, the total CUC expenses for the Corporate Departments and the expenses charged to FPUC Electric operations from CUC were consistently below the budgeted amounts.

Q. SINCE THE ACQUISITION OF FPUC BY CUC, HOW MUCH HAVE FPUC'S O&M EXPENSES INCREASED?

A. MFR Schedule C-37 shows, that after the purchased power and conservation costs are removed, O&M expenses increased from $9,309,831 (the adjusted 2008 base year amount in FPUC's last rate case prior to the acquisition) to $12,160,672 in the projected test year ended September 30, 2015. This is an increase of $2,850,841 or 31%. The same exhibit shows that the test year benchmark amount, based on the adjusted O&M expenses for 2008 as escalated, is $10,568,520. The benchmark variance, or comparison of the escalated 2008 costs to the projected test year costs in the current case, is $1,592,152. In other words, the projected test year O&M expenses (excluding purchase power and conservation) in the filing are $1,592,152 or 15% higher than the benchmark. The largest portion of the benchmark variance is in the Administrative and General Expense category, which exceeds the benchmark by $1,340,151. The majority of the projected test year expenses charged from CUC to FPUC electric operations is included in the Administrative and General Expense category. While the benchmark variance is impacted by the $120,000 projected adjustment associated with the general liability reserve, the benchmark variance is still significant at $1,472,152 or 14% with the $120,000 adjustment removed.

Q. HAS THE COMPANY DEMONSTRATED THAT A 21.5% INCREASE IN CHARGES FROM CUC TO THE FPUC ELECTRIC OPERATIONS FROM THE HISTORIC TEST YEAR TO THE PROJECTED TEST YEAR IS REASONABLE?

A. No, it has not. The Company has not presented evidence demonstrating that a 21.5% increase over a two-year period in CUC corporate costs being allocated to FPUC electric operations is reasonable or necessary. It also has not established that substantial customer benefits will result from a 21.5% increase in corporate cost allocations. Additionally, as previously shown, the total CUC Corporate Department expenses that are being incurred and the amount of CUC Corporate Department expenses charged to the FPUC electric operations have consistently been below the budgeted amounts.

Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE CHARGES FROM CUC TO FPUC'S ELECTRIC OPERATIONS AS A RESULT OF YOUR ANALYSIS?

A. Yes, I am recommending several adjustments. The Company has not demonstrated that a 21.5% increase in corporate costs charged from CUC is either supported or needed to effectively serve FPUC's customers. The Company also has not demonstrated that the CUC budgeted amounts are accurate projections. I first recommend that the projected test year charges to FPUC electric operations from CUC's corporate operations be limited to the historic test year amount with escalation applied. I also recommend that the escalation factors to be applied be based on those used by the Company in escalating FPUC's expenses from the historic test year to the projected test year. This would result in an escalation factor of 1.0671 for payroll costs based on the combined payroll and customer growth factor, and an escalation rate of 1.0516 for the non-payroll costs based on the inflation and customer growth factor. As shown on Exhibit DMR-2, Schedule C-11, limiting the charges from CUC to the FPUC electric operations to the historic test year level, escalated to the projected test year level, results in a $384,272 reduction to the projected test year expenses charged from CUC to the FPUC electric operations[2].

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[2] As addressed previously in this testimony, my adjustment regarding the corporate bonus amounts allocated to the FPUC electric operations is not included in the above CUC corporation allocation adjustment and is reflected on Exhibit DMR-2, Schedule C-1, page 2 of 2.

Q. ARE THERE ANY EXPENSES THAT WERE INCURRED BY CUC IN THE HISTORIC TEST YEAR THAT WERE ALLOCATED TO FPUC THAT WILL NOT RECUR IN THE PROJECTED TEST YEAR?

A. Yes. During the historic test year, payments were made to two former executives of FPU, Charles Stein and George Bachman. According to the response to OPC Interrogatory No. 120, each of these executives' employment was terminated in 2011. At that time, the Company entered into consulting service agreements with the two executives for a three-year period. The consulting agreements expired in early 2014. The responses to OPC POD No. 1, at FPU RC-1139, and OPC Interrogatory No. 120 indicate that the total payments to Charles Stein during the historic test year were $180,000, with $14,930 allocated to FPUC electric operations. The same responses identify that the total amount paid to George Bachman during the historic test year was $162,000, with $13,373 allocated to the FPUC electric operations. Thus, the historic test year includes $28,303 in non-recurring consulting payments to the two terminated executives on an FPUC electric operations basis.

Q. DO YOU RECOMMEND THESE NON-RECURRING COSTS BE REMOVED FROM THE PROJECTED TEST YEAR?

A. Yes. If the Commission adopts my recommendation that projected test year charges from CUC to the FPUC electric operations be limited to the actual historic test year amount plus escalation, then an additional adjustment should be made to remove these non-recurring charges. The amount of these non-recurring charges included in the projected test year under my recommended approach would be $29,763 ($28,303 x 1.0516 escalation factor). I have reduced the projected test year expenses by $29,763 on Exhibit DMR-2, Schedule C-1, page 2 of 2, to remove these non-recurring consulting charges.

Q. IF THE COMMISSION DOES NOT ACCEPT YOUR ADJUSTMENT TO LIMIT THE CUC CHARGES TO THE HISTORIC TEST YEAR LEVEL PLUS ESCALATION, ARE ANY ADDITIONAL ADJUSTMENTS NEEDED?

A. Yes. In response to OPC Interrogatory No. 138(d), the Company indicated that the allocation of charges from CUC Department IT 802 – Utilicis Natural Gas Billing System to FPU electric operations in the projected test year was done in error as the FPUC electric operations do not utilize the Utilicis billing system. There were no charges to FPUC electric operations during this historic test year from this department; thus, if my adjustment is accepted, then the amount for this department remains at $0 in the projected test year. Based on the response to OPC POD No. 1, at FPU RC-1198, the projected test year expenses in the filing include $8,020 for charges from this department. If the Commission does not accept my recommendation that charges to FPUC electric operations be limited to the historic test year amount plus escalation, then the Company's projected test year expenses need to be reduced by $8,020 to remove the costs associated with the CUC Utilicis Natural Gas Billing System department.

<u>Non-utility Related Activities</u>

Q. IN YOUR OPINION HAS THE COMPANY INCLUDED ANY NON-UTILITY CUC COST ALLOCATIONS IN THE HISTORICAL AND PROJECTED FPUC EXPENSES?

A. Yes. In OPC's review of FPUC's responses to discovery, there are charges from several departments whose activities do not appear to be related to the function of the FPUC electric operations. For both the historic test year and the projected test year, the departments that appear to be non-utility are the New Energy Department, the SVP of

Strategic Development, and the Strategic Development Department. For the projected test year, an additional portion of the Other Overhead Costs Department for the increase in outside service for general corporate matters is also related to strategic development costs. I will address each of these separately below.

Q. DOES THE COMPANY'S RESPONSE TO OPC'S DISCOVERY PROVIDE SUPPORT FOR WHY THE ELECTRIC CUSTOMERS SHOULD BE ALLOCATED CHARGES FROM CUC'S NEW ENERGY DEPARTMENT?

A. No. The charges from the New Energy Development Department to the FPUC Electric operations are $83,912 in the historic test year and have been increased to $183,796 for the projected test year. In response to OPC Interrogatory No. 137, the Company indicated that the New Energy Development Department was formed during the historic test year so a full year of expense for the department was not included in the historic period. In response to OPC Interrogatory No. 141, the Company indicated that the New Energy Development Department ". . . supports various corporate and business unit efforts to identify, evaluate, and assess new business initiatives in the energy industry that can complement our existing business strategies." The response also indicated that the department ". . . also provides various skill-sets, such as market trends/intelligence, financial modeling, energy supply analysis, and other business development, which Chesapeake's business units, including FPU electric division, utilize." The response does not explain why the $83,912 historical costs or $183,796 in projected test year charges to FPUC's electric operations for new energy development are necessary for providing service to FPUC's customers, why CUC's development of new energy-related business opportunities benefit FPUC's existing customers, or why the services of this department are needed beyond the functions already done by FPUC staff. No information has been provided demonstrating that the New Energy Development Department is focused in any way on the existing regulated electric operations. Thus, I recommend that the charges from CUC associated with the New Energy Development Department not be passed on to FPUC's electric ratepayers as the Company has not demonstrated a clear benefit to the FPUC electric operations from this department.

Q. ARE THE COMPANY'S RESPONSES TO OPC'S DISCOVERY SUFFICIENT TO EXPLAIN WHY THE CHARGES FROM CUC'S SVP OF STRATEGIC DEVELOPMENT DEPARTMENT SHOULD BE ALLOCATED TO FPUC ELECTRIC DIVISION CUSTOMERS?

A. No. The historical charges allocated from the SVP of Strategic Development Department are $113,140 and have been increased to $157,272 in the projected test year. In response to OPC Interrogatory No. 138(i), the Company described the significant increase in charges from CUC corporate operations to FPUC electric operations for the SVP of Strategic Development Department. It indicated that the increased costs are due to the hiring of a Vice President of HR to ". . . coordinate the overall compensation, benefit, staffing, recruiting and other HR-related matters" and that ". . . efforts are under-way to recruit a director of government relations to coordinate various governmental policy and relationship matters." The HR costs in the SVP Strategic Development Department would be incremental to the HR costs already charged to FPUC electric operations from a separate CUC HR Department, which totaled $188,868 in the historic test year. The Company has not demonstrated that the existing FPUC electric ratepayers benefit from this department, or that the department is focused on the existing regulated electric operations. I recommend that the historical charges from CUC for the SVP of Strategic Development Department not be passed on to FPUC's electric ratepayers.

Q. WHAT ADJUSTMENT IS NEEDED TO REMOVE THE COSTS ASSOCIATED WITH CUC'S NEW ENERGY DEVELOPMENT DEPARTMENT AND SVP OF STRATEGIC DEVELOPMENT DEPARTMENT?

A. If the Commission accepts my adjustment to limit the charges to FPUC electric operations from CUC to the historic test year amount plus escalation, then the adjusted test year expenses should be reduced by an additional $205,043 to remove the charges from these two CUC departments. The calculation of this adjustment is presented on Exhibit DMR-2, Schedule C-12. If the Commission does not accept my recommendation to limit the charges to the historic test year amount plus escalation, then the full amount included by FPUC in its projected test year for charges from these two departments should be removed. As shown on Line A.3 of Exhibit DMR-2, Schedule C-12, FPUC's projected test year expenses included $332,862 for charges from these two CUC departments.

Q. YOU PREVIOUSLY TESTIFIED THAT THE STRATEGIC DEVELOPMENT DEPARTMENT COSTS APPEAR TO BE NON-UTILITY AS WELL. PLEASE DISCUSS YOUR CONCERNS.

A. OPC Interrogatory No. 138(g) (which refers to OPC POD No. 1 at FPU RC1199, specifically the tab titled "Summary of Corporate Costs"), asked the Company to explain, in detail, why the Strategic Development Department costs charged to FPUC electric operations were projected to increase from $35,510 in the historic test year to $115,848 in the projected test year, and to provide the rationale for the large increase. In response, the Company indicated that the Strategic Development Department is a new department that was formed during the historic test year so a full year of expenses for the department was not included in the historic period. The response indicates that the department ". . . assists in various strategic development areas of different businesses of Chesapeake." The response also indicates that for FPU electric, the department ". . . assists in system planning activities." The response does not explain why the charges in the historic test year or the projected test year to FPUC's electric operations are necessary for providing service to FPUC's customers or why the additional system planning activities beyond those already done by FPUC staff are needed. Further, the Company has not documented any direct benefit to FPUC electric ratepayers from the activities of the CUC Strategic Development Department.

Q. DID THE COMPANY ACCOUNT FOR THE CUC STRATEGIC DEVELOPMENT DEPARTMENT COSTS CHARGED TO THE FPUC ELECTRIC OPERATIONS IN THE SAME MANNER AS THE MAJORITY OF THE OTHER CUC CORPORATE DEPARTMENTS?

