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FLORIDA'S LAW FIRM FOR BUSINESS

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August 5, 2014

BY E-PORTAL FILING

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

Re: Docket No. 140025-EI -Application for rate increase by Florida Public Utilities Company.

Dear Ms. Stauffer:

Attached for electronic filing on behalf of Florida Public Utilities Company/Electric Division (FPU) in the above-referenced docket, please find the Rebuttal Testimonies and Exhibits of the following witnesses on behalf of Florida Public Utilities Company:

Jeffry M. Householder

Cheryl M. Martin (Exhibit CMM-9 through CMM-12)

Paul R. Moul (Exhibits PRM -2)

Jim Moss

Aleida Socarras

Mark Cutshaw

Matthew Kim (Exhibits MK-2 through MK-5)

Portions of the attached testimony are submitted in redacted form. Under separate cover, filed today, the Company will submit portions of the Testimony of Witnesses Householder and Kim, as well as Exhibits to the Testimonies of Witness Kim and Witness Martin under a Request for

Confidential Classification and Motion for Protective Order. Please do not hesitate to contact me if you have any questions whatsoever regarding this filing.

Sincerely,

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

Cc:/Service List (Docket 140025-EI)

Docket NO. 140025-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Rebuttal Testimonies and Exhibits, filed with the Commission on behalf of Florida Public Utilities Company, has been furnished by Hand Delivery and Electronic Mail to the following parties of record this 5th day of August, 2014:

Patricia A. Christensen, Esquire
Office of the Public Counsel
c/o The Florida Legislature
111 West Madison St., Rm 812
Tallahassee, FL 32399-1400

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

By: Beth Keating

Beth Keating
Bar No. 0022756
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FLORIDA PUBLIC UTILITIES COMPANY

Docket No. 140025-EI

REBUTTAL TESTIMONY OF

P. Mark Cutshaw

Q. **Please state your name, affiliation, business address and summarize your professional experience and academic background.**

A. My name is P. Mark Cutshaw. I am the Director of System Planning and Engineering for Florida Public Utilities Company (FPU or Company). My business office address is 911 South 8th Street, Fernandina Beach, Florida 32034. I joined FPU in May 1991 as Division Manager in the Marianna (Northwest Florida) Division. In January 2006, I became the General Manager of our Northeast Florida Division, and in 2013, I moved into my current position of Director of System Planning and Engineering. I graduated from Auburn University in 1982 with a B.S. in Electrical Engineering and began my career with Mississippi Power Company in June 1982. I spent 9 years with Mississippi Power Company and held positions of increasing responsibility that involved budgeting, as well as operations and maintenance activities at various Company locations. Since joining FPU, my responsibilities have included all aspects of budgeting, customer service, operations and maintenance in both the Northeast and Northwest Florida Divisions. My responsibilities also included involvement with Cost of Service Studies and Rate Design in other rate proceedings before the Commission as well as other regulatory issues.

Q. **Are you the same P. Mark Cutshaw who filed direct testimony in this proceeding?**

A. Yes.

Q. **Please state the purpose of your rebuttal testimony.**

A. The purpose of my testimony is to respond to the direct testimony of Donna Ramas, filed on behalf of the Office of Public Counsel ("OPC") in this proceeding.

Q. **Are you sponsoring any exhibits with your rebuttal testimony?**

A. No, I am not.

Q. **Please summarize the key issues and areas that you will address in your rebuttal testimony.**

A. I will be addressing the area of Pole Attachments - Joint Use Costs and the proposed adjustments that are included in Witness Ramas testimony beginning on page 45, line 20 and continuing through page 47, line 12.

Q. **Do you agree with Witness Ramas's recommended adjustment to costs associated with the Pole Attachments – Joint Use Costs issue included in her testimony on page 47, line 3 through page 47, line 12.**

A. No. I do not. I recommend that the entire $10,756, which represents one-fifth of the cost of an audit on pole attachments and joint use inventory, be included in the increased test year expenses.

Q. **Is FPU required to perform this type of pole attachment joint use audit and if so where is this indicated?**

A. Yes. FPSC Rule 25-6.0342, Electric Infrastructure Storm Hardening, includes several references to "Attachment Standards and Procedures" within this rule. It is my understanding that these requirements are included based on industry experience from storm impacts during which third party attachments to utility poles were considered by many as contributing factors to damage that occurred. As a result, this rule includes several references to third party attachments, including the following selected provisions:

25-6.0342 Section 4(c) requires that "The utility's storm hardening plan shall provide a detailed description of its deployment strategy including, but not limited to the following: The extent to which the electric infrastructure improvements involve joint use facilities on which third-party attachments exist."

25-6.0342 Section 4(e) requires that "The utility's storm hardening plan shall provide a detailed description of its deployment strategy including, but not limited to the following: An estimate of the costs and benefits, obtained pursuant to subsection (6) below, to third-party attachers affected by the electric infrastructure improvements, including the effect on reducing storm restoration costs and customer outages realized by the third-party attachers."

25-6.0342 Section 5 requires the development of "Attachment Standards and Procedures: As part of its storm hardening plan, each utility shall maintain written safety, reliability, pole loading capacity, and engineering standards and procedures for attachments by others to the utility's electric transmission and distribution poles (Attachment Standards and Procedures). The Attachment Standards and Procedures shall meet or exceed the edition of the National

Electrical Safety Code (ANSI C-2) that is applicable pursuant to Rule 25-6.034, F.A.C. so as to assure, as far as is reasonably practicable, that third-party facilities attached to electric transmission and distribution poles do not impair electric safety, adequacy, or pole reliability; do not exceed pole loading capacity; and are constructed, installed, maintained, and operated in accordance with generally accepted engineering practices for the utility's service territory."

25-6.0342 Section 6 requires the utilities to receive "Input from Third-Party Attachers: In establishing its storm hardening plan and Attachment Standards and Procedures, or when updating or modifying such plan or Attachment Standards and Procedures, each utility shall seek input from and attempt in good faith to accommodate concerns raised by other entities with existing agreements to share the use of its electric facilities. Any third-party attacher that wishes to provide input under this subsection shall provide the utility contact information for the person designated to receive communications from the utility."

Q. Are these requirements included in FPU's most recent approved Storm Hardening Plan?

A. Yes. Section 2.2 of the 2013 – 2015 Storm Hardening Plan, approved by the Commission in Docket 130131-EI, includes information regarding the Joint-Use Pole Attachment Audit. The Plan states that "FPUC currently has joint use agreements with multiple telecommunication and cable television providers. Although the agreements allow joint use attachments audits, these audits have not been completed as allowed in the contracts. Beginning in 2014, audits will be initiated with all joint use attachers in order to identify the total number of attachments and identify any violations that may exist. GIS mapping information will be used as a basis when conducting the audits."

This section goes on to state that "During the inspection process, the following data will be collected for use in analyzing the integrity of joint use poles. Based upon the significant length of time since the last joint use audit, strength and loading assessments will not be completed in this audit. The assessments will be conducted in the pole inspection program described above."

Further it states that "The information collected in the audit will be compiled and handled in accordance with the specific joint use agreement for that attachment. Any dangerous conditions identified that could result in a failure of the pole will be addressed immediately. The cost to manage the joint use audit and attachment process will be approximately $28,000 on an annual basis. The joint use audits will be conducted in accordance with the contracts for the third party attachers. Data collected during the audit process will be analyzed in order to determine the number of poles found to be overloaded, the number of unauthorized joint use attachments and customer outages related to these situations."

Furthermore, in its Order approving the Plan, Order No. PSC-13-0638-PAA-EI, the Commission specifically acknowledged that FPU, through the joint use audit, would be collecting data that ". . . will be analyzed to determine overloaded poles, unauthorized attachments, and outages relayed to these situations."

Q. **It appears based on this filing that you have not been able to comply with the Joint Use Attachment Audit requirement. What is causing the delay in completing the Joint Use Attachment Audit?**

A. FPU has very limited resources in the engineering staff. Due to the limited resources, FPU has not been able to complete the joint use attachment audit using existing employees.

Q. **What are your plans to meet this requirement?**

A. FPU will be contracting with an outside firm with expertise in Joint Use Audits to complete the audit. The plan at this point is to complete the audit during 2014 at a cost of approximately $53,781 which is based on a cost of $3.50/pole for 15,366 poles which contain joint use attachments.

Q. **Will the joint use attachers be involved in the audit?**

A. Each joint use attacher will have the opportunity to and will be encouraged to be involved in the audit in order to validate the final count and provide input into the situation should any attachment violations be found. However, the contracts for joint use attachments do not require their participation. Considering the amount of time required to perform the work, the relatively small number of attachments compared to their total attachments and the lack of a requirement in the contracts, it is very likely that they will elect not to participate.

Q. **Will joint use attachers be required to share in the costs for the audit?**

A. No. Most of FPU's current contracts with joint use attachers are quite dated and, consequently, do not specifically address cost sharing for joint use attachment audits. Going forward, we intend to clarify this issue to ensure that attachers share in the costs for joint use audits. However, as stated above, the Company does have multiple older contracts currently in place with various joint use attachers, which are simply not clear on this issue. Because the contracts are not specific on this point, the Company expects that it will be difficult, if not impossible, under the current contracts to implement audit cost sharing arrangements with the joint use attachers, particularly those that expend some of their own resources to participate in the joint use audit. Although there still remains some ambiguity on this issue, it appears likely that joint use attachers will not participate in the payment of the audit expense.

Q. **Does the estimate from TRC (BATES Label FPU RC-003064) indicate that the costs will be shared?**

A. No. The proposal referenced by witness Ramas at page 46 of her testimony does not state that the cost would be shared. Instead, it states that "it is **anticipated** that these costs will be divided equally between cable companies, telephone companies and FPUC." There is no indication by TRC that cost sharing is assured or even that the costs should be shared. Moreover, TRC could not have reached any such definitive conclusion, because it is not a party to the joint use contracts. I believe that this statement by TRC in its proposal is likely the result of a misinterpretation of our joint use billings, which is apparently what they relied upon. It is my opinion; however, based upon the lack of clarity within the current contracts as well as direct experience, that sharing of the audit costs will not occur in the absence of revised, updated contracts that specifically address cost sharing for the joint use audits.

Q. **Should the full amount of your test year increase not be approved and the joint users refuse to pay a portion of the cost, what actions will be necessary?**

A. Regardless of the final outcome of this proceeding, it will be necessary to continue with the joint use attachment audit using outside resources in order to come into compliance with requirements. Further, if the Company is not allowed to recover the joint use audit costs as requested, it will become more critical – and more likely - to that the Company will need to pursue legal action in an effort to address these issues with joint use attachers. This will result in additional time, resources and legal costs for all parties involved in order to develop the necessary new contracts providing for sharing of costs. As a result, the Company may find it necessary, at a future date, to seek approval from the Commission to recover such legal costs from its ratepayers. Likewise, I would expect that the joint use attachers would likely pass along any such additional legal costs to their customers as well, in which case many customers would be impacted not only through their electric bill, but also their cable or telephone bill.

Q. **What then is your recommendation in regard to the Joint Use Audit Cost?**

A. My request and recommendation is that the Commission allow the $10,756 amount to be included as an increase in the test year expenses as requested by FPU. The recovery of any portion of this amount from joint use attachers is very unlikely and inclusion of the entire amount should be approved.

Q. **Does this conclude your rebuttal testimony?**

A. Yes.

Docket No. 140025-EI

AFFIDAVIT

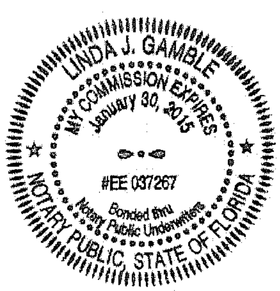
STATE OF FLORIDA

COUNTY OF NASSAU

BEFORE ME, the undersigned authority, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared P. Mark Cutshaw, who being duly sworn, deposed and stated that he is the sponsor of rebuttal testimony and that the foregoing testimony is true and correct to the best of his information, knowledge, and belief. He/She is personally known to me.

Sworn to and subscribed before me this 5th day of August, 2014.

In Witness Whereof, I have hereunto set my hand and seal in the State and County aforesaid as of this 5th day of August, 2014.