A. No, it did not. For this department, the Company shifted costs charged from the corporate O&M expenses to the FPUC electric operations non-corporate O&M expenses in its filing. As part of its normalization adjustments to the historic test year on MFR Schedule C-7 (2013), pages 2 and 6[3], the Company moved or "reclassified" the historic test year charges from the CUC Strategic Development Department from the Corporate O&M Expense category to the Non-Corporate Distribution O&M Expenses in FERC Account 580 – Operation, Supervision and Engineering. The amount moved to FERC account 580 for charges from the Strategic Development Department in the historic test year was $34,351. As part of its "Over and Under Adjustments" presented on MFR Schedule C-7 (2015), page 9 of 9, the Company increased the amount charged to FPUC

[3] These adjustments are reflected on Schedule C-7 on pages 19 and 23 of Section C in the MFRs.

electric operations from the CUC Strategic Development Department by $76,945 in the projected test year, resulting in total projected test year charges to FPUC electric operations from this CUC department of $111,296. On MFR Schedule C-7 (2015), page 9 of 9, the Company included the adjustment in the "Expenses for Electric Operations" instead of the "Expenses for Corporate Services and Overheads" even though the costs are allocated to FPUC electric operations from CUC. The MFR schedule identifies the adjustment as "System Planning" and the reason for the adjustment as "Full staff and related new Dept expense." The MFR Schedule does not indicate that the adjustment is for charges from the CUC Strategic Planning Department. However, the Company's response to OPC POD No. 21 at FPU RC-003059 makes it clear that the adjustment is for Department SP 900 – which is the CUC Strategic Development Department. Additionally, the resulting projected test year amount of $111,296, after the Over and Under Adjustment was made, can be tied to various CUC corporate and FPUC electric operations workpapers which were provided.

Q. WHAT ADJUSTMENT IS NEEDED TO REMOVE THE CUC STRATEGIC DEVELOPMENT DEPARTMENT EXPENSES FROM THE PROJECTED TEST YEAR?

A. Because these costs were moved by the Company out of the Corporate O&M cost category to the non-corporate distribution expense category in the MFRs, my previously recommended adjustment to CUC corporate costs allocated to the FPUC electric operations would not include an adjustment to the CUC Strategic Development Department expenses contained in the filing. As such, projected test year expenses need to be reduced by $111,296 to remove the Strategic Development Department costs. This $111,296 reduction is shown on Exhibit DMR-2, Schedule C-1, page 2 of 2.

Q. IS AN ADJUSTMENT NEEDED TO REMOVE THE CUC OTHER OVERHEAD COSTS DEPARTMENT EXPENSES RELATED TO OUTSIDE SERVICES FOR GENERAL CORPORATE MATTERS FROM THE PROJECTED TEST YEAR?

A. No, if the Commission accepts my recommended adjustment to limit the CUC charges to the historic test year level plus escalation, no further adjustment is necessary. However, if the Commission disagrees with my limiting adjustment, an additional adjustment will be necessary based on the Company's response to discovery. In describing the cause of the large increase in the charges from the CUC Other Overhead Costs charged to FPUC electric operations in the projected test year, the response to OPC Interrogatory 137(c) states: "The amount in the projected test year includes approximately $100,000 in additional costs associated with increased resources to help senior management identify, develop and execute various business and improvement initiatives to further the Company's growth and provide adequate support the current and future growth." Thus, these costs are related to strategic development and the growth of CUC and should not be charged to the FPUC electric operations. Therefore, an adjustment will be necessary to remove the $100,000 of additional strategic development and CUC growth related costs.

<u>Remove Winter Event Costs</u>

Q. WHAT IS THE WINTER EVENT AND HOW MUCH IS INCLUDED IN THE TEST YEAR FOR THE EVENT?

A. The response to OPC Interrogatory No. 164 indicates that there is a winter event for employees in each FPUC district with a portion of the costs allocated from FPUC corporate to the electric operations. During the historic test year in February 2013, the Marianna winter event was held at Sandestin Golf and Beach Resort, the Fernandina Beach winter event was held at Disney World, and the West Palm Beach winter event was held on Windridge Yacht Charters. The Company described the purpose of the winter events as follows:

> The events include presentations by the officers and senior managers of the Company and are used to show appreciation to the employees, inform them of the status of the Company as a whole, and acknowledge them for their achievements and impacts to the Company. In addition, motivational presentations are made to encourage employees to continue to provide great customer service both at an internal and external level and to identify and implement further customer experience enhancements. Employees are recognized for meeting these goals at the events. In addition, these meetings give the employees an opportunity to network with their peers and strengthen relationships, which improve teamwork and customer service.

The response also indicates that the costs allocated to the electric operations for the winter events during the historic test year were $16,838, which was escalated to $17,968 in the projected test year.

Q. DO YOU RECOMMEND THAT THESE COSTS BE INCLUDED IN RATES TO BE CHARGED TO THE ELECTRIC CUSTOMERS?

A. No, I do not. Having employee appreciation and informative events at such costly venues such as yachts, amusement parks, and golf/beach resorts is not a necessary cost in providing service to the Company's customers. There are more economic ways and locations in which employee appreciation and informative events can be held. I recommend that the costs for the winter events be removed from the projected test year. The removal, which reduces test year expenses by $17,968, is shown on Exhibit DMR-2, Schedule C-1, page 2 of 2.

<u>Tax Step-Up Regulatory Asset and Amortization</u>

Q. PLEASE EXPLAIN WHAT THE COMPANY IS REQUESTING IN THIS CASE WITH REGARDS TO THE PROPOSED TAX STEP-UP REGULATORY ASSET?

A. As a result of the acquisition of Florida Public Utilities by CUC, the federal income tax rate for FPUC increased from 34% to 35%. The increase is the effect of FPUC being part of the larger corporate group for federal income tax purposes. As a result of changing to the higher federal income tax rate, the Company was required at the time of the acquisition to adjust its accumulated deferred income tax liability in Account 282 to reflect the impact of the higher federal income tax rate that would be realized as a result of the acquisition. Based on the journal entry provided in response to OPC Interrogatory No. 27, the Company increased the accumulated deferred income tax ("ADIT") liability recorded in Account 282.2 by $256,777 for the electric operations with an application date of October 31, 2009. Since the time of the acquisition, increases in the ADIT liability balances on FPUC's books would have been calculated based on the effective federal income tax rate, which is 35% or the higher post-acquisition rate.

According to the testimony of Mr. Kim, at pages 18-19, the amount by which the Company was required to increase the ADIT liability was reflective of a deficiency in the deferred tax reserve and represents the amount of taxes associated with timing differences that FPUC had previously been allowed to recover under the prior, lower effective income tax rate that will be paid in the future by FPUC at the current higher applicable income tax rate.

The calculation of the amount requested for recovery by the Company as a regulatory asset was provided in response to OPC Interrogatory No. 27. In determining the amount requested for recovery, the Company included $256,777 that it booked at the time of the acquisition for the increase in the ADIT liability. The Company then calculated the change in the ADIT liability that would occur for the period November 1, 2009 through

September 30, 2015 based on both the prospective applicable rate and a lower pre-acquisition rate, resulting in a difference of $59,293, which it grossed up for taxes to $96,530. While the Company would have recorded the ADIT subsequent to the acquisition at the higher tax rate, the calculation of the requested regulatory asset assumes that it was recovered at the lower pre-acquisition tax rate. The Company then combined the actual booked increase in the ADIT liability of $256,777 with the $59,293 amount it calculated for the period November 2009 through September 2015 to derive its requested Tax Step-up Regulatory Asset of $353,307. The Company is requesting to recover the proposed regulatory asset over a period of 26 years, which is the average remaining life of the electric operation plant assets.

Q. WHAT AMOUNTS ARE INCLUDED IN THE FILING FOR THE PROPOSED REGULATORY ASSET AND THE AMORTIZATION THEREOF?

A. Exhibit No. CMM-4 attached to Ms. Martin's testimony shows that the average test year working capital includes $346,515 for the proposed regulatory asset. Additionally, page 42 of Ms. Martin's testimony and MFR Schedule C-19 show that $13,584 is included in test year amortization expense associated with the proposed regulatory asset.

Q. DID THE COMPANY ACTUALLY RECORD A REGULATORY ASSET ON ITS BOOKS ASSOCIATED WITH ITS TAX STEP-UP ADJUSTMENT FOR THE ELECTRIC OPERATIONS AT THE TIME OF THE ACQUISITION?

A. No, it does not appear so. As part of its response to OPC Interrogatory No. 27, FPUC provided one side of the journal entry posted on May 13, 2010 with an application date of October 31, 2009 for the increase in the ADIT liability balance in Account 282. The journal entry that was provided only included the increase in the ADIT balance of

$256,777, with the description of “Acquis adj-Fed Rate to 35%”. The information excluded the other side of the entry showing the account to which the corresponding debits were booked. As a result of the incomplete entry being provided, OPC Interrogatory No. 102 referenced the partial entry and asked for the complete journal entry that recorded the tax step-up deferred income tax adjustment recorded in 2010, reflecting all of the debits and credits made to each account related to the tax step-up deferred tax adjustment. Unfortunately, the journal entry provided in response to OPC Interrogatory No. 102 consisted of a reclassification entry in which the Company transferred the $256,777 originally booked to Account 282.2 to different subaccounts, or segment codes, within Account 282.2 for tracking purposes. However, the revised response still did not disclose what accounts the original debits were booked to when the $256,777 was credited to the ADIT liability. The description in the journal entry that was provided in response to OPC Interrogatory No. 102 remains “Acquis adj – Fed Rate to 35%”. Thus, it appears from the description that the increase in the ADIT liability was booked as part of the acquisition adjustment resulting from CUC’s acquisition of FPUC. The Company has not requested recovery of an acquisition adjustment for the electric operations. In fact, in response to OPC Interrogatory No. 27(c), the Company indicated that there was no positive acquisition adjustment for the electric operation of FPUC. Thus, if the other side of the journal entry was to an acquisition adjustment, it did not result in a positive acquisition adjustment for the electric operations.

Q. DOES THE COMMISSION REQUIRE THAT REGULATORY ASSETS OR LIABILITIES BE ESTABLISHED DUE TO CHANGES IN THE ADIT BALANCES RESULTING FROM CHANGES IN FEDERAL INCOME TAX RATES?

A. Florida PSC Rule 25-14.013 – Accounting for Deferred Income Taxes Under SFAS 109 at paragraph 10 states that:

> When the statutory income tax rate is changed as a result of legislative action after the implementation of SFAS 109, each utility shall adjust its deferred income tax balances to reflect the new statutory income tax rate. The recording of regulatory assets and liabilities for the excess or deficient deferred income taxes, accounting detail and reversal of the excess and deficient deferred income taxes shall comply with subsections (4) through (9) of this rule.

While the establishment of regulatory assets or liabilities associated with changes in tax rates are addressed in the rule as it pertains to changes in income tax rates as a result of legislative action, the rule is silent on changes in effective income tax rates resulting from acquisitions or mergers.

Q. DO YOU RECOMMEND THAT THE COMPANY BE PERMITTED TO ESTABLISH AND RECOVER THE TAX STEP-UP REGULATORY ASSET IT IS REQUESTING IN THIS CASE?

A. No, I do not. At the time of the acquisition, it appears that the Company appropriately increased the ADIT liability in Account 282.2 for the impact of the increase in the effective federal income tax rate. However, the other side of the journal entry recording the increase, which FPUC has not provided, would have been recognized on FPUC's books at the time the step-up adjustment was recorded to the ADIT balance. There is no basis for FPUC to now request a regulatory asset associated with the initial step-up for the ADIT balance from ratepayers more than four years after the acquisition by CUC took place. If the increased federal income tax to be paid by FPUC as a result of the acquisition caused FPUC to under-earn, it had the ability to come in and request a rate increase from the Commission. The Company also had the ability to request at the time that a regulatory asset be established for the required increase in its ADIT liability balance that it booked as a result of the acquisition, which it did not. It is not appropriate to now request a regulatory asset many years after the adjustment was made on the Company's books and many years after the acquisition occurred. Thus, I recommend that the Company's proposed tax step-up regulatory asset and the amortization thereof be rejected.