Linda J. Gamble
Notary Public
State of Florida, at Large

My Commission Expires:
January 30, 2015

FLORIDA PUBLIC UTILITIES COMPANY

Docket No. 140025-EI

REBUTTAL TESTIMONY

OF

ALEIDA SOCARRAS

Q. Please state your name, affiliation, business address and summarize your professional experience and academic background.

A. My name is Aleida Socarras. I am Director of Marketing & Sales for Florida Public Utilities Company (the "Company" or "FPU"). My business address is 911 South 8th Street, Fernandina Beach, FL 32034.

Q. **Are you the same Aleida Socarras who filed direct testimony in this proceeding?**

A. Yes.

Q. **Please state the purpose of your rebuttal testimony.**

A. The purpose of my testimony is to respond to the direct testimony of witness Ramas filed on behalf of the Office of Public Counsel ("OPC") in this proceeding.

Q. Are you sponsoring any exhibits with this rebuttal testimony?

A. No. I am not.

Q. **Please summarize the key issues and areas that you will address in your rebuttal testimony.**

A. I will address specific issues raised by witness Ramas related to Advertising Expenses and Economic Development Expenses at pages 47 through 55 of her testimony. Specifically, I will address the following topic areas:

1. Support of sponsorships and golf tournament activities for advertising purposes (Ramas, pages 48-49)

2. Increase in economic development activities (Ramas, pages 54-55)

3. Shrimp Festival expenses (Ramas, pages 52-55)

Q. Witness Ramas states at page 49, line 6, that "donations, sponsorships, and golf outings are not costs that are necessary for the provision of electric service to customers" and then recommends on page 50 of her testimony that advertising expense be reduced because costs associated with such events are just "image-enhancing costs." Do you agree?

A. No, not at all. Such events and activities are a critical means, particularly for a small company like FPU, to convey information regarding utility programs and related messages, by very cost-effective means, as compared to other modes of advertising.

Q. Please explain what you mean by these events and activities providing a cost-effective means for advertising.

A. Of course. FPU works to optimize its advertising dollars and to spend those dollars in the most effective ways available to reach our audience. The costs associated with sponsorships and golf tournaments are justified, because these activities are the optimal way to convey information to customers in small, rural areas. We are sensitive to the needs and culture of the communities we serve, as well as aware of the most effective communications methods. In our unique service areas, we have found that these types of events and activities provide the most direct, effective, and cost effective means to reach our intended audience in order to promote and publicize the use of our services and available programs. As an example, I note here that Novelties for general distribution, as defined in Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts, are specifically permitted for this purpose. In small rural communities, such as Marianna, as well as small, geographically confined areas, such as Fernandina Beach, business and customer relationships are extremely important and "word of mouth" is one of the best ways to disseminate information, even more so than electronic means, such as television or radio. Sponsorship of public events, including golf tournaments, provides a highly visible forum for advertising through banners, flyers, and novelties with appropriate messaging. These events also provide an opportunity for direct, one-on-one contact with customers, other residents, and community leaders through the availability of booklets, hand-outs, other presentations regarding our various programs and service offerings, along with company representatives present and available, on the spot, to address any questions regarding the materials provided. If we did not participate in these activities and, instead, relied only on mass media advertising, we would miss the opportunity to reach a wide section of our overall customer base. Consequently, our messaging would not be as effective.

Q. Upon what have you based your conclusion that these types of events are the best means by which to communicate and inform customers in your electric service areas?

A. Based on my marketing knowledge and past personal experience, I believe targeted, local, and direct means of reaching an audience tend to be more effective than mass communications. Since the 1990s, event marketing has grown faster than overall corporate advertising because it is a cost effective means of communicating with targeted audiences. FPU does use radio and TV advertising to raise awareness and create interest. However, mass media advertising needs to be reinforced with more direct channels of communication such as sponsorship of local events including golf outings. These events support our overall marketing objectives and are an economical way to reach our audience. We consider how our target audience gets their information and based on past experience, we know that in smaller communities word of mouth from trusted sources is the most effective channel of communication. Our target audience also perceives our participation in a positive way and appreciates our effort to reach out to them directly. Our employees participate in these events and are available to answer questions, expand on topics, and personally disseminate information about our services. We have found that engaging in this way with our customers leads to greater understanding and appreciation for how to best utilize our services. Also, while interacting at an event with one of our employees, the likelihood of individuals acting on the message and/or getting clarification on a topic is greater because we are able to more immediately and directly answer or clarify their questions. That immediate, direct and personal involvement reinforces our messaging and increases the chances that action will be taken more than passively listening to a radio or television ad.

Q. With regard to charitable donations that are unrelated to your advertising message, do you treat those expenditures differently?

A. Yes, we do. We make a clear distinction between a donation for which we do not receive any benefit and/or are not able to convey a message promoting the use of our services and those situations where the costs incurred include substantial means for us to convey our message consistent with the guidelines outlined FERC's Uniform System of Accounts for Account 913. Donations for which we receive no benefit or advertising value are booked below-the-line.

Q. Witness Ramas questions the Company's requested increase in Economic Development Expense at page 54 of her testimony and recommends, at page 55, that the amount allowed be limited to $27,000 per year. Do you agree with her conclusion?

A. No. While she is certainly correct that the amount requested by FPU for Economic Development is higher than what FPU has spent, on average, since the last rate case, her conclusion fails to take into consideration that we have proposed a new, defined Economic Development program, whereby we propose to greatly expand our economic development activities in both divisions While FPU has always been involved in economic development activities in our service territory, as outlined in our Economic Development Program description, we would like to further extend our efforts and to implement a more robust, detailed and formalized Economic Development Program to enhance even further our work to promote economic development in the communities we serve. We believe an expanded, formalized program, with targeted goals and defined implementation strategies, will help us better direct our efforts and resources so that they can be most beneficial to each community's economic development efforts, but will also help us have a greater impact on the communities we serve. In contrast, under witness Ramas' proposal, we would be able to do only minimally more than we are currently doing in terms of economic development activities. More importantly, we would not be able to implement the majority of the strategies contemplated by our proposed Plan, and therefore, could not provide the assistance to our communities at the levels we had intended.

Q. Witness Ramas takes specific issue with recovery of expenses associated with the Shrimp Festival at pages 53 and 54 of her testimony. Why were the costs related to the Shrimp Festival appropriately reflected as advertising expense?

A. As I have noted above, each community we serve is unique in its composition, culture and opportunities for community interactions. In Fernandina Beach, the Shrimp Festival is by far the most unifying, community identification event for the City. Our participation in the Shrimp Festival allows us to reach a large audience like no other event does. In addition, the weeks of preparation and involvement leading up to the event, provide an excellent opportunity for us to reinforce and promote our services, and also to interact with community leaders that are allies in promoting information and services that help our customer base. In addition, the event attracts thousands of visitors to the community who purchase services and products from the various local establishments and vendors that participate in the event. This event has a significant economic impact in the community, and the Company's participation helps promote and ensure the success of this event. To be clear, witness Ramas is incorrect in her statement at page 53, line 16, that the Company has historically considered Shrimp Festival costs as Economic Development costs. To the contrary, historically, the Company has treated the Shrimp Festival as an advertising expense and the costs were charged to Account 913 for all of the reasons stated above. With the development of our new Economic Development Program, however, we reviewed our past involvement with the Shrimp Festival and determined that this event definitely has economic development benefits for the community beyond simple advertising. As such, we determined that reassigning these expenses into Economic Development was a more appropriate reflection of the benefits of the event. While it can, at times, be difficult to make a distinction between advertising and economic development costs, we believe that the key benefits of the event accomplish the primary objective of reaching our target audience to promote economic development. Nonetheless, I believe that they could be also be appropriately characterized as advertising expense. In either event, the expenses associated with this event are reasonable and prudent. Our involvement in the event also meets multiple objectives recognized as appropriate for recovery through base rates. As such, whether characterized as advertising expense or as economic development expense, the expenses associated with the Shrimp Festival should be allowed for recovery.

Q. **Do you agree with witness Ramas' recommended adjustment to Advertising Expense at page 48, line 4, through line7?**

A. No, I do not agree with the requested adjustment for the reasons stated above.

Q. **Do you agree with witness Ramas' recommended reduction to Economic Development Expense at page 48, line 11 through line 13?**

A. No, I do not agree with the requested reduction for the reasons stated above.

Q. Does this conclude your rebuttal testimony?

A. Yes.

Docket No. 140025-EI

AFFIDAVIT

STATE OF FLORIDA

COUNTY OF NASSAU

BEFORE ME, the undersigned authority, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared Aleida Socarras, who being duly sworn, deposed and stated that she is the sponsor of rebuttal testimony and that the foregoing testimony is true and correct to the best of her information, knowledge, and belief. He/She is personally known to me.

Sworn to and subscribed before me this 5th day of August, 2014.

In Witness Whereof, I have hereunto set my hand and seal in the State and County aforesaid as of this 5th day of August, 2014.

Linda J. Gamble
Notary Public
State of Florida, at Large

LINDA J. GAMBLE
MY COMMISSION EXPIRES
January 30, 2015
#EE 037267
Bonded thru Notary Public Underwriters
NOTARY PUBLIC, STATE OF FLORIDA

My Commission Expires:
January 30, 2015

REDACTED

FLORIDA PUBLIC UTILITIES COMPANY

Docket No. 140025-EI

REBUTTAL TESTIMONY and EXHIBITS

OF

Matthew Kim

Q. **Please state your name, affiliation and business.**

A. My name is Matthew M. Kim. I serve as Vice President and Corporate Controller of Chesapeake Utilities Corporation ("Chesapeake"), which is the parent company of Florida Public Utilities Company ("FPU"). My business address is 909 Silver Lake Boulevard, Dover, Delaware.

Q. **Are you the same Matthew M. Kim who filed direct testimony in this proceeding?**

A. Yes.

Q. **Please state the purpose of your rebuttal testimony.**

A. The purpose of my testimony is to respond to the direct testimony of Donna Ramas filed on behalf of the Office of Public Counsel ("OPC") in this proceeding as it relates to certain aspects of the Company's compensation package, treatment of pension expense, corporate cost allocations, and our proposed tax "step-up" regulatory asset.

Q. Please summarize any exhibits that are included with your rebuttal testimony.

A. I have included the following exhibits with the rebuttal testimony:

MK-2 Presentation by Cook & Co to the Compensation Committee on executive compensation [CONFIDENTIAL]

MK-3 Pension Expense Projection

MK-4 Corporate Department Variance Reports

MK-5 Summary of Corporate Allocation included in AG

Q. Please summarize the key issues and areas that you will address in your rebuttal testimony.

A. I will provide rebuttal testimony to specifically address the issues raised by OPC witness Ramas in her direct testimony as follows:

* Stock Based Compensation Expense (Ramas, pages 23 – 25)
* Corporate Bonuses Allocated to FPUC Electric Operations (Ramas, pages 25 – 26)
* Pension Expense (Ramas, pages 33 – 36)
* Corporate Costs (Ramas, pages 55 – 69)
* Tax Step-Up Regulatory Asset and Amortization (Ramas, pages 74-75)

Stock-based compensation

Q. Do you agree with witness Ramas' recommendation at page 24 of her testimony to remove all of the costs associated with stock-based compensation included in the Company's projected test year expenses?

A. No, I do not agree with her recommendation. Jim Moss will provide additional discussions in his testimony on behalf of the Company regarding the appropriateness of including the stock-based compensation. In my rebuttal testimony, I would like to specifically address three points regarding Chesapeake's stock-based compensation plan, in response to witness Ramas' assertions.

The first point that should factor in to the Commission's consideration is the reasonableness of the total executive compensation package of the Company as compared to those offered by the Company's peers, as well as pertinent market data regarding executive compensation. Let me begin by explaining that Chesapeake provides stock-based compensation only to named executive officers, which is currently limited to the following five executives: Chesapeake's CEO/President and three Senior Vice Presidents, and the President of FPU.