Q. WHAT ADJUSTMENTS NEED TO BE MADE TO REMOVE THE REGULATORY ASSET AND THE AMORTIZATION?

A. As shown on Exhibit DMR-2, Schedule B-1, page 2, working capital should be reduced by $346,515 to remove the regulatory asset from rate base. Additionally, as shown on Exhibit DMR-2, Schedule C-1, page 2, amortization expense should be reduced by $13,584.

<u>Payroll Tax Expense</u>

Q. DO ANY OF YOUR RECOMMENDED ADJUSTMENTS IMPACT PAYROLL TAX EXPENSE?

A. Yes. In this testimony, I recommend several adjustments to the projected test year employee costs. This includes adjustments to severance expense, special bonuses, CUC corporate bonuses, and incentive performance plan costs. Each of these adjustments also impact payroll tax expense. On Exhibit DMR-2, Schedule C-13, I calculate the impact of the various labor adjustments on the projected test year payroll tax expense. As shown on this schedule, payroll tax expense should be reduced by $41,716 to reflect the impact of the various labor cost adjustments. The amount was determined by applying the FICA rate of 7.65% to the various labor adjustments presented in this testimony.

Property Tax Expense

Q. WHAT AMOUNT HAS THE COMPANY INCLUDED IN THE PROJECTED TEST YEAR FOR PROPERTY TAX EXPENSE, AND HOW DOES THE PROJECTED AMOUNT COMPARE TO HISTORIC COST LEVELS?

A. In the filing, the Company projects that property taxes will increase from the historic test year amount of $601,193 to $690,483 in the projected test year, which is an increase of $89,290 or 14.85% in a two-year period. In response to OPC Interrogatory No. 45, the Company provided the tax basis and the property tax expense for each year, 2010 through 2013. The table below presents the historic amounts provided by the Company as well as the projected amounts included in the Company's filing.

Period	Tax Basis	Property Tax
2010	$ 37,330,579	$ 575,126
2011	$ 37,956,260	$ 586,923
2012	$ 37,814,122	$ 582,345
2013	$ 39,973,520	$ 620,516
TY Ended 9/30/15	$ 49,243,103	$ 690,483

Based on the information shown in the table above, for the period from 2010 to 2013, the property tax basis only increased by $2.64 million or 7.1% while the property tax expense increased by only $45,390 or 7.9% over that same four-year period. This is during the timeframe following the merger with CUC in which the Company contends that it has invested more in improving its system. While the historic increase from 2010 through 2013 was only 7.1% for the tax basis and 7.9% for the overall property tax expense, the Company projected a significant increase in both the tax basis and the tax expense from the historic test year to the projected test year. Based on the above amounts, the Company's filing projected the tax basis to increase by $9,269,583 or 23.2% between the calendar year ended December 31, 2013 and the projected test year ended September 30, 2015. During that same period of less than two years, the Company is projecting a

$69,967 or 11.3% increase in property tax expense. In response to OPC Interrogatory No. 130 the Company indicated that the increase in the tax basis it incorporated in the projected test year was incorrect, and the projected test year tax basis should have been $43,912,268 instead of the $49,243,102 presented in MFR Schedule C-20. However, in the same response, the Company contends that its projected property tax expense was calculated correctly based on the historic test year amount escalated for both an inflation factor and a net plant increase factor.

Q. HAS THE COMPANY SUPPORTED THE SIGNIFICANT PROJECTED INCREASE IN PROPERTY TAX EXPENSE CONTAINED IN ITS FILING?

A. No, it has not. While the Company is projecting some large increases in plant in service between the historic test year and the projected test year, it has also indicated that the Company has invested in the system since the merger with CUC. Although the Company did recently add a new building that could put upward pressure on property tax expense and the property tax basis, it also recently sold a building that should offset the impact of the new building on property tax expense. Thus, there is no reasonable explanation for why such a large increase in both the tax basis and the property tax expense is anticipated, particularly given the much lower increases that have occurred in the period subsequent to the merger. The direct testimony of Ms. Martin, at page 47, indicates that property taxes were increased by inflation and plant growth. However, it does not appear that over the past four years the property tax expense has increased by a similar rate.

Q. WHAT ADJUSTMENT DO YOU RECOMMEND?

A. I recommend that the projected property tax expense be determined by applying the average property tax expense increase factor based on the post-merger period, 2010 through 2013, to the historic test year expense, escalated for the two-year period to the test year ended September 30, 2015. As shown on Exhibit DMR-2, Schedule C-14, property tax expense has increased by an average of 2.61% between 2010 and 2013. Escalating the historic test year cost of $601,193 by the average annual increase factor for a two-year period to the projected test year results in projected property tax expense of $632,968, which is $57,515 lower than the amount proposed by FPUC. As shown on Schedule C-14, test year property tax expense should be reduced by $57,515.

<u>Income Tax Expense</u>

Q. HAVE YOU ADJUSTED INCOME TAX EXPENSE TO REFLECT THE IMPACT OF YOUR RECOMMENDED ADJUSTMENTS TO NET OPERATING INCOME?

A. Yes. On Exhibit DMR-2, Schedule C-15, I calculate the impact of federal and state income tax expenses resulting from the recommended adjustments to operating expenses. The result is carried forward to the Net Operating Income Summary on Exhibit DMR-2, Schedule C-1.

<u>Interest Synchronization</u>

Q. WHAT IS THE PURPOSE OF YOUR INTEREST SYNCHRONIZATION ADJUSTMENT ON EXHIBIT DMR-2, SCHEDULE C-16?

A. The interest synchronization adjustment allows the adjusted rate base and cost of debt to coincide with the income tax calculation. Since interest expense is deductible for income tax purposes, any revisions to the rate base or to the weighted cost of debt will impact the test year income tax expense. OPC's proposed rate base and weighted cost of debt differ from the Company's proposed amounts. Thus, OPC's recommended interest deduction for determining the test year income tax expense will differ from the interest deduction used by FPUC in its filing. Consequently, OPC's recommended debt ratio increase in this case will lead to a greater interest deduction in the income tax calculation, which will, in turn, result in a reduction to income tax expense.

OVERALL FINANCIAL SUMMARY – ALTERNATIVE RECOMMENDATION

Q. HAVE YOU CALCULATED THE REVENUE REQUIREMENT BASED ON THE ALTERNATIVE CAPITAL STRUCTURE AND COST RATES PRESENTED BY DR. WOOLRIDGE?

A. Yes. Exhibit DMR-3, totaling 4 pages, shows the revisions that need to be made to OPC's primary recommendation presented in Exhibit DMR-2 if the Commission adopts Dr. Woolridge's alternative capital structure recommendation instead of his primary recommendation. As shown on page 1 of Exhibit DMR-3, if the Commission adopts Dr. Woolridge's alternative recommendation, the revenue requirements would result in an increase of $2,314,651 to FPUC's current rates.

Q. WHAT IS THE REVISED OVERALL RATE OF RETURN UNDER THIS ALTERNATIVE SCENARIO?

A. The overall rate of return would increase from OPC's primary recommendation in this case from 5.56% to 5.74%. Under the alternative scenario, the calculation of OPC's recommended rate of return, as well as the resulting reconciliation of OPC's recommended rate base to the capital structure, is presented on Exhibit DMR-3, page 2 of 4.

Q. WHAT ADDITIONAL MODIFICATIONS NEED TO BE MADE TO OPC'S RECOMMENDED REVENUE REQUIREMENT CALCULATIONS UNDER THE ALTERNATIVE SCENARIO?

A. The weighted cost of debt changes as the debt-to-equity ratio differs between the primary recommendation and the alternative recommendation. This impacts the calculation of the interest synchronization adjustment. Exhibit No. DMR-3, page 4, presents the interest synchronization calculation based on OPC's recommended rate base and the weighted cost of debt under the alternative scenario. The result of this calculation is carried forward to page 3 of Exhibit DMR-3 to determine the impact on OPC's recommended net operating income resulting from the modification to the interest synchronization calculation.

Q. DOES THIS COMPLETE YOUR PREFILED TESTIMONY?

A. Yes, it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Direct Testimony of Donna Ramas has been furnished by electronic mail and/or U.S. Mail on this 28th day of July, 2014, to the following:

Florida Public Utilities Company
Ms. Cheryl M. Martin
1641 Worthington Road, Suite 220
West Palm Beach, FL 33409-6703

Beth Keating
Lila A. Jaber, Esquire
Charles A. Guyton, Esquire
Gunster, Yoakley & Stewart, P.A.
215 South Monroe, Suite 618
Tallahassee, FL 32301

Keino Young
Martha Barrera
Suzanne Brownless
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

____
Patricia A. Christensen
Associate Public Counsel

EXHIBIT DMR-1
QUALIFICATIONS OF DONNA RAMAS

Q. WHAT IS YOUR OCCUPATION?

A. I am a certified public accountant, licensed in the State of Michigan, and a senior regulatory consultant and Principal of the firm Ramas Regulatory Consulting, LLC, located in Commerce Township, Michigan.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I graduated with honors from Oakland University in Rochester, Michigan in 1991. From 1991 through October 2012, I was employed by the firm of Larkin & Associates, PLLC. In November 2012, I formed Ramas Regulatory Consulting, LLC. As a certified public accountant and regulatory consultant, I have analyzed utility rate cases and regulatory issues, researched accounting and regulatory developments, prepared computer models and spreadsheets, prepared testimony and schedules and testified in regulatory proceedings. While employed by Larkin & Associates, PLLC, I also developed and conducted five training programs on behalf of the Department of Defense - Navy Rate Intervention Office on measuring the financial capabilities of firms bidding on Navy assets and one training program on calculating the revenue requirement for municipal owned water and wastewater utilities. Additionally, I have served as an instructor at the Michigan State University - Institute of Public Utilities as part of their Annual Regulatory Studies programs, Advanced Regulatory Studies Program, and in a Basics of Utility Regulation and Ratemaking course.

I have prepared and submitted expert testimony and/or testified in the following cases, many of which were filed under the name of Donna DeRonne:

Arizona: Ms. Ramas prepared testimony on behalf of the Staff of the Arizona Corporation Commission in the following case before the Arizona Corporation Commission: Southwest Gas Corporation (Docket No. G-01551A-00-0309).

California: Ms. Ramas prepared testimony on behalf of the Division of Ratepayer Advocates of the California Public Utilities Commission in the following cases before the California Public Utilities Commission:

San Gabriel Valley Water Company, Fontana Water Division (Docket No. A.05-08-021), Request for Order Authorizing the Sale by Thames GmbH of up to 100% of the Common Stock of American Water Works Company, Inc., Resulting in Change of Control of California-American Water Company (Application 06-05-025), California Water Services Company (Docket No. 07-07-001*), Golden State Water Company (Docket No. 08-07-010), and Golden State Water Company (Docket No. 11-07-017*), Golden State Water Company – Rehearing (Docket No. 08-07-010*), and California Water Services Company (Docket No. 12-07-007*).

Ms. Ramas also prepared testimony on behalf of the Department of Defense in the following cases before the California Public Utilities Commission: San Diego Gas and Electric Company (Docket No. 98-07-006) and Southern California Edison Company and San Diego Gas & Electric Company (Docket No. 05-11-008*).

Additionally, Ms. Ramas prepared testimony on behalf of the City of Fontana in the following rate cases before the California Public Utilities Commission: San Gabriel Valley Water Company, Fontana Water Division (Docket No. A.08-07-009) - Phases 1 and 2; San Gabriel Valley Water Company, Los Angeles Division (Docket No. A.10-07-019*), and San Gabriel Valley Water Company, Fontana Water Division (Docket No. A.11-07-005).