As also noted in the testimony of witness Moss, stock-based compensation cannot be considered in a vacuum. To the contrary, the level of the total compensation package for these executives must be considered when assessing the reasonable and prudent level of expenses, which is precisely the approach taken by the

Compensation Committee of Chesapeake's Board of the Directors. The Compensation Committee engaged Frederic W. Cook & Co., Inc. ("Cook & Co."), an independent consulting firm, to assist in the evaluation of executive compensation at the end of 2013. Cook & Co. conducted a market analysis to assess the competitiveness of compensation offered to Chesapeake's executive officers, compared to executive compensation in the energy industry and of the Company's comparable peer group. In its assessment, Cook & Co. considered "Total Direct Compensation," which includes base salary, short-term bonuses and long-term incentive (i.e., stock-based compensation). Cook & Co. advised the Compensation Committee that Chesapeake's target total direct compensation offered to its executive officers is competitive with both the energy industry and its peer group. A copy of the presentation by Cook & Co. to the Compensation Committee is provided in Exhibit – MK-2 [CONFIDENTIAL]. The same presentation was previously provided in conjunction with the Company's response to Staff's First Request for Production of Documents No. 9.

The second point I would like to address is the manner in which the three performance components of the stock-based compensation align with the interests of each of Chesapeake's businesses, including the FPU electric division. With no readily apparent analysis, witness Ramas concluded at page 24, line 18 that "[t]he components in determining the stock-based compensation awards are clearly focused on CUC's shareholders… [c]learly, the goals are not focused on benefitting Florida

Public Utility's electric ratepayers." While she does not explicitly state that she believes the interests of shareholders and ratepayers cannot be aligned, this seems to be the conclusion drawn by witness Ramas. Since she did not elaborate on her reasons, it is difficult to provide a point-by-point rebuttal, but I certainly disagree with her conclusion. The strong financial performance of the Company is ultimately good for both shareholders and ratepayers, because it positively affects the rates charged to ratepayers, as well as growth within the service territory and also results in increasing values to shareholders. The notion that improving shareholder value is contrary to the benefit to ratepayers, as witness Ramas seems to indicate, is simply wrong. Chesapeake's performance components are designed to provide value to all stakeholders, including shareholders and ratepayers. In fact, the majority of Chesapeake's businesses are regulated utilities. As such, Chesapeake fully understands the importance of managing both investments and returns. We recognize that when we make profitable investments that generate desired returns, our utility ratepayers benefit from better service, as well as expanded service, and our utilities are able to avoid - or at least defer - the need to increase rates.

Q. Is it contrary to regulatory policy to provide benefits to shareholders?

A. Not at all. Regulatory policy and law in Florida, as well as other states in which we operate, recognizes that utility investors should be allowed to earn a reasonable rate of return on their investment. Shareholders benefit from the value generated from the Company's strong financial performance and are encouraged to further invest in the Company as a result of our good track-record for managing our capital investments. The growth in long-term earnings and earnings performance components of Chesapeake's stock-based compensation program are specifically designed to encourage such behaviors. The growth in the long-term earnings component is measured by comparing Chesapeake's level of total capital expenditures, as a percentage of the Company's total capitalization, to that of the Company's peer group. This performance component is designed to encourage Chesapeake's executives to identify capital investment opportunities at a rate higher than that of the Company's peer group. This component may actually lower the dividend paid to the Company's shareholders, compared to that of its peers, as more cash from its earnings may need to be retained to finance the higher rate of capital investment. Chesapeake nonetheless believes in the importance of growing and expanding its services, and this approach to compensation allows the Company to grow without relying solely on rate relief.

Q. Does earnings performance also factor into the value of the long-term incentive compensation component?

A. Yes, it does. The earnings performance component is based on return on equity (ROE). For regulated utilities, making investments that can generate a desired level of return is paramount to the utility's ability to sustain its earnings and avoid a constant cycle of seeking rate relief. Investing in growth, while maintaining a reasonable level of ROE, is the only way to ensure sustainable, long-term financial health and business growth, which again benefits both ratepayers and shareholders. As Chesapeake and its affiliated utilities, including FPU's electric division, strive to achieve these financial and growth objectives, we have been able to defer rate cases as a result of our successful management of each utility's rate base and returns. Although the FPU electric division is requesting a rate increase in this proceeding, it should be noted that the Company avoided making such a request for approximately 7 years, in spite of its under-earning, which is longer period than that of its peer electric utilities in Florida. It should also be noted here that Chesapeake only acquired FPU in 2009; thus, some time has necessarily been spent working to revive the Company's financial and operational straits. Providing executive incentives to manage rate base and returns is effective in mitigating rate case expense and increased rates to the consumer. This is most effectively done through the stock-compensation plan provided to these executives.

Q. Is there another component that makes a long-term incentive plan meaningful for a utility?

A. Yes. The third performance component – shareholder returns – is a reflection of earnings performance, sound capitalization policy, and reputation in the market place. In order to generate earnings, a utility has to manage its costs, as well as manage its investments and returns. Managing costs is also beneficial for the Company's rate payers, because it ensures that the Company has the proper cost structure and is making investments in a prudent and reasonable manner. Sound capitalization policy ensures a strong balance sheet, which, in turn, allows a utility to access capital at attractive rates and terms. Likewise, reputation of a utility, as with any business, is based on customer satisfaction, employee engagement, trust in management, and the ability to execute business and financial strategies. These factors are also important to utility ratepayers in that they impact service quality, the viability of the business, and ultimately, rates. As such, there is a clear alignment of both ratepayer and shareholder benefits with regard to each of the performance components of our long-term incentive compensation plan. Key Company executives are incentivized to achieve each of the three performance components, which, if achieved, directly benefit the Company's ratepayers.

Q. Do you agree with witness Ramas' suggestion at page 24 that stock-based compensation expense should be removed from the projected test year because it focuses on improving stockholder value through investing in regulated and non-regulated business?

A. No. The executives' stock-based compensation is subject to allocation to the FPU electric operation based on the specific level of service received by the electric division. Witness Ramas mentioned that the performance components "are based on regulated and unregulated businesses" and used this as part of her reason for excluding the entire cost associated with stock-based compensation in the Company's projected test year expenses. It appears, based on her conclusions, that witness Ramas did not consider the fact that these costs are allocated and only the portion representing the benefit of those executives' service to the FPU electric division is reflected in the Company's projected test year expenses. Specifically, for three of the named executive officers who receive the stock-based compensation, the expense associated with their stock-based compensation cost is allocated across all of Chesapeake's businesses in the amounts attributable to each business unit. As for the President of FPU, his stock-based compensation cost is allocated to all of the Florida business units under his management, which is as it should be. Given the appropriate allocation of these costs, I disagree with witness Ramas regarding exclusion of stock-based compensation cost from the projected test year.

<u>Corporate bonus</u>

Q. Do you agree with witness Ramas' recommendation to remove all of the allocated corporate bonus expense?

A. No, I do not agree with her recommendation. Similar to the executive stock-based compensation and FPU's IPP expense, the corporate bonus component of our total compensation package is provided to corporate employees, who provide valuable services to the various business units, including the FPU electric operation and its ratepayers. It is a compensation component consistent with industry practice, the inclusion of which ensures that our compensation package is consistent with industry and peer group levels, and therefore, competitive. As such, it should be considered a prudent and reasonable cost. Witness Moss will provide additional discussions regarding the appropriateness of including this expense in the projected test year in his rebuttal testimony.

Q. Given witness Ramas' statement at page 25 that no information on the corporate bonus plan was provided, would you please describe the plan?

A. Corporate, non-officer-employees are subject to an incentive performance plan ("IPP"), similar to each of Chesapeake's businesses including FPU. [redacted]

[redacted]

[redacted]

[redacted]

As noted, and also as further emphasized later in my testimony, the corporate departments contribute to the overall financial performance of each of Chesapeake's businesses by providing efficient and cost-effective services that are critical to the day-to-day functions of the business units, including the FPU electric division. The corporate departments help our business units identify, assess and analyze various opportunities to generate growth, manage projects, expand service offerings, improve customer communications, and identify strategic opportunities. As I discussed above, growing revenue and managing costs, while also accessing capital markets to obtain capital at attractive rates and terms, are essential components of achieving higher EPS, which benefits both ratepayers and shareholders. To be clear here, Corporate EPS is an accumulation of earnings of each of Chesapeake's businesses, including the FPU electric division.

Finally, on this issue, I want to emphasize that the costs of each department, including bonus expense, are allocated to all Chesapeake businesses that receive benefits from that department's service. Allocation factors are designed to closely mirror the level of service of each department to each business. Thus, the FPU electric division would be assigned minimal or zero costs associated with a department that provides little or no benefit to the FPU electric division.

Pension

Q. Do you agree with witness Ramas' recommendation at page 35, line 6, to use the most recent actuarial projections for the projected test year expense?

A. No, I do not. In my opinion, witness Ramas did not demonstrate that the use of the 2014 expense projection, which is based on assumptions set at a point-in-time, provides a better projection given a significant volatility in discount rates. FPU's pension expense has fluctuated significantly over the past five years, due primarily to volatility in discount rates affecting both the projected pension obligation and the amount of contributions required to be made into the plan. In an environment with steady discount rates, the use of the most recent actuarial projection may be sufficient as the pension expense is generally not expected to fluctuate significantly year-over-year. However, given FPU's recent experience with a significant fluctuation in its pension expense, simply utilizing the most recent actuarial projection, which again is based on assumptions and projections at a single point-in-time, cannot provide an accurate estimate of the expense in the projected test year. The same schedule provided in OPC POD No. 15, which shows the 2014 pension expense projection referred to by witness Ramas in her testimony and is attached to my testimony as Exhibit MK - 3, also shows the volatility in expense based on even a slight change in assumptions. A 0.25 percent decrease in both discount rate and long-term return on assets would have caused the 2014 pension expense projection to increase by $107,133 for the entire FPU plan. As such, $31,069, or a 29 percent of the increase, would be allocated to FPU electric operation.

Q. What has been the trend in the market since the selection of actuarial assumptions used in the 2014 pension expense projection?

A. As witness Ramas correctly stated, FPU was required to select, at the end of 2013, the assumptions regarding discount rate and long-term return on assets for the 2014 expense projection. Since the assumption on return on assets considers long-term investment and market trends, it typically does not change significantly. However, there has been a significant decline in the Treasury rates and bond yields during the first half of 2014. The yield on the triple-B (Bbb) rated Treasury securities declined from 5.35 percent at the end of 2013 to 4.76 percent. Citigroup Pension Liability Index, which is one of the bond indices widely used to compare pension discount rates, declined from 4.95 percent to 4.33 percent. Both Treasury rates and bond yield curves are the information used to form the discount rate assumption for FPU's pension plan. Such volatility is consistent with the market trend experienced in the past several years. For example, in 2013, Citigroup Pension Liability Index moved from 4.30 percent at the beginning of the year to as low as 4.07 percent in April before increasing all the way to 4.95 percent at the end of the year. This type of severe volatility is making it extremely challenging for the Company to project its pension expense over a long period of time based on assumptions set at a single point-in-time.

Q. Why does the Company believe the use of the four-year average is a better way to project the pension expense in the projected test year?

A. The Company used the four-year average, because it would smooth the "ups-and-downs" of FPU's pension expense. The four-year period corresponds to the period since FPU made certain changes to its pension plan and froze it in conjunction with its merger with Chesapeake back in 2009. By averaging FPU's pension expenses during those four years (from 2010 to 2013), the projected pension expense, excluding the amortization of a pension regulatory asset resulting from the 2009 merger, is *de minimis* ($6,235 for FPU electric), which further supports the smoothing of pension expense.

Corporate costs

Q. Do you agree with witness Ramas' suggestion, at page 56, line 3, that the Company's requested corporate allocations included in the projected test year expenses are "excessive"?

A. No, I do not agree with the suggestion. Before specifically addressing the corporate costs allocated to FPU electric operation in the projected test year, I would like to first look at the overall Administrative and General ("A&G") expenses of the Company in the projected test year. Since almost all of the corporate allocation is to A&G accounts, by looking at the overall level of A&G expenses, I can discuss the appropriateness of the level of A&G support in the Florida electric operation without regard to where the cost is expected to originate. One of the simplest ways to assess the appropriateness of the Company's overall level of A&G expenses is to compare it to other electric utilities in Florida on a per-customer basis. The Company's A&G expenses allocated both from the business unit and corporate and included in the projected test year total $5,537,203. The customer base across which these costs would be spread is projected to be an average number of 31,320 customers. That equates to A&G expense of $176.80 per customer. Based on the information provided in <u>FERC Form No. 1: the Annual Report of Major Electric Utilities, Licensees and Others</u> for the year ended December 31, 2013, A&G expense per customer by other electric utilities in Florida is as follows: $208.90 for Tampa Electric Company, $183.00 for Gulf Power, $166.21 for Duke Energy Florida and $87.98 for FP&L. Despite FPU's significantly smaller size and a projected increase in A&G expenses, FPU's level of A&G expenses per customer is clearly comparable to that of its peer utilities, and in some cases, more favorable. Given the reasonableness of the overall A&G expenses based on the per-customer comparison, witness Ramas' conclusion regarding the level of the corporate allocation included in the projected test is baseless and without any merit.

In the past two years, the Company has experienced an increase in its A&G expenses and projects that this trend will continue for the next two years. This trend is a direct result of the Company's effort to strengthen A&G functions for all business units, particularly through additional support and engagement from Chesapeake's corporate team. As it relates to FPU, prior to the merger with Chesapeake, FPU invested the bare minimum in A&G functions like IT, HR, communications, system development, business development and management oversight. This lack of adequate investment in these areas is evidenced by FPU's significantly lower level of A&G expense per customer in those years than its peers. In 2010, which was the first full year after the merger, the Company's A&G expense per customer was $129.98, far below the level of per-customer A&G spending by Tampa Electric Company, Gulf Power and Duke Energy, which ranged from $166.04 to $194.65.

Realizing the importance of A&G functions to adequate support its business, the Company has increasingly relied on Chesapeake's corporate resources and capabilities to improve those functions. Later in my rebuttal testimony, I will provide more details on the benefits to FPU's electric ratepayers resulting from the increased support by specific corporate departments mentioned in witness Ramas' testimony and consistent with my Direct Testimony at pages 14 through 16.

Q. Given witness Ramas' suggestion at page 59, line 22 that Chesapeake's corporate expenses have consistently been below the budget amount, how accurate has the budget for Chesapeake's corporate costs been in the past?

A. Witness Ramas stated that the total corporate expenses, as well as the expenses charged to FPU's electric operation, have consistently been below the budgeted amounts. She provided the numeric illustration of such variance in her testimony. While her figures are factually accurate, this illustration does not provide the complete picture of the accuracy of the budget for those years, nor does it adequately address the accuracy of the budget used in the projected test year. In looking at the variance in detail, and using the same information in the Company's response to OPC POD No. 52, at FPU RC-5428 (included herein as Exhibit MK-4), as witness Ramas did in her testimony, a large portion of the variance between the actual cost and budgeted cost for those two years (2012 and 2013) was attributable to post-retirement benefit expense and a delay in starting new departments. Here is the revised illustration, which takes these inputs into account.

2012	**Total**	**Allocated to FPU EL**
Budget to actual variance	$1,006,816	$ 207,247
Postretirement benefit cost variance (HR902 and HR942)	$ 335,478	$ 29,592
Delay in starting new departments (SP900)	$ 281,606	$ 21,788
Net variance	$ 389,732	$ 51,380
Net variance as % of budget	1.6%	6.4%
2013	**Total**	**Allocated to FPU EL**
Budget to actual variance	$1,763,260	$164,762

Postretirement benefit cost variance (HR902 and HR942)	$ 423,520	$110,010
Delay in starting new departments (NE980)	$ 575,085	$ 38,145
Net variance	$ 764,655	$ 51,380
Net variance as % of budget	2.7%	0.6%

The variance in post-retirement benefit expense (department codes HR902 and HR942) is due to: (1) volatility in actuarial assumptions (mainly discount rates) between the budget and the actual, which changed the expense; and (2) a one-time benefit change in FPU's benefit that was not incorporated in the budget. As explained in the Company's response to OPC Interrogatory No. 88(e), the Company revised the expense projection for post-retirement benefit cost in Account 925 included in the projected year A&G expense and did not use the amount per the corporate budget. Therefore, this does not have any impact on the Company's projected test year expense.

The variance in new departments (department codes SP900 and NE980) is due to a delay in the timing of starting those departments. Chesapeake budgeted the Strategic Development Department (SP900) in 2012 and New Energy Development Department (NE980) in 2013 to commence at the beginning of each year, respectively. The start of those departments was delayed as a result of the longer-than-expected recruiting and training/orientation process to get the necessary talent with the appropriate skill sets. Chesapeake's corporate budget used in the Company's projected test year expenses does not include any new department.

Therefore, it is not a recurring issue for which an adjustment would otherwise be appropriate.

There is a minor discrepancy in the level of variance between the overall corporate costs and the amount allocated to FPU electric operation. The reason for such discrepancy is the allocation changes. Chesapeake estimates the allocation factors for the upcoming year during the budget process, which is further updated at the beginning of each calendar year with actual amounts. In the Company's response to OPC Interrogatory No. 129, the Company provided the impact of such allocation change by comparing the 2014 budget allocation factors used in the allocation of corporate costs in the projected test year and the 2014 actual allocation factors (the most recent update). The difference is an increase in allocated costs by $41,141, or 1.3 percent. Because it was an increase, the Company decided not to update the projected test year expense to reflect this change.

Therefore, Chesapeake's corporate budget and the portion of the budget allocated to FPU electric operation in the past two years, adjusted for the referenced variance factors, have been accurate to the extent reasonably possible. Again, the variance factors impacting the budget had no impact on the accuracy of the budgeted costs used in the Company's projected test year.

Q. Why did the Company use Chesapeake's budget to determine the corporate costs allocated to FPU electric in the projected test year?

A. Projecting A&G expenses allocated from Chesapeake's corporate team based on escalation, as well as known and measurable changes, is challenging given the allocated nature of such costs. This requires the Company to project the overall changes to the entire cost of Chesapeake's corporate team, as well as any measurable changes to allocation factors used for each corporate department. Each of Chesapeake's corporate departments prepare detailed, "bottom-up" budgets that incorporate specific changes to the levels of staffing, benefits, and expenses associated with outside services, normalizing items, and allocations. As such, the amount of corporate costs expected to be allocated to FPU's electric operation was already prepared in the budget process and any variance from previous accounting periods can be identified and measured. As previously indicated in my rebuttal testimony, Chesapeake's corporate budget has been accurate, except for some fluctuation associated with actuarial assumptions used in post-retirement benefit costs and the timing of new departments. Neither of these anomalies had any impact in projecting expenses for the Company's projected test year.

Q. Why does the Company believe the budgeted corporate costs are a better reflection of the projected test year expenses than the historic test year amount with escalation applied, as suggested by witness Ramas?

A. Witness Ramas recommended at page 61, lines 10 – 12, that the level of corporate cost allocations included in the Company's projected test year expenses should be "limited to the historic year amount with escalation applied." That approach does not incorporate the known and measurable adjustments, and therefore, it is not consistent with the Commission's past practice in assessing the prudent and reasonable costs. The Company responded to numerous requests from the Office of Public Counsel to provide explanations for the increased expenses allocated from the corporate team, most of which witness Ramas decided not to discuss in her testimony. Other than stating that Chesapeake's corporate costs have historically been below the budgeted amount, which I have addressed earlier in my rebuttal testimony, witness Ramas did not provide any details or explanations to justify her recommendation. She also mentioned three specific departments with an increase in costs as examples, IT, HR and Communications, with no further elaboration on the reasonableness of those increases. I will address each of those departments in greater detail later in my rebuttal testimony. I would like to first provide the most recent data on the expenses allocated from the corporate team, using the similar format provided by witness Ramas.

	Payroll Expense	Non-payroll Expense	Total Expense
Projected Test Year Adjusted	$968,454	$1,974,242	$2,942,696
12 Months Ended June 2014	$889,474	$1,687,148	$2,576,621
Historic Test Year Adjusted	$779,551	$1,641,846	$2,421,397
Increase from Historic to			
Projected Test Year	$188,903	$332,396	$521,299
	24.2%	20.2%	21.5%
Increase from 12ME June 2014			
to Projected Test Year	$78,980	$251,644	$330,624

8.9%	14.6%	12.7%

Similar to the way Ms. Ramas presented the data in her testimony, I excluded the $120,000 associated with the general liability recovery included in the corporate allocated A&G expenses in the projected test year. This exclusion is for illustration purposes only, as the discussion involving the general liability reserve is addressed in the rebuttal testimony of Cheryl Martin. This illustration should not be taken as a suggestion that this amount should be excluded from the Company's expenses.

The most recent data (12 months ended June 2014) shows that expenses allocated from corporate departments have already exceeded the historic test year amount. This increase was expected, because the Company is focused on strengthening its A&G functions, and this increase is reflected in the projected test year amount. Simply ignoring the increase, as well as prudently incurred additional increases that occur in the future, is not consistent with the Commission's policy of reviewing the actual expenses and projected expenses in order to determine both their prudency and the customer benefits derived from those expenses. Allowing only the historic test year amount plus escalation would entirely bypass the review process in favor of less reliable trending that fails entirely to take into account changed circumstances. Again, this is not consistent with the Commission's past practice.

Exhibit MK-5 to my rebuttal testimony further breaks down the increase in the corporate cost allocation from the historic test year to projected test year. The increase can be summarized in the following way:

Historic test year corporate cost allocated	$2,421,397
Escalation applied to historic test year	137,031
Increases experienced as of June 2014	155,224
Additional increases projected	229,044
Projected test year corporate cost allocated	$2,942,696

Q. Please further elaborate on the factors contributing to this increase and how the Company's ratepayers benefit from this increase.

A. Since witness Ramas mentioned the IT, HR and Communications departments in her testimony as examples of the increase, let me start with those departments. The IT department costs include costs associated with IT support staff, maintenance of financial, HR, billing and other customer service applications and telephone systems, networks and desktops and overall IT security. All IT functions are performed by the Corporate staff for the sake of efficiency and also to ensure consistency across the Chesapeake business platform. The IT department costs allocated to FPU electric in the historic year were $483,123. During the 12 months ended June 2014, those costs increased to $538,405. The amount included in the Company's projected test year is $637,204. The two primary reasons for the increases are the increased level of IT staffing and the increased cost associated with supporting and maintaining systems, networks and desktops. Since the beginning of the historic test year, the IT department added five people to further strengthen its help desk, system administrator, and business analyst functions. Chesapeake also plans to recruit 10 additional employees to increase its help desk functions in order to better resolve day-to-day IT-related problems and concerns from employees, to enhance its business analyst capabilities for purposes of , more effectively obtaining financial and operational data for our business units, and to increase its system administrative support staff to manage day-to-day IT infrastructure maintenance.

Also included in this increase are costs associated with enhancing Chesapeake's cyber-security. Subsequent to the historic test year, Chesapeake has engaged external consultants to assist in its ongoing efforts to identify and resolve cyber security concerns. The long-term plan is to hire an in-house resource to manage cyber security internally, in lieu of continuing to involve external consultants, for which the projected test year reflects an additional headcount. Cyber security is a key in our Corporate strategy for all affiliates because breaches to security can have devastating impacts for both utilities and customers. The Company strives, however, to implement appropriate security measures in a cost-effective way. As noted just last year in a Report issued by the National Association of Regulatory Utility Commissioners, which was also backed by the U.S. Department of Energy:

> Cybersecurity threats challenge the reliability, resiliency and safety of the electric grid, and utility spending to address cyber vulnerabilities can impact the bills that customers pay.[1]

and

> Malicious attacks threaten utilities on multiple levels in ways that sometimes overlap and compound each other. It may be helpful to

[1] Cybersecurity for Regulators 2.0 (NARUC, February 2013) at page 3.

> visualize the application of cybersecurity in three areas: IT, supervisory control and data acquisition (SCADA) systems, and smart grid.[2]

Overall, the higher costs associated with system, network and desktop maintenance and support reflects the increased demand for more complex IT systems and infrastructure. It also reflects the increased amount of, and use of, IT equipment.