Ms. Ramas also prepared testimony on behalf of The Utilities Reform Network in the following rate case before the California Public Utilities Commission: California American Water Company (Docket No. 10-07-007).

Connecticut: Ms. Ramas has prepared testimony on behalf of the Connecticut Office of Consumers Counsel in the following cases before the State of Connecticut, Department of Public Utility Control:

Connecticut Light & Power Company (Docket No. 92-11-11), Connecticut Natural Gas Corporation (Docket No. 93-02-04), Connecticut Natural Gas Corporation (Docket No. 95-02-07), Southern Connecticut Gas Company (Docket No. 97-12-21), Connecticut Light & Power Company (Docket No. 98-01-02), Southern Connecticut Gas Company (Docket No. 99-04-18 Phase I), Southern Connecticut Gas Company (Docket No. 99-04-18 Phase II), Connecticut Natural Gas Corporation (Docket No. 99-09-03 Phase I), Connecticut Natural Gas Corporation (Docket No. 99-09-03 Phase II), Connecticut Light & Power Company (Docket No. 00-12-01), Yankee Gas Services Company (Docket No. 01-05-19), United Illuminating Company (Docket No. 01-10-10), Connecticut Light & Power Company (Docket No. 03-07-02), Southern Connecticut Gas Company (Docket No. 03-11-20), Yankee Gas Services Company (Docket No. 04-06-01*), The Southern Connecticut Gas Company (Docket No. 05-03-17PH01), The United

Illuminating Company (Docket No. 05-06-04), Connecticut Natural Gas Corporation (Docket No. 06-03-04* Phase I), Yankee Gas Services Company (Docket No. 06-12-02PH01*), Aquarion Water Company of Connecticut (Docket No. 07-05-19), Connecticut Light & Power Company (Docket No. 07-07-01), The United Illuminating Company (Docket No. 08-07-04), Connecticut Light & Power Company (Docket No. 09-12-05), and Yankee Gas Services Company (Docket No. 10-12-02).

Ms. Ramas also assisted the Connecticut Office of Consumer Counsel by conducting cross-examination of utility witnesses in the following cases: Southern Connecticut Gas Company (Docket No. 08-12-07), Connecticut Natural Gas Corporation (Docket No. 08-12-06), UIL Holdings Corporation and Iberdrola USA, Inc. (Docket No. 10-07-09), and Northeast Utilities/NSTAR Merger (Docket No. 12-01-07).

Ms. Ramas also assisted the Connecticut Public Utility Regulatory Authority staff in the following cases for which testimony was not provided. As part of the assistance, Ms. Ramas conducted cross examination on behalf of staff: Connecticut Light & Power Company Major Storm case (Docket No. 13-03-23).

District of Columbia: Ms. Ramas prepared testimony on behalf of the Office of the People's Counsel of the District of Columbia in the following case before the Public Service Commission of the District of Columbia: Washington Gas Light Company (Formal Case No. 1054*), Potomac Electric Power Company (Formal Case No. 1076), Potomac Electric Power Company (Formal Case No. 1087), Washington Gas Light Company (Formal Case No. 1093), and Potomac Electric Power Company (Formal Case No. 1103).

Florida: Ms. Ramas prepared testimony on behalf of the Florida Office of Public Counsel in the following cases before the Florida Public Service Commission:

Southern States Utilities (Docket No. 950495-WS), United Water Florida (Docket No. 960451-WS), Aloha Utilities, Inc. – Seven Springs Water Division (Docket No. 010503-WU), Florida Power Corporation (Docket No. 000824-EI*), Florida Power & Light Company (Docket No. 001148-EI**), Tampa Electric Company d/b/a Peoples Gas System (Docket No. 020384-GU*), The Woodlands of Lake Placid, L.P. (Docket No. 020010-WS), Utilities, Inc. of Florida (Docket No. 020071-WS), Florida Public Utilities Company (Docket No. 030438-EI*), The Woodlands of Lake Placid, L.P. (Docket No. 030102-WS), Florida Power & Light Company (Docket No. 050045-EI*), Progress Energy Florida, Inc. (Docket No. 050078-EI*), Florida Power & Light Company (Docket No. 060038-EI), Water Management Services, Inc. (Docket No. 100104-WU), Gulf Power Company (Docket No. 110138-EI), Florida Power & Light Company (Docket No. 120015-EI) and Tampa Electric Company (Docket No. 130040-EI)*.

Illinois: Ms. Ramas prepared testimony on behalf of the Illinois Office of the Attorney General, Apple Canyon Lake Property Owners Association and Lake Wildwood Association, Inc. in the following cases before the Illinois Commerce Commission: Apple Canyon Utility Company (Docket No. 12-0603) and Lake Wildwood Utilities Corporation (Docket No. 12-0604).

Louisiana: Ms. Ramas prepared testimony on behalf of various consumers in the following case before the Louisiana Public Service Commission: Atmos Energy Corporation d/b/a Trans Louisiana Gas Company (Docket No. U-27703*).

Maryland: Ms. Ramas prepared testimony on behalf of the Maryland Office of People's Counsel in the following case before the Public Service Commission of Maryland: Potomac Electric Power Company (Case No. 9336).

Massachusetts: Ms. Ramas prepared testimony on behalf of the Massachusetts Attorney General's Office of Ratepayer Advocacy in the following cases before the Massachusetts Department of Public Utilities: New England Gas Company (DPU 10-114), Fitchburg Electric Company (DPU 11-01), Fitchburg Gas Company (DPU 11-02); NStar/Northeast Utilities Merger (DPU 10-170); and Bay State Gas Company d/b/a Columbia Gas of Massachusetts (DPU 13-75).

New York: Ms. Ramas prepared testimony on behalf of the New York Consumer Protection Board in the following cases before the New York Public Service Commission:
New York State Electric & Gas Corporation (Case No. 05-E-1222), KeySpan Energy Delivery New York and KeySpan Energy Delivery Long Island (Case Nos. 06-G-1185 and 06-G-1186*), Consolidated Edison Company of New York, Inc. (Case No. 06-G-1332*), and Consolidated Edison Company of New York, Inc. (Case No. 07-E-0523).

Nova Scotia: Ms. Ramas prepared testimony on behalf of the Nova Scotia Utility and Review Board – Board Counsel in the following case: Halifax Regional Water Commission (W-HRWC-R-10); Nova Scotia Power Incorporated (NSPI-P-892*); Heritage Gas Limited (NG-HG-R-11*); NPB Load Retention Rate Application – NewPage Port Hawkesbury Corp. and Bowater Mersey Paper Company Ltd. (NSPI-P-202); Nova Scotia Power Incorporated (NSPI-P-893*); and Halifax Regional Water Commission (W-HRWC-R-13).

North Carolina: Ms. Ramas assisted Nucor Steel-Hertford, A Division of Nucor Corporation in the review of an application filed by Dominion North Carolina Power for an Increase in rates (Docket no. E-22, Sub 459**). The case was settled prior to the submittal of intervenor testimony.

Utah: Ms. Ramas prepared testimony on behalf of the Utah Committee of Consumer Services in the following cases before the Public Service Commission of Utah:

PacifiCorp dba Utah Power & Light Company (Docket No. 99-035-10), PacifiCorp dba Utah Power & Light Company (01-035-01*), PacifiCorp dba Utah Power & Light Company (Docket No. 01-035-23 Interim (Oral testimony)), PacifiCorp dba Utah Power & Light Company (Docket No. 01-035-23**), Questar Gas Company (Docket No. 02-057-02*), PacifiCorp (Docket No. 04-035-42*), PacifiCorp (Docket No. 06-035-21*), Rocky Mountain Power (Docket Nos. 07-035-04, 06-035-163 and 07-035-14), Rocky Mountain Power (Docket No. 07-035-93), Questar Gas Company (Docket No. 07-057-13*), Rocky Mountain Power (Docket No. 08-035-93*), Rocky Mountain Power (Docket No. 08-035-38*), Rocky Mountain Power Company (Docket No. 09-035-23), Questar Gas Company (Docket No. 09-057-16**), Rocky Mountain Power Company (Docket No. 10-035-13), Rocky Mountain Power Company (Docket No. 10-035-38), Rocky Mountain Power Company (Docket No. 10-035-89), Rocky Mountain Power Company (Docket

No. 10-035-124*), Rocky Mountain Power Company (Docket No. 11-035-200*) and Rocky Mountain Power Company (Docket No. 13-035-184*).

Vermont: Ms. Ramas prepared testimony on behalf of the Vermont Department of Public Service in the following cases before the Vermont Public Service Board: Citizens Utilities Company – Vermont Electric Division (Docket No. 5859), Central Vermont Public Service Corporation (Docket No. 6460*), and Central Vermont Public Service Corporation (Docket No. 6946 & 6988).

Washington: Ms. Ramas prepared testimony on behalf of the Public Counsel Section of the Washington Attorney General's Office in the following case before the Washington Utilities and Transportation Commission: PacifiCorp (Docket No. UE-090205*).

West Virginia: Ms. Ramas has prepared testimony on behalf of the West Virginia Consumer Advocate Division in the following cases before the Public Service Commission of West Virginia: Monongahela Power Company (Case No. 94-0035-E-42T), Potomac Edison Company (Case No. 94-0027-E-42T), Hope Gas, Inc. (Case No. 95-0003-G-42T*), and Mountaineer Gas Company (Case No. 95-0011-G-42T*).

* Case Settled / ** Testimony not filed/submitted due to settlement

Schedule A-1
FLORIDA PUBLIC UTILITIES
Consolidated Electric Division
Projected Test Year Ending September 30, 2015

Revenue Requirement

Line No.	Description	Per Company Amount (A)	Per OPC Amount (B)	Col. (B) and (C) Reference
1	Adjusted Rate Base	$ 60,596,170	$ 58,387,115	Exh. DMR-2, Sch. B-1
2	Required Rate of Return	7.18%	5.56%	Exh. DMR-2, Sch. D
3	Income Required	4,350,805	3,248,199	Line 1 x Line 2
4	Adjusted Net Operating Income	768,114	2,007,235	Exh. DMR-2, Sch. C-1
5	Income Deficiency (Sufficiency)	3,582,691	1,240,964	Line 3 - Line 4
6	Earned Rate of Return	1.27%	3.44%	Line 4 / Line 1
7	Net Operating Income Multiplier	1.6335	1.6335	MFR Schedule A-1
8	Revenue Deficiency (Sufficiency)	$ 5,852,171	$ 2,027,058	Line 5 x Line 7
9	Increase in Service Charge and Other Revenues	$ 30,962	$ 30,962	MFR Schedule A-1
10	Increase in Base Rate Revenues	$ 5,821,209	$ 1,996,096	Line 8 + Line 9

Source/Notes:
Col. (A): MFR Schedule A-1

Adjusted Rate Base

Line No.	Rate Base Components	Adjusted Total per Company (A)	OPC Adjustments (B)	Adjusted Total per OPC (C)
1	Plant in Service	$ 108,023,717	$ -	$ 108,023,717
2	Accumulated Depreciation & Amortization	(54,267,086)	(260,834)	(54,527,920)
3	Net Plant in Service	53,756,631	(260,834)	53,495,797
4	CWIP - Non-AFUDC	4,625,996	(715,848)	3,910,148
5	Plant Held For Future Use	-		-
6	Nuclear Fuel	-		-
7	Total Net Plant	58,382,628	(976,682)	57,405,946
8	Working Capital Allowance	2,213,542	(1,232,373)	981,169
9	Other Rate Base Items	-		-
10	Total Rate Base	$ 60,596,170	$ (2,209,055)	$ 58,387,115

Source/Notes:
Col. (A): Company MFR Schedule B-1, page 3 of 3.
Col. (B): See Exhibit DMR-2, Schedule B-1, page 2

Adjusted Rate Base-Summary of Adjustments

Line No.	Adjustment Title	Reference (a)		OPC Adjustments
1	Accumulated Depreciation & Amortization Adjustments:			
2	Correction to Accumulated Depreciation - Vehicles	Testimony	$	(260,834)
3	*Total Accumulated Depreciation & Amortization*		$	(260,834)
4	CWIP Adjustments:			
5	Reduction to eCIS system in CWIP	Exh. DMR-2, Sch. B-2	$	(715,848)
	Working Capital Adjustments			
6	Remove Deferred Rate Case Costs from Working Capital	Testimony	$	(346,028)
7	Reduction to Cash Balance in Working Capital	Exh. DMR-2, Sch. B-3		(412,312)
8	Proposed Regulatory Liability for Paid Time Off Policy Change	Testimony		(127,518)
9	Removed Proposed Tax Step-up Regulatory Asset	Testimony		(346,515)
10	*Total Working Capital*		$	(1,232,373)

Reduction to eCIS System in CWIP

Line	Description	Amount	Reference
1	Total Supported Project Costs/Approved Budget Amount	$ 8,519,385	(a)
2	FPUC - Electric Allocation Percentage, per Company	19.6%	(b)
3	Amount to included in CWIP, per OPC	1,669,799	
4	CWIP in MFRs	2,385,647	MFR Sch. B-13
5	Reduction to CWIP	$ (715,848)	

Source:
(a) Response to OPC POD 7 and OPC Interrogatory No. 93
(b) Response to OPC Interrogatory No. 3 and Staff Interrogatory No. 66.