Further strengthening IT infrastructure and ensuring security of the Company's IT environment has a clear benefit to the Company's ratepayers. They benefit directly from improvements in our IT department through enhanced interaction with the Company via our web site and call center, both of which have gone through significant improvement in recent years and are supported by the IT department. The Company is also currently involved in the implementation of a major billing system upgrade to further enhance its access to customer records and overall billing and customer service process. The IT department supports this project by ensuring additional network and system capacity, as well as a safe and secure IT environment to operate. The ratepayers also indirectly benefit from a reduction in costs, or in some cases the absence of increased cost, as a result of implementing various technology tools and enhancing connectivity among employees. For example, the costs associated with the Finance function are projected to decrease by $61,449 from now to the projected test year as it plans to further consolidate its function and

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[2] *Id.* at page 6.

eliminate duplication. Without proper connectivity between the Operations and Corporate team through improved IT infrastructure, such reductions in cost would not be possible. Even at the business unit operational level, the Company is able to enhance its productivity and eliminate duplication as a result of more advanced IT support and infrastructure. The opening of FPU's new office in Fernandina Beach is another example of this. It is another benefit to the community overall, as well as ratepayers, and without the proper support in IT infrastructure, it would not have been possible.

The HR department costs allocated to FPU electric in the historic year were $192,560. During the 12 months ended June 2014, it has already increased to $223,463. The increase is due to the additional costs associated with improved and enhanced recruiting. Specifically, Chesapeake has adopted the "Top-Grading" interviewing and screening process, and is consequently revising its policies and procedures related to various employee benefits and conducts. Although the HR department has added, and plans to add, more resources to handle the increased demand for recruiting efforts and compensation assessments, the efficiency derived from re-assigning existing staff and combining certain functions has allowed this department to avoid increasing its payroll-related expenses allocated to the Company. The amount of the HR allocation included in the Company's projected test year increases to $243,323, due primarily to the escalation factor applied and additional costs related to the employee recognition and appreciation programs.

Payroll and benefits costs are one of the most significant costs of the Company. Recruiting and retaining talented workforce is crucial to fulfilling the ultimate goals of providing high-quality service and maintaining a competitive cost structure. The HR department has implemented various initiatives to ensure a high level of employee satisfaction and to strengthen employee recruiting and retention efforts. As a result, Chesapeake has been named one of the Top Workplaces in consecutive years, which evidences our improved ability to recruit and retain talented workforce to serve our customers. Even the wellness initiatives implemented by the HR department have a positive impact by reducing injuries and healthcare costs. The Company's ratepayers benefit from all of these efforts by receiving high-quality service at a competitive price.

The Communications department costs allocated to FPU electric in the historic year were $101,593. During the 12 months ended June 2014, the amount increased to $116,468. The amount included in the Company's projected test year is $141,712. The largest factor affecting this increase is higher payroll and benefits as a result of increased headcount. The Communications department added a communications specialist during the historic test year and a director for the department in early 2014. The department is also planning to add another communications specialist during 2014. These recent and expected additions to this department are necessary as a result of increased corporate-wide initiatives, such as the Service Excellence initiative, web site initiative and Top Work Place initiative, all of which are designed to increase the level of customer service and to improve the customer experience through better communications, high employee satisfaction, and consistency and excellence in our business conducts. The increased resources also address the increased investor communications through the Annual Report and Proxy statements which are necessary to meet increased information requirements.

Customer service and customer engagement are two of the top priorities of Chesapeake and the Company, as we strive to deliver high-quality service to customers. The Communications department assists the Company in developing and maintaining content on its web site with added customer-centric functionalities. It also works with the Company to initiate and further implement a Service Excellence initiative, which focuses on continuous review and improvement of service to customers. The Service Excellence initiative maps the Company's processes, critically reviews its systems and evaluates its method through the "lens of the customers" to ensure we are delivering a high level of customer satisfaction. As further described in the testimony of Mr. Householder, the Company has developed four service standards – safety first, the "Wow!" factor, presentation, and results orientation – which guide the Company's customer contact processes and measure the success. This Chesapeake-wide service satisfaction initiative, with the help of the Communications department, has already proven to provide direct benefits to the Company's ratepayers. In addition, the increased and enhanced investor communications also benefit the Company's ratepayers as a result of Chesapeake's enhanced ability to attract competitively-priced capital.

Q. Do you agree with witness Ramas' statement at page 63 that the Company included non-utility costs allocated from Chesapeake in the historic and projected expenses?

A. No, I do not agree with this. In her testimony, witness Ramas stated that the activities of some of the corporate departments "do not appear to be related to the function of the FPUC electric operations." Witness Ramas specifically recommended the exclusion of the costs from the Senior Vice President ("SVP") of Strategic Development, the Strategic Development department and the New Energy Development department. Before I address each of these departments, I would like to point out that the cost associated with the Strategic Development department is <u>not</u> included in A&G expenses, because the department assists the Company in electric supply and system planning activities, system mapping and supply market analysis. Since such activities represent operation supervision and engineering expense rather than A&G expense, it is reflected in Account 580 in the Company's adjusted historic test year and projected test year amount.

<u>SVP - Strategic Development</u>

The SVP of Strategic Development, discussed at page 65 of witness Ramas' testimony, is one of the senior executive positions at Chesapeake overseeing the areas of Human Resources, Communications, Strategic and New Energy Developments and Governmental Relations. This executive directly supervises corporate departments related to these areas and also coordinates with all of Chesapeake's business units regarding efforts related to these departments. Throughout my rebuttal testimony, I have discussed services provided by the corporate departments in these areas to the Company and associated benefits to the Company's ratepayers. This executive works with each business unit, including FPU's electric division, to develop a long-term strategic plan by identifying business opportunities within their existing service footprint, as well as addressing market risks and threats by proactively engaging necessary resources to formulate a plan and engages these departments, as appropriate, to advance the strategic plan's objectives. One of the specific examples involving FPU's electric division is [redacted] This is a project that was developed during the annual strategic planning process, which is headed by this executive. The Strategic Development team, under the supervision of this executive, has been working with the System Planning group at the business unit to analyze various market, financial and operational data. This executive also brings significant experience with regulated utilities and customer service, having previously served as the head of a FERC-regulated utility and director of customer service at the same utility.

Other than asserting, at page 65, line 20, that the costs associated with HR included in this department for the projected test year would be "incremental to the HR costs already charged to FPUC electric operations from a separate CUC HR Department," witness Ramas provides no other explanation for her claim at lines 21 - 24 that "[t]he 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." Given the specific examples of the SVP's involvement in the FPU electric operation and her general responsibilities overseeing various corporate departments providing necessary services to the FPU electric operation, I disagree with witness Ramas' statement.

The SVP of Strategic Development department costs allocated to FPU electric in the historic year were $111,691. During the 12 months ended June 2014, the amount decreased to $71,362 due to [redacted] The amount included in the Company's projected test year is $153,873. As witness Ramas stated in her testimony, one of the factors contributing to the increase from the historic year to projected test year is the additional cost associated with the Vice-President of HR, which is budgeted in this department, rather than in the HR department. The Vice-President of HR was hired during the first quarter of 2014. Another reason for the additional projected cost is the anticipated hiring of a director of governmental relations, for which efforts are under-way to recruit this position. The new hire in this position will coordinate various governmental policy and relationship matters.

<u>Strategic Development Department</u>

As for witness Ramas' concerns raised, starting at page 66, regarding the Strategic Development department itself, this department is relatively new, having been created in 2012. The purpose of this department is to facilitate Chesapeake's annual strategic planning process, coordinate with the business units regarding strategic business development opportunities, and assist business units in various energy-related market research, analysis and system planning. Specific examples of the services provided by this department to the FPU electric division include [redacted] as previously described, assistance with the GIS/mapping system, and providing project management coordination. The Strategic Development department works closely with FPU's System Planning group to supplement its knowledge and capabilities by providing these resources and skill sets. This avoids FPU having to develop its own division-specific resources to handle non-routine, strategic initiatives. These initiatives and tasks are designed to manage the costs of the Company's services charged to ratepayers through: (1) developing a plan to lower fuel costs; (2) combining efforts in utility system planning areas to promote consistency, standardization, greater efficiency, and lower costs; and (3) providing assistance on project management coordination for large, complex initiatives that would otherwise be very difficult for the relatively small electric division to handle in-house. Based upon the type of services provided by the department to the FPU electric operation and benefits to its ratepayers associated with those services, the costs allocated from this department should be included in the Company's historic and projected test year amounts.

The Strategic Development department costs allocated to FPU electric in the historic year were $35,510. As noted in witness Ramas' testimony, the historic year amount did not include a full year of allocated costs since the department was first established in 2012. During the 12 months ended June 2014, the amount increased to $72,088 and the amount included in the Company's projected test year is $115,848. Because this is still a relatively new department, it is still in the process of recruiting resources to complete the department. It currently projects to add two additional resources, specifically to assist in project management of large strategic initiatives and GIS/mapping system maintenance.

<u>New Energy Development Department</u>

The New Energy Development department is also a new department created in 2013. As witness Ramas correctly noted at page 64 of her testimony, the purpose of this department is to support 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. This department also provides various skill sets, such as market trends analysis/intelligence, financial modeling, energy supply analysis, and other related business development analysis. Chesapeake's business units, including the FPU electric operation, utilize these services. Identifying new business initiatives benefits all of Chesapeake's businesses, including FPU's electric division, as it provides an opportunity to lower the allocated support and overhead costs by sharing various A&G type of functions. Corporate cost is one such example. Specifically, market trending and related intelligence, including electric supply analysis, benefits the FPU electric operation in that it develops and assesses strategies for providing the most cost effective and reliable service to Company customers. Such information can also help the FPU electric division to develop a business plan to expand or complement its existing electric service by operating small electric distribution systems owned by municipalities. Developing such plans and strategies requires specific skill sets and resources, the cost of which would be difficult for the FPU electric operation alone to manage. By sharing this capability from the Corporate resources, the FPU electric operation can share some of this cost while retaining the benefits of these services. The Company's ratepayers benefit from future savings in A&G costs.

The New Energy Development department costs allocated to FPU electric in the historic year A&G expense were $82,229. The amount included in the Company's projected test year A&G expense is $178,989. The increase is due primarily to the fact that the historic year and the 12 months ended June 2014 did not include a full-year impact of this department.

Q. Do you agree with witness Ramas' recommendation at page 62 of her testimony regarding non-recurring costs?

A. Witness Ramas discussed the consulting expenses related to two former FPU executives during the historic test year as non-recurring costs. These expenses are not included the projected test year amount, because the subject consulting agreements expired in early 2014 without renewal. These services have been absorbed by Chesapeake's existing management, Strategic Development, and Finance teams, so that the FPU electric operation receives the same level of service without the services of these two former executives. Again, these costs were not included in the projected test year; therefore, witness Ramas' recommendation to remove them would simply be incorrect.

<u>Tax Step-up</u>

Q. Do you agree with witness Ramas' recommendation to reject the Company's proposed tax step-up regulatory asset and the amortization thereof?

A. No, I do not because rejecting the Company's proposals on this issue would result in a violation of the tax normalization rule with which FPU is required adhere in order to continue to utilize the accelerated depreciation deduction for tax purposes. I will elaborate further on the normalization rule later in my rebuttal testimony. I also disagree with witness Ramas' statement at page 74, line 23, that "[t]here 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." A utility generally cannot (and certainly not in Florida) establish a regulatory asset without approval from the regulators or clear precedent. FPU is simply following a regulatory process by waiting to establish this regulatory asset until the matter is presented to the Commission for approval. Since there had not been a rate proceeding involving FPU electric operation after the merger (when the initial step-up occurred), this is the first opportunity for FPU to present this regulatory asset and the amortization thereof and incorporate the impact into base rate for the Commission approval.

Q. How did the Company record the initial step-up of the ADIT balance?

A. Since FPU could not establish a regulatory asset without proper approval, the step-up of the ADIT balance and the corresponding debits were both recorded in Account 282.2 for regulatory purposes. FPU used a different "natural account," which is the account code sequence used for the US GAAP reporting, to differentiate the credit side of the adjustment ("natural account" 2500, which indicates ADIT) and debit side of the adjustment ("natural account" 280X, which points to a different US GAAP account). This was necessary in order to demonstrate compliance with US GAAP, which also requires a step-up of the ADIT balance at the merger. Witness Ramas may not have fully understood the information provided in the Company's response to OPC Interrogatory No. 102, which included the journal entry related to the electric operations to record the tax step-up deferred income tax adjustment in conjunction with Chesapeake's acquisition of Florida Public Utilities Company, when she stated in her testimony at page 73, line 11, that the Company did not disclose the accounts, in which the original debits were booked. Her statement is, nonetheless, incorrect.

Upon obtaining proper approval, the Company intends to reclassify the debit side of the step-up entry to the appropriate regulatory asset account(s) and amortize it over a period approved by the Commission. The Company recommends 26 years, which represents the average remaining life of the plant assets consistent with the South Georgia method of tax normalization.

Q. Why is it necessary for the Company to be allowed to record the tax step-up regulatory asset and the related amortization?

A. The Commission has adopted the US GAAP deferred income tax method in accounting for income taxes. ASC 740, or previously known as SFAS 109, provides the US GAAP accounting guidance on income taxes. According to ASC 740-10-35-4, ADIT should be adjusted for the effect of a change in tax laws or rates. The change in tax rates also includes the change as a result of an acquisition or merger, as is the case for FPU, since ASC 740 does not provide an exception to acquisitions or mergers. The purpose of ADIT is to reflect the future income tax benefits or payments based on the enacted tax rate, which is, of course, based on enacted tax law expected to apply to those timing differences at the time they are realized. Since the merger with Chesapeake changed FPU's federal statutory income tax rate to 35 percent, FPU was required to adjust its ADIT balance to reflect that change, in accordance with ASC 740.

For the regulated environment, deferred income taxes represent recovery of income tax expenses by the utility from its ratepayers prior to the utility having to make those income tax payments to the US Treasury. Recording deferred income taxes on temporary differences is commonly known as normalization. Normalization is a requirement under the US Tax Code, IRC§168(i)(9), which provides that any rate-making adjustment with respect to a utility's deferred income tax reserve be consistently applied to its rate base, depreciation expense, and income tax expense. In Florida, the Commission includes deferred income taxes, or ADIT, in capital structure rather than rate base, but the same normalization rule still applies. The consequence of violating the normalization method of accounting is the loss of the utility's ability to claim accelerated depreciation for tax purposes.

Without the regulatory asset and the amortization thereof, FPU's ADIT in its capital structure, which is based on the 35 percent federal statutory income tax rate, would not be consistent with its current income tax recovery, which is based on the 34 percent federal statutory income tax rate. In order to avoid the normalization violation, FPU recorded, for regulatory purposes, both debit and credit sides of the adjustment of the initial step-up to Account 282.2, as explained above. This will ensure that ADIT in the Company's capital structure continues to be in line with the past recovery of those amounts until the Commission approves the necessary regulatory asset and amortization thereof. With the Commission's approval, FPU can properly show both ADIT and the future income taxes recovery at the required federal statutory rate of 35 percent. This will enable FPU to continue its accelerated depreciation deduction for tax purposes.

Q. Does this conclude your testimony?

A. Yes.

Docket No. 140025-EI

AFFIDAVIT

STATE OF DELAWARE

COUNTY OF NEW CASTLE

BEFORE ME, the undersigned authority, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared Matthew Kim, who being duly sworn, deposed and stated that he is the sponsor of rebuttal testimony and that the foregoing testimony is true and correct to the best of his information, knowledge, and belief. He is personally known to me.

Sworn to and subscribed before me this 4th day of August, 2014.

In Witness Whereof, I have hereunto set my hand and seal in the State and County aforesaid as of this 4th day of August, 2014.

Notary Public
State of Delaware, at Large

My Commission Expires:
June 4, 2015

Redacted

CHESAPEAKE
UTILITIES CORPORATION

Executive Compensation Program Review

Presentation to the Compensation Committee

December 2, 2013

Charley King
Principal
cyking@fwcook.com
404.439.1007

FREDERIC W. COOK & CO., INC.

Introductio[redacted]

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Executive Summary

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Executive Summary – Management Service Fee

Management Service Fee (MSF)

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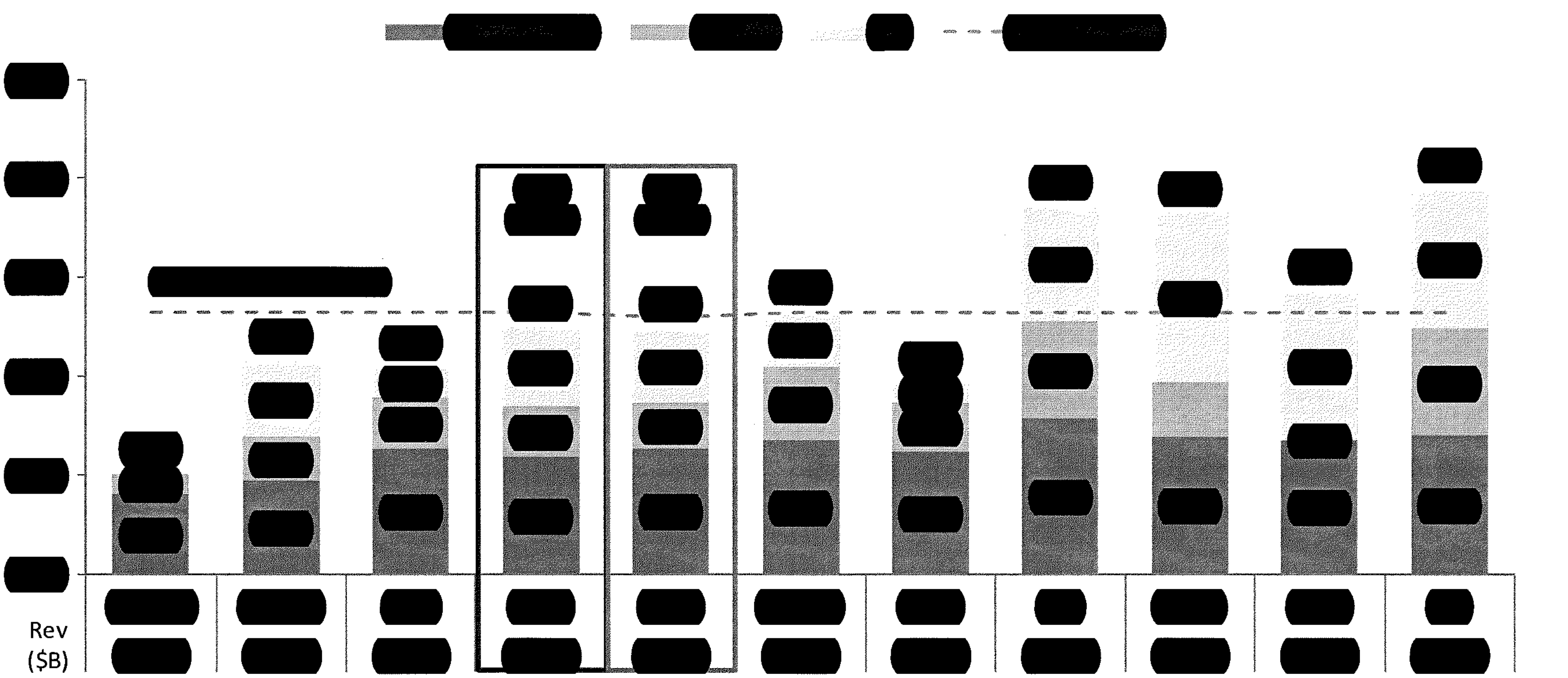

Executive Summary – Base Salary

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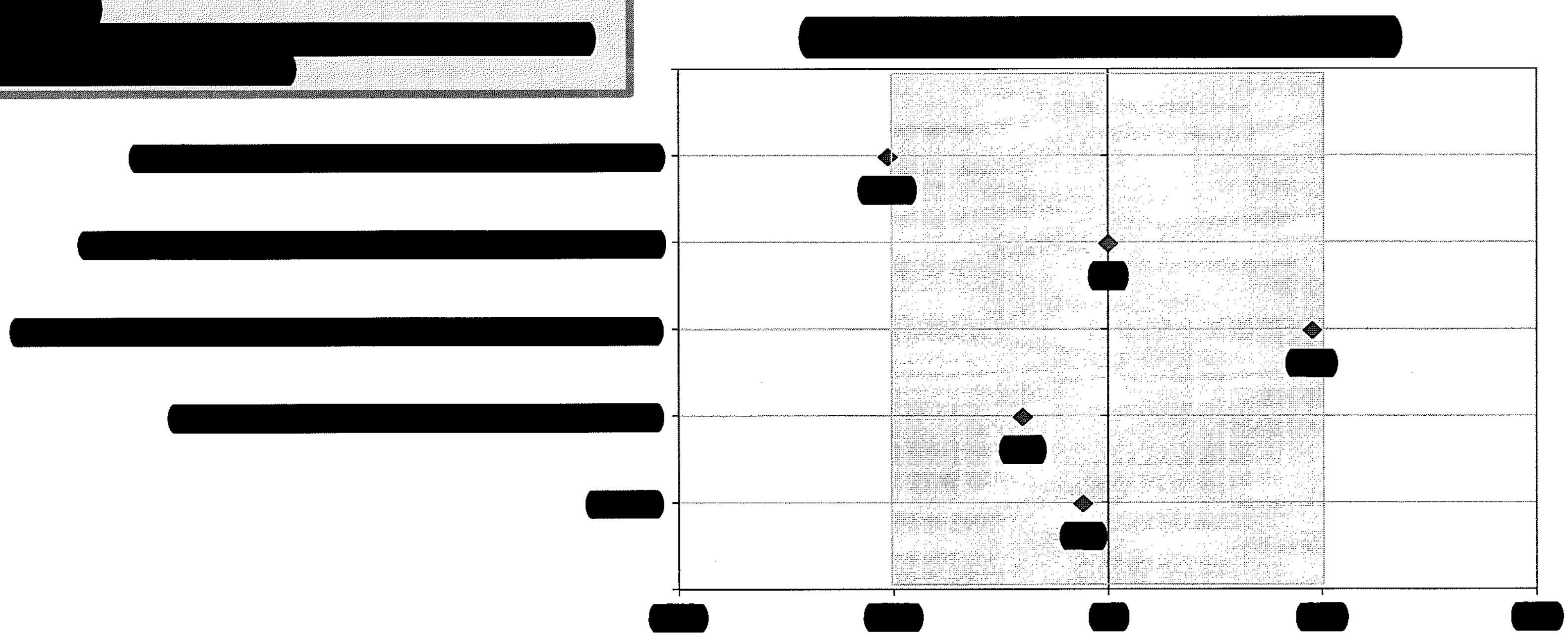

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Executive Summary – Target Total Cash Compensation

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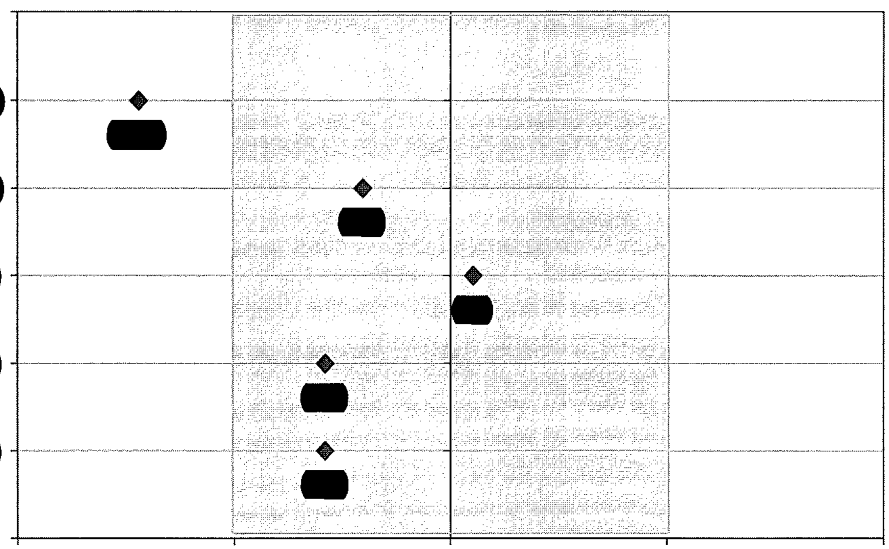