Schedule B-3
FLORIDA PUBLIC UTILITIES
Consolidated Electric Division
Projected Test Year Ending September 30, 2015

Reduction to Cash Balance in Working Capital

Line	Description	Amount	Reference
1	Recommended Cash Balance to Include in Working Capital, per OPC	$ 100,000	
2	Cash Balance in Working Capital, per FPUC	512,312	(1)
3	Reduction to Cash Balance in Working Capital	$ (412,312)	

(1) Amount included on MFR Schedule B-3, page 11 of 12. Includes Account 1310 - Depository Account - Cash and Account 1350 - Working Funds - Petty Cash.

Adjusted Net Operating Income

Line No.	Description	Adjusted Total per Company (A)	OPC Adjustments (B)	Adjusted Total per OPC (C)
	Operating Revenues:			
1	Sales of Electricity	$ 16,596,407		$ 16,596,407
2	Other Operating Revenues	767,026	55,349	822,375
3	Total Operating Revenues	$ 17,363,433		$ 17,418,782
	Operating Expenses:			
	Operation & Maintenance:			
4	Fuel	$ -		$ -
5	Purchased Power	-		-
6	Other	12,160,672	(1,870,736)	10,289,936
7	Depreciation	3,705,077		3,705,077
8	Amortization	(782)	(13,584)	(14,366)
9	Taxes Other Than Income Taxes	992,182	(99,231)	892,951
10	Income Taxes	(850,967)	799,779	(51,188)
11	Deferred Income Taxes - Net	589,137		589,137
12	(Gain)/Loss on Disposal of Plant	-		-
13	Total Operating Expenses	$ 16,595,319		$ 15,411,547
14	Net Operating Income	$ 768,114		$ 2,007,235

Source/Notes
Col. (A): Company MFR Schedule C-1, page 3 of 3.
Col. (B): Exhibit DMR-2, Schedule C-1, Page 2

Schedule C-1, page 2 of 2
FLORIDA PUBLIC UTILITIES
Consolidated Electric Division
Projected Test Year Ending September 30, 2015

Net Operating Income-Summary of Adjustments

Line No.	Adjustment Title	Reference (a)	Total Adjustment
	Other Operating Revenues:		
1	Increase in Late Payment Fees - Remove Refund Impacts	Exh. DMR-2, Sch. C-2	$ 55,349
	Subtotal		$ 55,349
	Other O & M :		
2	Remove Non-Recurring Severance Expense	Exh. DMR-2, Sch. C-3	$ (127,628)
3	Remove Marianna Litigation Bonus Payout	Exh. DMR-2, Sch. C-4	(25,462)
4	Remove Stock Based Compensation Expense	Testimony	(97,287)
5	Remove Corporate Bonuses Allocated Florida Electric	Testimony	(209,031)
6	Incentive Performance Plan Sharing Adjustment	Exh. DMR-2, Sch. C-5	(183,193)
7	Update Pension Expense to Current Projections	Exh. DMR-2, Sch. C-6	(151,914)
8	Paid Time Off Policy Change - Amort. of Proposed Liability	Testimony	(28,337)
9	General Liability Expense Adjustment	Exhibit DMR-2, Sch. C-7	(65,711)
10	Remove Tree Trimming Normalization Adj.	Testimony	(55,500)
11	Reflect Joint User Sharing of Pole Attachment Audit Costs	Testimony	(7,171)
12	Remove Sponsorships, Donations, Golf Related Costs	Exhibit DMR-2, Sch. C-8	(57,561)
13	Remove Public Relations Advertising Expense	Exhibit DMR-2, Sch. C-9	(67,134)
14	Remove Shrimp Festival Expense	Testimony	(23,465)
15	Economic Development Expense	Exhibit DMR-2, Sch. C-10	(23,000)
16	Limit Increase in CUC Charges to Escalation Impacts	Exhibit DMR-2, Sch. C-11	(384,272)
17	Remove Charges from Specific CUC Departments	Exhibit DMR-2, Sch. C-12	(205,043)
18	Remove Non-Recurring Executive Consulting Charges from CUC	Testimony	(29,763)
19	Remove Charges from CUC Strategic Development Department	Testimony	(111,296)
20	Remove Winter Event Costs	Testimony	(17,968)
21	subtotal		$ (1,870,736)
	Amortization:		
22	Remove Amort. of Proposed Tax Step-up Reg. Asset	Testimony	$ (13,584)
23	subtotal		$ (13,584)
	Taxes Other Than Income:		
24	Reduction to Payroll Tax Expense	Exh. DMR-2, Sch. C-13	$ (41,716)
25	Reduction to Property Tax Expense	Exh. DMR-2, Sch. C-14	(57,515)
26	subtotal		$ (99,231)
	Income Taxes:		
27	Impact of other adjustments	Exh. DMR-2, Sch. C-15	$ 786,506
28	Interest Synchronization Adjustment	Exh. DMR-2, Sch. C-16	13,273
29	subtotal		$ 799,779

Increase in Late Payment Fees - Remove Refund Impacts

Line	Description	Amount	Reference
1	Impact of Company reversal of late fees due to lockbox issue on historic test year forfeited discount revenues	$ 55,000	(1)
2	Revenue Growth Factor Applied to Late Payments for 2014	1.002055	(2)
3	Revenue Growth Factor Applied to Late Payments for 2015	1.004278	(2)
4	Increase in Projected Test Year Late Payment Fee Revenues, per OPC	$ 55,349	L.1 * L.2 * L.3

	Year	Forfeited Discounts	
A.1	2011	$ 437,000	MFR Sch. C-6, page 1 of 3
A.2	2012	$ 434,000	MFR Sch. C-6, page 1 of 3
A.3	HTY 9/30/13	$ 380,000	MFR Sch. C-6, page 1 of 3

Reference:

(1) Per Budget variance Report for Florida Public Utilities - Electric, March 2013 provided in response to OPC POD 10, in file titled "OPC First POD 10 FE analytics 03-2013 WIP".

(2) Response to Staff Interrogatory No. 47.

Schedule C-3
FLORIDA PUBLIC UTILITIES
Consolidated Electric Division
Projected Test Year Ending September 30, 2015

Remove Non-Recurring Severance Expense

Line	Description	Amount	Reference
1	Severance Costs in Projected Test Year, per FPUC	127,628	(1)
2	Severance Costs per OPC	-	
3	Adjustment to Remove Severance Costs	$ (127,628)	

Source:
(1) Response to OPC Interrogatory No. 151

Schedule C-4
FLORIDA PUBLIC UTILITIES
Consolidated Electric Division
Projected Test Year Ending September 30, 2015

Remove Marianna Litigation Bonus Payout

Line	Description	Amount	Reference
1	Mariana Litigation Bonus Payout in Historic Test Year	$ 24,000	(1)
2	Payroll Trend Factor - Historic TY to Projected TY	1.0609	MFR Sch. C-7
3	Marianna Litigation Bonus Payout in Projected TY	25,462	Line 1 * Line 2
4	Amount per OPC	-	
5	Adjustment to Remove Marianna Bonus Payout	$ (25,462)	Line 4 - Line 3

Source:
(1) Per July 2013 variance report provided in response to OPC POD 10.

Schedule C-5
FLORIDA PUBLIC UTILITIES
Consolidated Electric Division
Projected Test Year Ending September 30, 2015

Docket No. 140025-EI
Exhibit DMR-2

Incentive Performance Plan Sharing Adjustment

Line	Description	Amount	Reference
1	Incentive Performance Plan Expense in Projected Test Year for Electric Florida Business Unit	$ 407,095	OPC Interrog. 13
2	OPC Recommended Shareholder Allocation	45%	Testimony
3	Recommended Incentive Performance Plan Adjustment	$ (183,193)	

Update Pension Expense to Current Projections

Line	Description	Per FPUC Based on 4-Year Avg.	Per OPC Based on Current Projections	Per FPUC Allocation to FPU Electric	Expense per FPUC	Expense per OPC
		(A)	(B)	(C)	(D) = (A) * (C)	(E) = (B) * (C)
	Net Periodic Cost per GAAP:					
1	Interest Cost	$ 2,591,750	$ 2,588,042	29%	$ 751,608	$ 750,532
2	Expected return on Plan Assets	(2,701,750)	(3,090,383)	29%	(783,508)	(896,211)
3	Amortization of Net Gain/Loss	131,500	-	29%	38,135	-
4	Subtotal	21,500	(502,341)		6,235	(145,679)
5	Amortization of Regulatory Asset	761,065	761,065	36%	273,983	273,983
6	Total Pension Expense	$ 782,565	$ 258,724		$ 280,218	$ 128,304

Line	Description	Amount
7	Total Pension Expense per OPC, Based on Current Projections	$ 128,304
8	Total Pension Expense per FPUC, Based on 2010 - 2013 average	280,218
9	Reduction to Projected Test Year Pension Expense	$ (151,914)

Source/Notes:

Col. (A) and (C): Response to OPC POD 57. Total Expense on a FPUC Electric Operations basis of $280,218 consistent with amount identified in the Direct Testimony of FPUC Witness Cheryl Martin at page 40.

Col. (B): Response to OPC POD 16 (at FPU RC-002464) and response to OPC POD 1 at FPU RC-24.

General Liability Expense

Line	Description	Amount	Reference
1	2009 claims	$ 12,694	OPC Interrog. 77
2	2010 claims	3,847	OPC Interrog. 77
3	2011 claims	-	OPC Interrog. 77
4	2012 claims	20,541	OPC Interrog. 77
5	2013 claims	132,284	OPC Interrog. 77
6	2014 YD claims	129,222	OPC Interrog. 77
7	5 1/2 year total claims	$ 298,588	
8	Annual Average	$ 54,289	Line 7 / 5.5 years
	Company Self-Insurance Reserve and Claim Recovery Request:		
9	Request for Amortization of Large Claim Utilizing Full Deductible	$ 50,000	(a)
10	Request for Annual Reserve for Potential Large Claims	50,000	(b)
11	Request for Annual Reserve for Small Claims	20,000	(c)
12	Total Expense Requested by Company	$ 120,000	MFR C-7, p. 9
13	Recommended Annual Expense for Liability Claims Falling Under the Insurance Deductible Limits, per OPC	54,289	Line 8
14	Reduction to General Liability Expense, per OPC	$ (65,711)	Line 13 - Line 12

Source/Notes:

(a) Company has requested a regulatory asset to recover the $250,000 deductible it paid on a large claim to be amortized over 5 years, resulting in an annual amortization expense of $50,000.

(b) Company has requested $50,000 a year to establish a reserve for potential future large claims that would fall under its $250,000 deductible.