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Executive Summary – Target Total Direct Compensation

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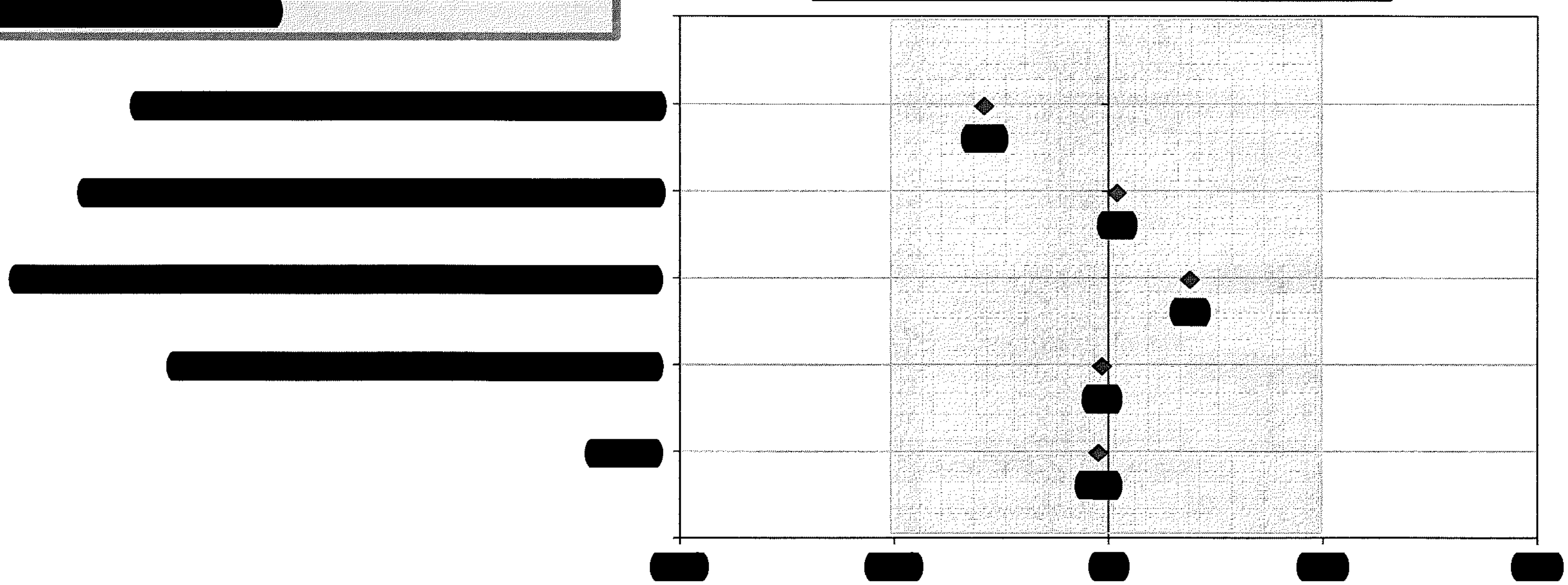

Executive Pay Analysis – Detailed Findings

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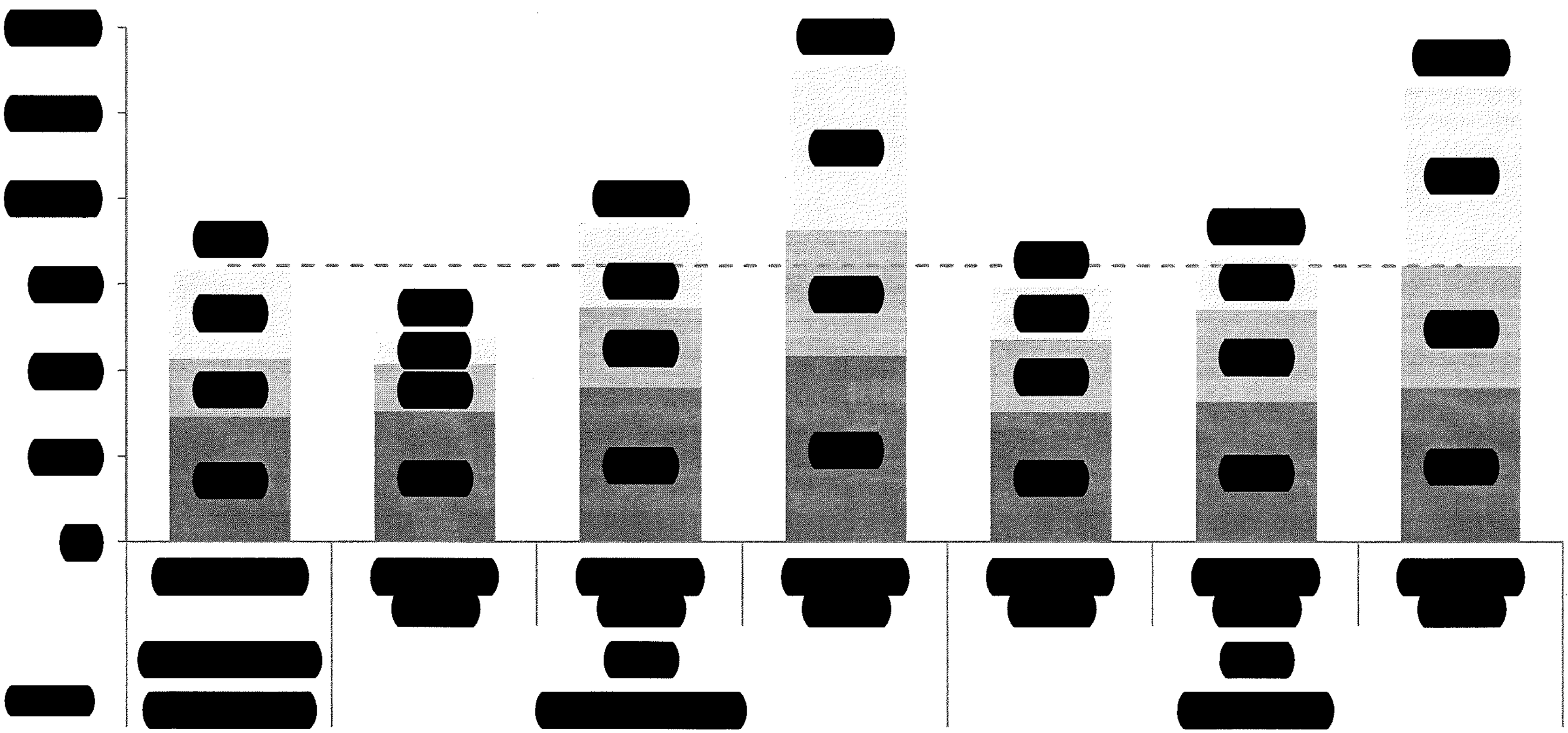

Executive Pay Analysis – Detailed Findings

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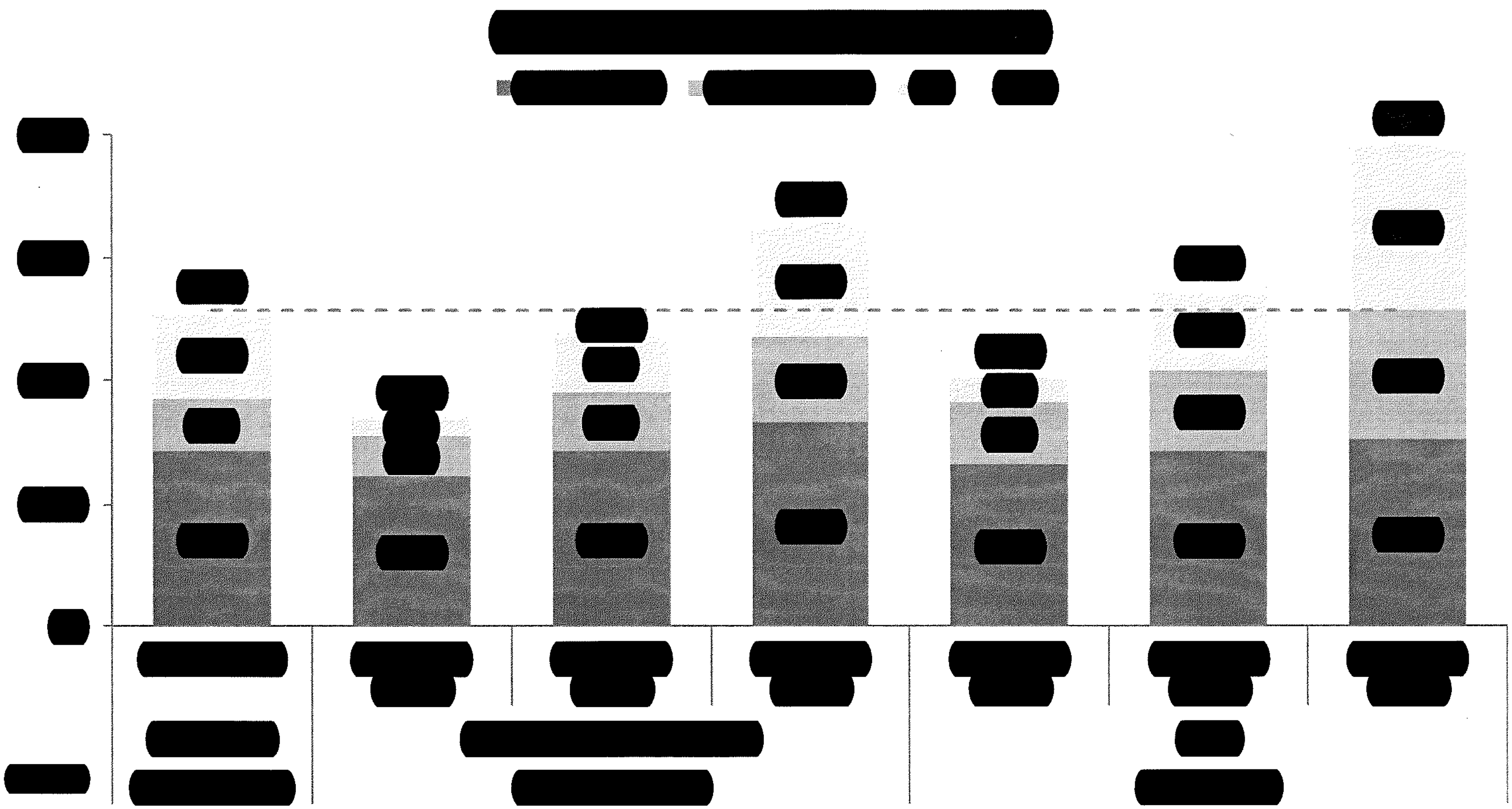