(c) Company has requested $50,000 a year to establish a reserve for potential future small claims that would fall under its $250,000 deductible.

Schedule C-8, page 1 of 2
FLORIDA PUBLIC UTILITIES
Consolidated Electric Division
Projected Test Year Ending September 30, 2015

Docket No. 140025-EI
Exhibit DMR-2

Advertising Expense Adjustment - Sponsorships, Donations, Golf Related Costs

Line	Organization/Description	Amount	OPC POD 49 Reference
1	Micah's Place - Roaring 20's Celebration Ticket/Sponsorship	$ 2,500	FPU RC-004687 to 004688
2	Creative Marketing Concepts - Golf Balls and Golf Towels with logo	4,545	FPU RC-004705 to 004710
3	Lions Club of Fernandina Beach - Contribution	75	FPU RC-004714
4	Lions Club of Fernandina Beach - Hole Sponsor	100	FPU RC-004715
5	Amelia River Golf Club - Golf Outing to Support Fernandina Beach High School Baseball Team	500	FPU RC-005346 - 005348
6	Morocco Shriners - Circus tickets	650	FPU RC-005358
7	Spirit Zone Group - Rally Towels for Marianna High School	563	FPU RC-005362
8	North Florida Hotel & Lodging Association Golf Tournament	500	FPU RC-005382 - 004282
9	Corporate Golf Imprinting - golf balls with FPU logo	2,290	FPU RC-005384
10	Santa Golf Tourn. to Benefit Jackson County Christmas Fund - hole sponsor	600	FPU RC-004730 - 004731
11	Santa Golf Tourn. to Benefit Jackson County Christmas Fund - players	260	FPU RC-004732-004733
12	MHS Softball Boosters Golf Tournament sponsor	500	FPU RC-004734-004735
13	Communities In Schools of Nassau County, Inc.- beach fun run donation	500	FPU RC-004752-004753
14	Chipola College Athletics Golf Tournament - 4 person scramble	200	FPU RC-004759-004760
15	Henshaw Chapel AME Church Annual Hallelujah Night donation	200	FPU RC-004761-004764
16	Malone FFA Chapter trip donation - Argentina	200	FPU RC-004765-004766
17	Florida Sheriff's Youth Ranches, Inc. Benefit Concert - ticket donation	100	FPU RC-004769-004770
18	Community Sponsor - Breast Cancer Advertisement	120	FPU RC-004777-004778
19	2nd Annual Pecan Fun Run - T-Shirt Sponsor	250	FPU RC-004790-004791
20	Marianna High School baseball field improvement Corporate Sponsor	1,500	FPU RC-004838 - 004839
21	CopyLab Inc. - Name Decals - promotional/name recognition	536	FPU RC-004866 - 004869
22	Partnership with Education Essay Writing Contest sponsor	420	FPU RC-004875 - 004879
23	Cottondale High School - donation for pitching machine wheels	480	FPU RC-004888 - 004890
24	Altrusa International, Inc. - Golf Tournament Sponsorship	750	FPU RC-004905 - 004907
25	Habitat for Humanity 5K Run Sponsorship	250	FPU RC-004908 - 004909
26	Marianna High School Cheerleading Competition donation	200	FPU RC-004914
27	Boy Scouts Golden Eagle Dinner Sponsorship	1,000	FPU RC-004917-004918
28	Atha Church of God Youth Group Fundraiser sponsorship	200	FPU RC-004924 - 004926
29	Amelia Island International Wine & Food Tasting Fundraiser - Sponsorship	1,000	FPU RC-004927 - 004929
30	MHS Softball Team Golf Tournament Sponsorship	500	FPU RC-004930 - 004931
31	FPU Power Up for Kids Golf Tournament sponsor	5,000	FPU RC-004932 - 004934
32	Fernandina Beach Middle School Symphonic Band donation/sponsorship	500	FPU RC-004937 - 004938
33	W. R. Tolar School educational trip to Washington DC donation 2/8/13	2,000	FPU RC-004943 - 004944
34	W. R. Tolar School education trip to Washington DC donation 8/20/13	2,000	FPU RC-005303 - 005304
35	NCCDC Scholarship Fund Banquet donation	400	FPU RC-004945 - 004946
36	MTN Advertising - Public Relations advertising	367	FPU RC-004947 - 004951
37	Dayspring Christian Academy new kitchen and cafeteria donation	300	FPU RC-004960 - 004961
38	Subtotal, Page 1 of 2	$ 32,056	

Advertising Expense Adjustment - Sponsorships, Donations, Golf Related Costs

Line	Organization/Description	Amount	OPC POD 49 Reference
39	Marianna Lions Club - Fish Fry Sponsorship	$ 395	FPU RC-004982
40	Jackson County ARC, Inc. May Day Festival and Plant Sale sponsor	300	FPU RC-005008 - 005009
41	The Palace Saloon Golf Classic Benefitting Micah's Place Sponsorship	1,500	FPU RC-005010 - 005012
42	MHS Baseball Golf Tournament	195	FPU RC-005045 - 005046
43	Nassau Humane Society Taste & Toast sponsor	500	FPU RC-005047 - 005048
44	Malone May 5K race sponsorship	200	FPU RC-005049 - 005050
45	Eight Keys to a Better Me sponsor for Dayspring Christian Academy	1,441	FPU RC-005058 - 005060
46	Hope School - Special Olympics - donation for championship rings	1,000	FPU RC-005061 - 005062
47	"Colonel Thomas" Memorial Golf Classic - 2 teams	480	FPU RC-005069 - 005070
48	"Colonel Thomas" Memorial Golf Classic - hole sponsor	100	FPU RC-005108 - 005109
49	Altha Public School - travel to National Leadership Conference - donation	500	FPU RC-005071 - 005072
50	Florida Panhandle Saddle Club - Rodeo sponsor	300	FPU RC-005079 - 005080
51	First Baptist Church of Bristol - Sportsman's Banquet donation	100	FPU RC-005081 - 005082
52	Marianna High School graduation party donation	250	FPU RC-005083 - 005084
53	Mount Olive A.M.E. Church May event sponsorship	300	FPU RC-005087 - 005088
54	Blountstown High School graduation party donation	100	FPU RC-005089 - 005090
55	Jackson County Summer Concerts - Sponsor of 3 concerts	1,000	FPU RC-005127 - 005128
56	Chipola FEA Federation golf tournament - scholarships - sponsor	300	FPU RC-005138 - 005139
57	Marianna Swim Team sponsorship	200	FPU RC-005164 - 005165
58	ALS Amelia Island Golf Classic - foursome	600	FPU RC-005168 - 005170
59	Marianna Ozone Allstars baseball team sponsorship	250	FPU RC-005173 - 005174
60	Marianna Dixie Girls Softball sponsorship	200	FPU RC-005175 - 005176
61	FBHS High Jump pit donation	100	FPU RC-005188 - 005189
62	The Wright Foundation fundraising campaign donation	1,000	FPU RC-005190
63	Chipola Appreciation Club membership - benefits athletics	1,000	FPU RC-005196 - 005198
64	Building Strong Families 5K and 10K - sponsorship	500	FPU RC-005271 - 005274
65	Southern Elite Softball Team sponsorship	200	FPU RC-005275 - 005277
66	Liberty County Ozone Baseball Team sponsor	200	FPU RC-005278 - 005279
67	Evangel Worship Center - Mud for Missions sponsorship	250	FPU RC-005285 - 005286
68	NE Jackson County Optimist Club golf tournament - sponsor	950	FPU RC-005287 - 005289
69	Marianna High School Volleyball Team donation	250	FPU RC-005299 - 005300
70	Greater Nassau County Chamber of Commerce Golf Tournament sponsorship	450	FPU RC-005301 - 005302
71	Sunday Afternoon with the Arts and Cultural Activities Donation	5,000	FPU RC-005320 - 005321
72	Rayonier - United Way Golf Tournament sponsorship	1,000	FPU RC-005331 - 005332
73	Jackson Hospital Foundation - James T. Cook Jr. Memorial Golf Classic - 2 teams	1,320	FPU RC-005333 - 005335
74	FBHS Girls Basketball sponsorship	250	FPU RC-005342 - 005344
75	Subtotal, Page 2 of 2	$ 22,681	
76	Subtotal from Page 1 of 2	32,056	
77	Total Donations, Sponsorships, Golf Event Costs in Historic Test Year	$ 54,737	
78	Trend Factor Applied by Company	1.0516	
79	Total Donations, Sponsorships, Golf Event Costs in Projected Test Year	$ 57,561	
80	OPC Recommended Adjustment to Remove Donations, Sponsorships and Golf Related Costs	$ (57,561)	

Schedule C-9
FLORIDA PUBLIC UTILITIES
Consolidated Electric Division
Projected Test Year Ending September 30, 2015

Docket No. 140025-EI
Exhibit DMR-2

Advertising Expense Adjustment - Remove Public Relations Advertising

Line	Organization/Description	Amount	OPC POD 49 Reference
1	Ron Sachs Communications - Public Relations Campaign Prep. for Marianna referendum - February 2013 invoice	$ 17,500	FPU RC-004965 - 004967
2	Sachs Media Group, Inc. - Public Relations consulting - Marianna Lawsuit, installment 2 of 2 - April 2013 invoice	17,500	FPU RC-005120-005121
3	MTN Advertising - Vote NO Campaign - Phase II	320	FPU RC-005099
4	MTN Advertising - Vote NO Thank You Ad	545	FPU RC-005122
5	MTN Advertising - News Updates - Thank You Marianna	125	FPU RC-005134
6	MTN Advertising - Community Campaign - Public Relations	24,445	FPU RC-005148 - 005159
7	MTN Advertising - Community Electric Campaign - Giving Back - Public Relations	1,775	FPU RC-005073 - 005078
8	MTN Advertising - Promotional/name recognition	1,630	FPU RC-004852 - 004862
9	Public Relations Advertising Costs in Historic Test Year	$ 63,840	
10	Trend Factor Applied by Company	1.0516	
11	Public Relations Advertising Costs in Projected Test Year	$ 67,134	
12	OPC Recommended Adjustment to Remove Public Relations Advertising	$ (67,134)	

Schedule C-10
FLORIDA PUBLIC UTILITIES
Consolidated Electric Division
Projected Test Year Ending September 30, 2015

Docket No. 140025-EI
Exhibit DMR-2

Economic Development Expense

Line	Description		Amount	
	Economic Development Expense, per FPUC, by Year:			
1	2009	$	14,954	OPC ROG 36
2	2010		5,000	OPC ROG 36
3	2011		35,097	OPC ROG 36
4	2012		107,686	OPC ROG 36
5	2013		32,314	OPC ROG 36
6	Five-Year Total Economic Development Expenditure, per FPUC	$	195,051	
	Items Non-Economic Development Expenditure Include Above:			
7	Helium Rental for Shrimp Fest 2011	$	(426)	OPC POD 42
8	Pencils and Balloons Acquired for Shrimp Festival - 2011		(14,254)	OPC POD 42
9	Shrimp Festival TS from Petty Cash - 2011		(326)	OPC POD 42
10	Shrimp Festival T-shirts		(90)	OPC POD 42
11	Shrimp Festival - 2011 billable reclassification (inc. in 2012)		(6,825)	OPC POD 42
12	Shrimp Festival - 2012 billable reclassification		(15,861)	OPC POD 42
13	Shrimp Festival reclassification - 2013 (items not itemized)		(22,314)	OPC POD 42
14	5 Year Total Expense, Adjusted to Remove Shrimp Festival Costs	$	134,955	
15	Average Economic Development Expense - Last Five Years, as Adjusted	$	26,991	Line 14 / 5
16	OPC Recommended Allowance (Above Average Rounded)	$	27,000	Line 15 rounded
17	Company Requested Test Year Economic Development Expense		50,000	
18	Reduction to Requested Economic Development Expense	$	(23,000)	

Schedule C-11
FLORIDA PUBLIC UTILITIES
Consolidated Electric Division
Projected Test Year Ending September 30, 2015

Docket No. 140025-EI
Exhibit DMR-2

Adjustment to Limit Increase in CUC Charges to Escalation Impacts

Line	Description	Adjusted HTY Amount per FPUC	Escalation Factor	Projected Test Year per OPC
		(A)	(B)	(C)
1	Payroll Charges from CUC to FPUC Electric Operations	$ 779,551	1.0671	$ 831,859
2	Non-Payroll Charges from CUC to FPUC Electric Operations	1,641,846	1.0516	1,726,565
3	Total	$ 2,421,397		$ 2,558,424
4	Projected Test Year Charges from CUC Based on Historic Test Year with Escalation			$ 2,558,424
5	Projected Test Year Charges from CUC, per Company (excluding general liability adjustment)			2,942,696
6	Reduction to Projected Test Year Charges from CUC, per OPC			$ (384,272)

Source/Notes:
Col. (A) and Line 5: MFR Schedule C-7(2015), page 8 of 9.
Col. (B), Line 1: Payroll escalation factor based on Payroll and Customer Growth Factor on MFR Sch. C-7
Col. (B), Line 2: Non-payroll escalation factor based on Inflation and Customer Growth Factor on MFR Sch. C-7
Col. (C), Lines 1 and 2: Column (A) x Column (B).

Remove Charges from Specific CUC Departments

Line	Description	Payroll Charges	Non-Payroll Charges	Total
		(A)	(B)	(C)
1	Historic Test Year Expenses from CUC New Energy Development Dept.	$ 21,987	$ 60,242	$ 82,229
2	Historic Test Year Expenses from CUC SVP of Strategic Development Dept.	50,020	61,671	111,691
3	Historic Test Year Total	$ 72,007	$ 121,913	$ 193,920
4	OPC Recommended Escalation Factors	1.0671	1.0516	
5	Amount for Departments in OPC Recommended Projected Test Year	$ 76,839	$ 128,204	$ 205,043
6	Additional Reduction to Remove Costs for New Energy Development and SVP of Strategic Development Departments			$ (205,043)

	Amounts Included in Company Requested Projected Test Year:	Amount
A.1	Projected Test Year Expenses from CUC New Energy Development Dept.	$ 178,989
A.2	Projected Test Year Expenses from CUC SVP of Strategic Development Dept.	153,873
A.3	Projected Test Year Total, per Company	$ 332,862

Source/Notes:
Lines 1 and 2: Breakdown between Payroll and Non-Payroll from OPC POD 1 at FPU RC-1198.
Line 3: Payroll escalation factor based on Payroll and Customer Growth Factor on MFR Sch. C-7, Non-payroll escalation factor based on Inflation and Customer Growth Factor on MFR Sch. C-7
Lines A.1 and A.2: Response to OPC POD 1 at FPU RC-1198

Schedule C-13
FLORIDA PUBLIC UTILITIES
Consolidated Electric Division
Projected Test Year Ending September 30, 2015

Reduction to Payroll Tax Expense - Impact of Other Adjustments

Line	Description	Amount	Reference
1	Adjustment to Remove Non-Recurring Severance Payments	$ (127,628)	Exh. DMR-2, Sch. C-3
2	Remove Marianna Litigation Bonus Pay-out	(25,462)	Exh. DMR-2, Sch. C-4
3	Remove Corporate Bonuses Allocated Florida Electric	(209,031)	Exh. DMR-2, Sch. C-2, p.2
4	Incentive Performance Plan Sharing Adjustment	(183,193)	Exh. DMR-2, Sch. C-5
5	Total Reduction to FICA Taxable Salaries and Wages	$ (545,314)	
6	FICA Tax Rate	7.65%	MFR Sch. C-20
7	Reduction to Payroll Tax Expense	$ (41,716)	

Property Tax Expense Adjustment

Line	Description	Amount	Percentage Change
	Period		
1	2010	$ 575,126	
2	2011	586,923	2.05%
3	2012	582,345	-0.78%
4	2013	620,516	6.55%
5	Average Annual Percentage Change		2.61%
6	Historic Test Year Property Tax Expense, per Company		$ 601,193
7	Annual Growth Factor (Line 5)		2.61%
8	Projected Prior Year Ended 9/30/14 per OPC		$ 616,876
9	Annual Growth Factor (Line 5)		2.61%
10	Projected Test Year Property Tax Expense, per OPC		$ 632,968
11	Projected Test Year Property Tax Expense, per FPUC		690,483
12	Reduction to Property Tax Expense		$ (57,515)

Source/References:
Amounts per response to OPC Interrogatory No. 45 and MFR Sch. C-20

Income Tax Expense - Impact of Other Adjustments

Line No.	Description	Amount
1	OPC Jurisdictional Operating Income Adjustments (1)	$ 2,038,900
2	Composite Income Tax Rate (2)	38.575%
3	Adjustment to Income Tax Expense	$ 786,506

Source:
(1) Exhibit DMR-2, Schedule C-1, Page 2
(2) Calculated using Florida state income tax rate of 5.50% and Federal income tax rate of 35%

Schedule C-16
FLORIDA PUBLIC UTILITIES
Consolidated Electric Division
Projected Test Year Ending September 30, 2015

Docket No. 140025-EI
Exhibit DMR-2

Interest Synchronization Adjustment

Line No.	Description	Amount	Reference
1	Adjusted Jurisdictional Rate Base, per OPC	$ 58,387,115	Exh. DMR-2, Sch. B-1
2	Weighted Cost of Debt, per OPC	1.97%	Exh. DMR-2, Sch. D
3	Interest Deduction for Income Taxes	$ 1,150,631	Line 1 x Line 2
4	Interest Deduction, per Company	$ 1,185,039	(a)
5	Increase (Reduction) in Deductible Interest	$ (34,408)	
6	Composite Income Tax Rate	38.575%	
7	Reduction (Increase) to Income Tax Expense	$ (13,273)	

(a) MFR Schedule C-23.

Cost of Capital

		Jurisdictional Capital Structure Per Company	OPC Adjustments to Cap. Struct.	Adjusted Amounts	OPC Rate Base Adjustments	Per Citizens Adjusted Amounts	Ratio	Cost Rate	Per OPC Weighted Cost Rate
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
1	Long Term Debt - Parent Co.	$ 15,151,520	$ 4,644,024	$ 19,795,544	$ (721,653)	$ 19,073,891	32.67%	4.90%	1.60%
2	Long Term Debt - Legacy	1,923,083	(1,294,192)	628,891	(22,926)	605,964	1.04%	12.74%	0.13%
3	Short Term Debt	3,143,821	619,848	3,763,669	(137,206)	3,626,463	6.21%	1.65%	0.10%
4	Common Equity	28,157,784	(3,969,680)	24,188,104	(881,786)	23,306,318	39.92%	9.00%	3.59%
5	Customer Deposits	3,386,840	-	3,386,840	(123,468)	3,263,372	5.59%	2.42%	0.14%
6	Deferred Taxes	8,833,121	-	8,833,121	(322,015)	8,511,106	14.58%	0.00%	0.00%
7	Investment Tax Credits	-	-	-	-	-	0.00%	6.80%	0.00%
8	Total	$ 60,596,169	$ (0)	$ 60,596,169	$ (2,209,055)	$ 58,387,114	100.00%		5.56%

	Ratio of Debt & Equity Components:	Per Company Jurisdictional Amounts	Per Company Ratio	Capitalization Ratio Per OPC	Revised Allocations	Adjs. To Reflect OPC Cap. Struct.
		(a)	(b)	(c)	(d)	(e) = (d - a)
9	Long Term Debt - Parent Co.	$ 15,151,520	31.32%	40.92%	$ 19,795,544	$ 4,644,024
10	Long Term Debt - Legacy	1,923,083	3.98%	1.30%	628,891	(1,294,192)
11	Short Term Debt	3,143,821	6.50%	7.78%	3,763,669	619,848
12	Common Equity	28,157,784	58.21%	50.00%	24,188,104	(3,969,680)
13		$ 48,376,208	100.00%	100.00%	$ 48,376,208	$ -

Source:
The per Company amounts are from MFR Sch. D-1a, page 3, Column (G).
Column (c): Capitalization Ratio per OPC sponsored by OPC Witness Dr. Randall Woolridge
Column (G): Lines 1, 2 and 5 based on per-FPUC cost rates. Short Term Debt rate on line 3 and Return on Equity on line 4 sponsored by OPC Witness Dr. Randall Woolridge. Line 7 is a fall-out calculation.

FLORIDA PUBLIC UTILITIES
Consolidated Electric Division
Projected Test Year Ending September 30, 2015

Docket No. 140025-EI
OPC Alternate Recommendation
Exhibit DMR-3

Revenue Requirement

Line No.	Description	Per Company Amount (A)	Per OPC Amount (B)	Col. (B) and (C) Reference
1	Adjusted Rate Base	$ 60,596,170	$ 58,387,115	Exh. DMR-2, Sch. B-1
2	Required Rate of Return	7.18%	5.74%	Exh. DMR-3, p. 2
3	Income Required	4,350,805	3,348,882	Line 1 x Line 2
4	Adjusted Net Operating Income	768,114	1,912,899	Exh. DMR-3, p.3
5	Income Deficiency (Sufficiency)	3,582,691	1,435,983	Line 3 - Line 4
6	Earned Rate of Return	1.27%	3.28%	Line 4 / Line 1
7	Net Operating Income Multiplier	1.6335	1.6335	MFR Schedule A-1
8	Revenue Deficiency (Sufficiency)	$ 5,852,171	$ 2,345,613	Line 5 x Line 7
9	Increase in Service Charge and Other Revenues	$ 30,962	$ 30,962	MFR Schedule A-1
10	Increase in Base Rate Revenues	$ 5,821,209	$ 2,314,651	Line 8 + Line 9

Source/Notes:
Col. (A): MFR Schedule A-1

Cost of Capital

		Jurisdictional Capital Structure Per Company	OPC Adjustments to Cap. Struct.	Adjusted Amounts	OPC Rate Base Adjustments	Per Citizens Adjusted Amounts	Ratio	Cost Rate	Per OPC Weighted Cost Rate
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
1	Long Term Debt - Parent Co.	$ 15,151,520	$ 1,396,431	$ 16,547,951	$ (603,261)	$ 15,944,690	27.31%	4.90%	1.34%
2	Long Term Debt - Legacy	1,923,083	(1,396,431)	526,652	(19,199)	507,452	0.87%	12.74%	0.11%
3	Short Term Debt	3,143,821	-	3,143,821	(114,609)	3,029,212	5.19%	1.65%	0.09%
4	Common Equity	28,157,784	-	28,157,784	(1,026,502)	27,131,282	46.47%	8.75%	4.07%
5	Customer Deposits	3,386,840	-	3,386,840	(123,468)	3,263,372	5.59%	2.42%	0.14%
6	Deferred Taxes	8,833,121	-	8,833,121	(322,015)	8,511,106	14.58%	0.00%	0.00%
7	Investment Tax Credits	-	-	-	-	-	0.00%	7.02%	0.00%
8	Total	$ 60,596,169	$ (0)	$ 60,596,169	$ (2,209,055)	$ 58,387,114	100.00%		5.74%

	Ratio of Debt & Equity Components:	Per Company Jurisdictional Amounts	Per Company Ratio	Capitalization Ratio Per OPC	Revised Allocations	Adjs. To Reflect OPC Cap. Struct.
		(a)	(b)	(c)	(d)	(e) = (d - a)
9	Long Term Debt - Parent Co.	$ 15,151,520	31.32%	34.21%	$ 16,547,950	$ 1,396,431
10	Long Term Debt - Legacy	1,923,083	3.98%	1.09%	526,652	(1,396,431)
11	Short Term Debt	3,143,821	6.50%	6.50%	3,143,821	-
12	Common Equity	28,157,784	58.21%	58.21%	28,157,785	-
13		$ 48,376,208	100.00%	100.00%	$ 48,376,208	$ (0)

Source:
The per Company amounts are from MFR Sch. D-1a, page 3, Column (G).
Column (c): Alternate Capitalization Ratio per OPC sponsored by OPC Witness Dr. Randall Woolridge
Column (G): Lines 1, 2 and 5 based on per-FPUC cost rates. Short Term Debt rate on line 3 and Return on Equity on line 4 sponsored by OPC Witness Dr. Randall Woolridge. Line 7 is a fall-out calculation.

Revision to OPC Adjusted NOI Under Alternative Recommendation

Line No.	Description	Amount	Reference
1	OPC Adjusted Net Operating Income, Primary Recommendation	$ 2,007,235	Exh. DMR-2, Sch. C-1, p.1
2	Less: Interest Synchronization Adjustment in OPC Adjusted NOI	(13,273)	Exh. DMR-2, Sch. C-1, p.2
3	Add: Revised Interest Synchronization Adjustment Based on Alternative Recommended Cost of Debt	(81,063)	Exh. DMR-3, page 4
4	OPC Adjusted NOI - Alternative Recommendation	$ 1,912,899	

FLORIDA PUBLIC UTILITIES
Consolidated Electric Division
Projected Test Year Ending September 30, 2015

Docket No. 140025-EI
OPC Alternate Recommendation
Exhibit DMR-3

Interest Synchronization Adjustment

Line No.	Description	Amount	Reference
1	Adjusted Jurisdictional Rate Base, per OPC	$ 58,387,115	Exh. DMR-2, Sch. B-1
2	Weighted Cost of Debt, per OPC	1.67%	Exh. DMR-3, p. 2
3	Interest Deduction for Income Taxes	$ 974,895	Line 1 x Line 2
4	Interest Deduction, per Company	$ 1,185,039	(a)
5	Increase (Reduction) in Deductible Interest	$ (210,144)	
6	Composite Income Tax Rate	38.575%	
7	Reduction (Increase) to Income Tax Expense	$ (81,063)	

(a) MFR Schedule C-23.

Notice of Annual Meeting of Stockholders

CHESAPEAKE UTILITIES CORPORATION

Tuesday, May 6, 2014
9:00 a.m. EDT Time
The Board Room of PNC Bank, N.A.
222 Delaware Avenue
Wilmington, Delaware 19801

March 31, 2014

DEAR STOCKHOLDER:

The 2014 Annual Meeting of Stockholders of Chesapeake Utilities Corporation will be held on May 6, 2014 at 9:00 a.m. Eastern Daylight Time in the Board Room of PNC Bank, N.A., 222 Delaware Avenue, Wilmington, Delaware 19801. Stockholders will be asked to:

1. Elect four Class III directors named in the attached Proxy Statement;
2. Cast an advisory vote to approve the executive compensation of our named executive officers; and
3. Cast an advisory vote to ratify the appointment of the Company's independent registered public accounting firm.

Stockholders will also transact any other business that may properly come before the meeting.

The Board recommends a vote FOR Items 1, 2 and 3 and for any business that may properly come before the meeting, pursuant to the discretion of the appointed proxies.

The record date for the Annual Meeting is March 19, 2014. If you hold Chesapeake stock at the close of business on March 19, 2014, you are entitled to vote at the Annual Meeting.

In order to vote on the matters brought before the meeting, you may vote by: (i) completing and mailing the proxy card, (ii) telephone, (iii) visiting our website, (iv) scanning the QR Code on your mobile device, or (v) appearing in person and voting at the Annual Meeting. Voting instructions are printed on your proxy card. **Your vote is important. We encourage you to vote by proxy, even if you plan to attend the Annual Meeting.**

Sincerely,

Beth W. Cooper

Beth W. Cooper
Corporate Secretary

Chesapeake Utilities Corporation
909 Silver Lake Boulevard
Dover, DE 19904

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on May 6, 2014. *This Notice of Annual Meeting of Stockholders and Proxy Statement, form of Proxy card, our 2013 Annual Report on Form 10-K, as well as directions to our meeting, are available at www.chpk.com/proxymaterials.*

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2013 Cash Incentive Award

The Compensation Committee is authorized to grant cash incentive awards to each named executive officer under the Cash Incentive Plan. Generally, the target cash incentive awards for each named executive officer are set at an amount that approximates the median prevailing practices of the industry peer group for comparable positions. The actual award earned for all named executive officers, except Mr. Householder, can range from 0 to 150 percent of the target cash incentive award for the non-financial component and from 0 to 200 percent of the target cash incentive award for the financial component, depending on actual performance at the end of the performance period as compared to the performance targets. The Compensation Committee may use its discretion to adjust a participant's bonus opportunity or payout amount upward or downward based on unanticipated and/or extraordinary events. For Mr. Householder, the actual award earned can range from 0 to 150 percent of the target cash incentive award, depending on actual performance at the end of the performance period as compared to the performance targets.

In January 2013, the Compensation Committee established financial and non-financial performance targets under the Cash Incentive Plan for Messrs. McMasters, Thompson and Mmes. Cooper and Bittner. These named executive officers were evaluated on an earnings per share financial target of $3.18. Each named executive officer also has established individual goals that are evaluated by the Compensation Committee in connection with determining the extent to which the individual met his or her non-financial targets. These goals are grouped into the following categories: (i) Leadership, (ii) Employee Engagement, and (iii) Service Excellence. The named executive officers may earn a cash incentive award upon achieving his or her pre-established financial and non-financial targets based on the Compensation Committee's evaluation. The Compensation Committee reserves the right to consider additional performance criteria for the Chief Executive Officer related to pursuing strategic or operational opportunities.

Mr. Householder's 2013 cash incentive award was established by the Chief Executive Officer. Mr. Householder was evaluated on an earnings per share financial target of $3.18 and an aggregate pre-established operating income of $23.4 million for several regulated and unregulated businesses in Florida. Mr. Householder also has established individual goals that are evaluated by the Chief Executive Officer in connection with determining the extent to which he met his non-financial targets. These goals are grouped into the following categories: (i) Florida Business Unit Performance, (ii) Customer Engagement Initiatives, (iii) Pipeline Initiatives, and (iv) Business Unit Structure and Organization.

The following table shows each named executive officer's target cash incentive award, based on such named executive officer's base salary as of December 31, 2013 and weighting for the financial and non-financial performance targets. In March 2014, the Compensation Committee reviewed the performance of each named executive officer and based on that review authorized the payment of cash incentive awards as reflected in the table below.

	2013 Target Cash Incentive Award Opportunity			Weighting for the Performance Targets		Actual Achievement of Performance Targets		Actual Payout Based on Achievement of Performance Targets		
Named Executive Officer	Base Salary (as of December 31, 2013)	Bonus Opportunity (% of Base Salary)	Target Cash Incentive Award at 100%	Non-Financial Targets	Financial Targets	Non-Financial Targets	Financial Targets	Non-Financial	Financial	Payout as reflected in the Summary Compensation Table
Michael P. McMasters	$440,000	45%	$198,000	20%	80%	110%	200%	$43,560	$316,800	$360,360
Stephen C. Thompson	$320,000	30%	$ 96,000	20%	80%	110%	200%	$21,120	$153,600	$174,720
Beth W. Cooper	$285,000	30%	$ 85,500	20%	80%	110%	200%	$18,810	$136,800	$155,610
Elaine B. Bittner	$235,000	30%	$ 70,500	50%	50%	130%	200%	$45,825	$ 70,500	$116,325
Jeffry M. Householder	$273,500	25%	$ 68,375	45%	55%	150%	77%	$46,153	$ 29,024	$ 75,177

Equity Incentive Awards Granted in 2013

The Compensation Committee is authorized to grant equity incentive awards to each named executive officer under the 2013 Stock and Incentive Compensation Plan approved by stockholders in 2013. Our long-term incentive program is 100 percent performance-based, featuring annual grants of shares that are awarded if pre-established targets are achieved at the end of the three year performance period. The equity incentive awards are designed to reward executives for improving stockholder value by achieving growth in earnings while investing in the future growth of both our regulated and unregulated businesses. The actual award earned for all named executive officers can range from 0 to 150 percent of the target equity incentive award, depending on actual performance at the end of the performance period as compared to the performance targets. The awards granted for the performance periods are pursuant and subject to the terms of Performance Share Agreements executed by the Company and each of the named executive officers. The Compensation Committee has granted equity awards to Messrs. McMasters and Thompson and Mmes. Cooper and Bittner for the

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January 1, 2013 through December 31, 2015 performance period. The equity incentive award for Mr. Householder for the January 1, 2013 through December 31, 2015 performance period was established by the Chief Executive Officer in March 2014, and is similar to those granted to each of the other named executive officers. All future equity incentive awards granted will be at the discretion of the Compensation Committee.

A summary of features pertaining to these awards is provided below.

- The Compensation Committee granted performance shares to the corporate named executive officers in January of 2013. Mr. Householder's award was established by the Chief Executive Officer in March 2014.
- Payout opportunity is 0% (minimum), 50% (threshold), 100% (target), and 150% (maximum) of the target equity award for each named executive officer.
- The Compensation Committee granted equity awards to the corporate named executive officers, and the Chief Executive Officer granted an equity award to Mr. Householder, as follows:

	Equity Incentive Award Opportunity for the 2013-2015 Performance Period					Value of Each Performance Component at Target		
Named Executive Officer	Base Salary (as of January 8, 2013)	Bonus Opportunity (% of Base Salary)	Target Equity Value	Average Closing Stock Price Per Share from 11/1/2012-12/31/2012	Target Equity Shares	Earnings Performance (35% Weighting)	Growth (35% Weighting)	Shareholder Return (30% Weighting)
Michael P. McMasters	$400,000	75%	$300,000	$44.97	6,671	$105,000	$105,000	$ 90,000
Stephen C. Thompson	$310,000	50%	$155,000	$44.97	3,447	$ 54,250	$ 54,250	$ 46,500
Beth W. Cooper	$274,300	50%	$137,150	$44.97	3,050	$ 48,003	$ 48,003	$ 41,144
Elaine B. Bittner	$224,100	50%	$112,050	$44.97	2,492	$ 39,218	$ 39,218	$ 33,614
Jeffry M. Householder	$265,500	50%	$132,750	$44.97	2,952	$ 46,463	$ 46,463	$ 39,825

- The Compensation Committee approved performance components set forth below for the equity awards granted to the corporate named executive officers.

Performance Component	Benchmark	Description of Benchmark	Percent Target Award
Shareholder Return	Total shareholder return compared to the total stockholder returns of companies included in the peer group for the performance period	Shareholder Return incentivizes executives to generate additional value for our stockholders	30%
Growth in Long-Term Earnings	Total capital expenditures as a percent of total capitalization as compared to companies in the peer group for the performance period	In the long-term, the Company's growth is dependent upon continuous investment of capital at levels sufficient to drive growth	35%
Earnings Performance	Average return on equity compared to pre-determined return on equity targets	Return on equity measures the Company's ability to generate current income using equity investors' capital	35%

For Mr. Householder, the *Shareholder Return* component is identical to that applicable to the other named executive officers. The *Growth in Long-Term Earnings* and *Earnings Performance* components for Mr. Householder include the combined investment levels and financial results for several regulated and unregulated businesses in Florida.

- The Compensation Committee evaluates achievement of the *Shareholder Return* and *Growth in Long-Term Earnings* performance components for the corporate named executive officers based upon evaluating the Company's performance relative to the performance of a peer group over the applicable thirty-six month performance period. The Company's performance is ranked against the performance of the peer group. The payout opportunity is based on the Company's percentile ranking against the peer companies in the peer group for each of these two performance components as shown in the table below.

Equity Award Thresholds

Percentile Ranking as Compared To Companies in the Peer Group	Percentage of Payout of Target Equity Incentive Award
40th - 49th percentile	50%
50th - 54th percentile	75%
55th - 60th percentile	100%
61st - 65th percentile	125%
Greater than 65th percentile	150%