Executive Pay Analysis – Detailed Findings

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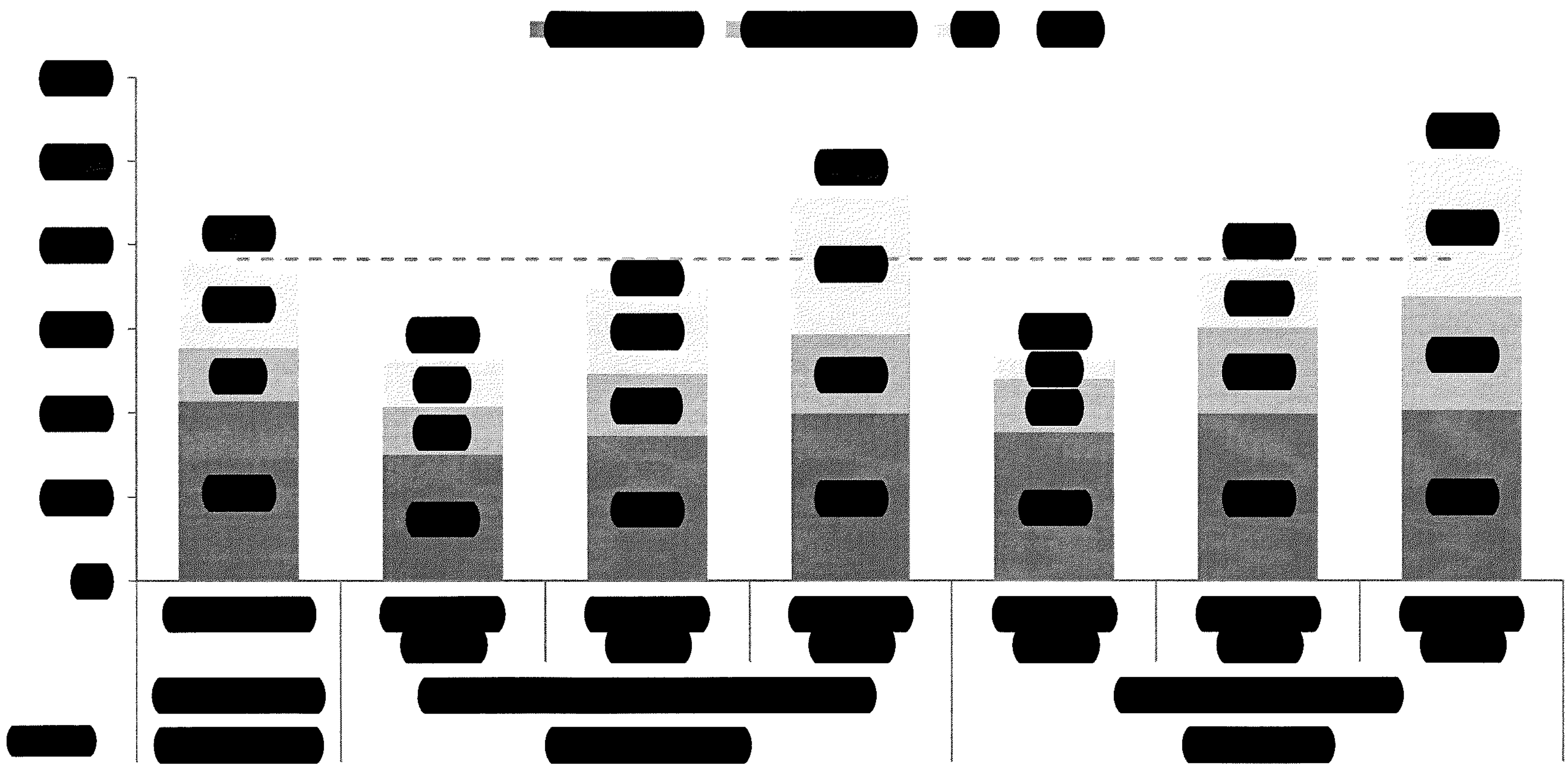

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Executive Pay Analysis – Detailed Findings

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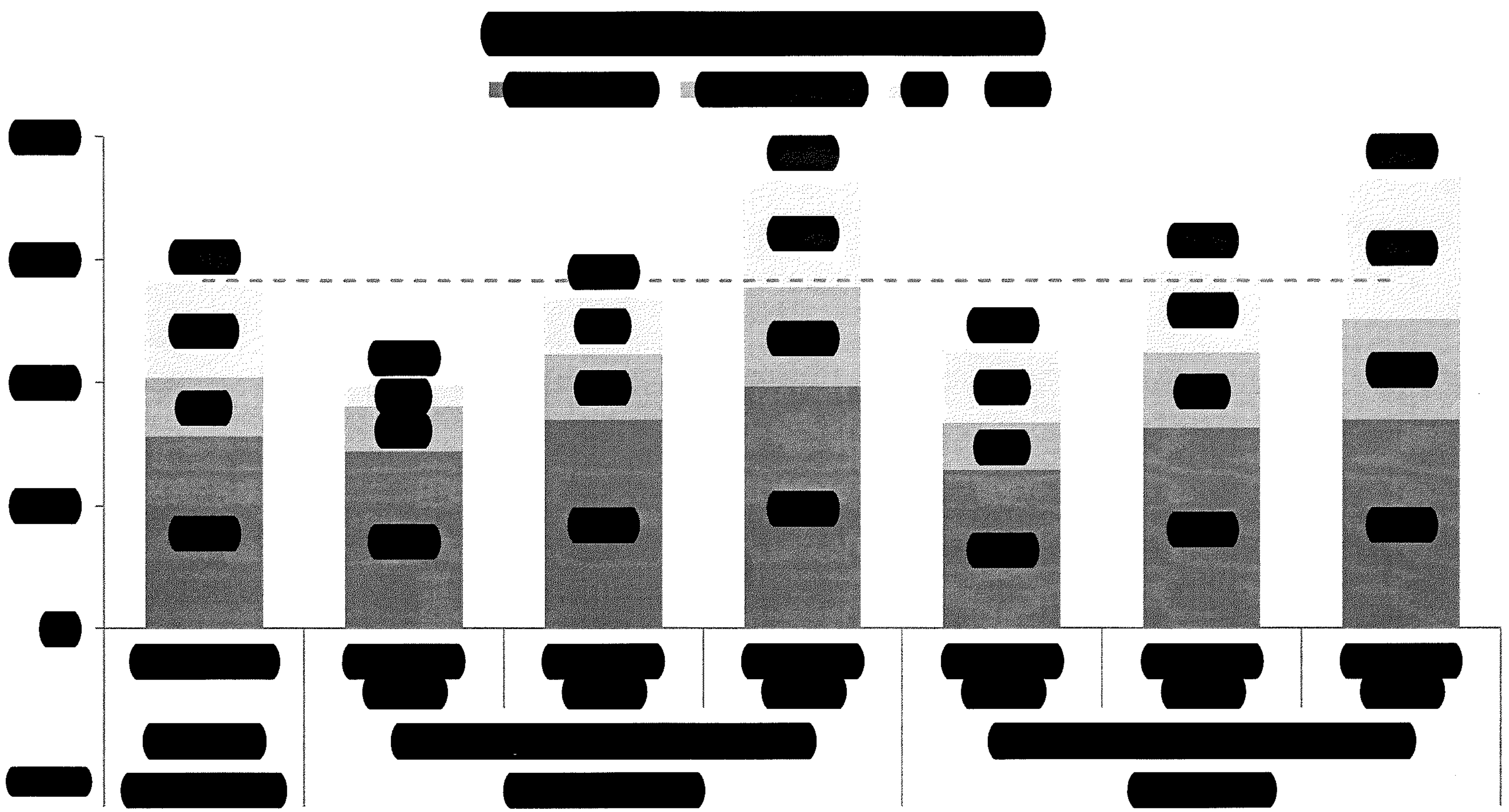

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Executive Pay Analysis – Detailed Findings

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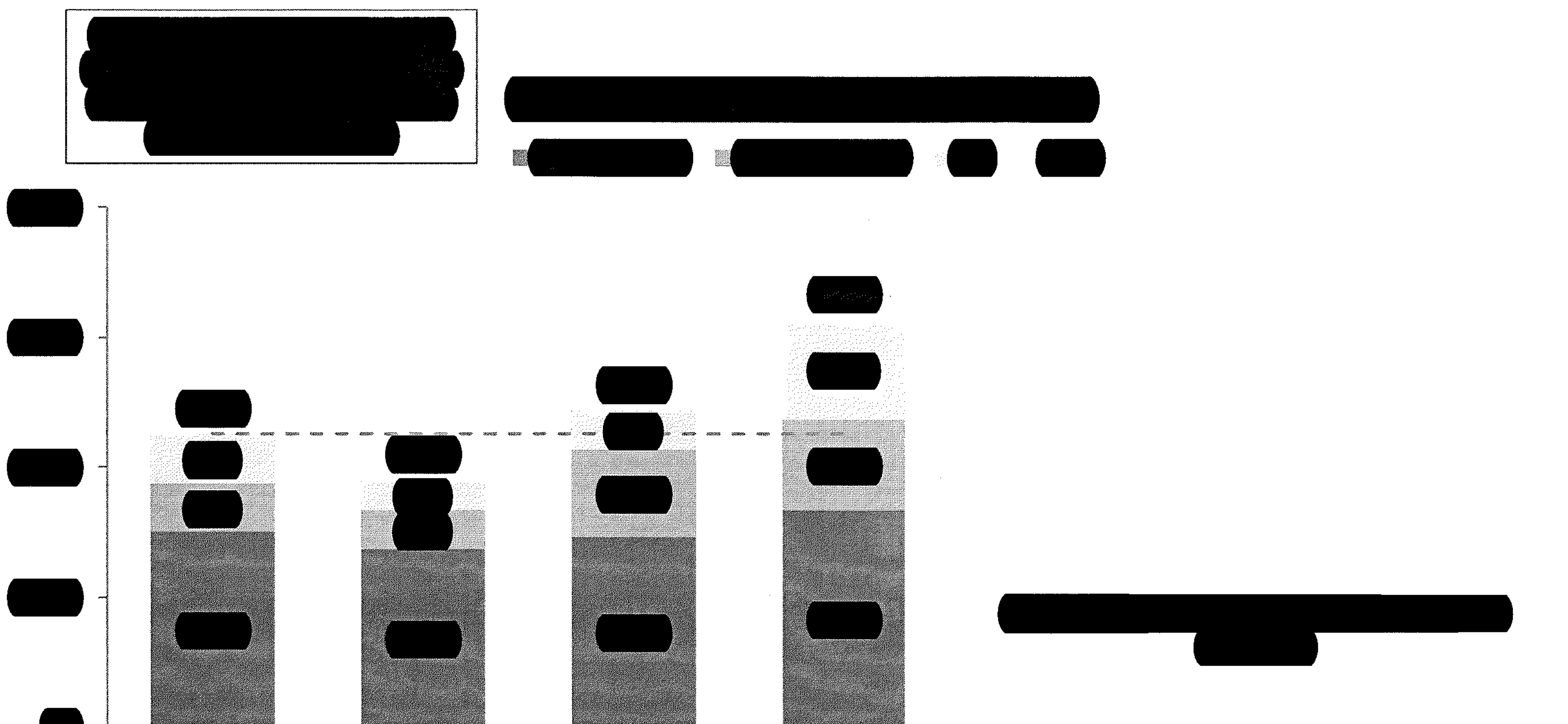

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APPENDICES

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**Market comparisons included for the Committee's reference only; data for these positions are not included in aggregate statistics.*

Appendix B: Peer Group Financial Data

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Appendix C: Detailed Peer Group Analysis

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Appendix C: Detailed Peer Group Analysis

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Footnotes

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Appendix C: Detailed Peer Group Analysis

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Appendix C: Detailed Peer Group Analysis

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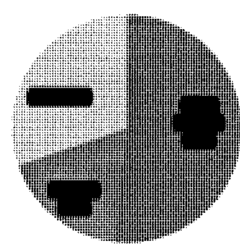

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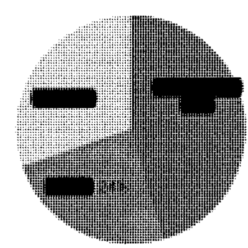

Florida Public Utilities Pension Plan — *NET PERIODIC PENSION COST*

Estimated Components of Net Periodic Pension Cost for Fiscal 2014

	Estimated Fiscal 2014 Expense with Sensitivities		
	25 bps Decrease in Assumptions	Baseline Expense Estimate	25 bps Increase in Assumptions
1. Service Cost	$0	$0	$0
2. Interest Cost	2,534,179	2,588,042	2,637,354
3. Expected Return on Plan Assets	(2,980,005)	(3,090,383)	(3,200,762)
4. Net Amortization of:			
a. Unrecognized Transition (Asset)/Obligation	0	0	0
b. Unrecognized Prior Service Cost	0	0	0
c. Unrecognized Net (Gain)/ Loss	50,617	0	0
5. Net Periodic Pension Cost/(Income)	($395,208)	($502,341)	($563,408)

Weighted-average Assumptions used to Determine Net Periodic Pension Cost

Discount Rate	4.50%	4.75%	5.00%
Expected Long Term Return on Assets	6.75%	7.00%	7.25%

Please refer to the December 31, 2013 Year End Disclosure Report for all other assumptions.

Chesapeake Utilities Corporation (Incl Capitalized Costs)
Operating Expenses -- Corporate Departments Only
For the Twelve Months Ending December 31, 2012

	CPK YTD Dec ACT 2012	CPK YTD Dec BGT 2012	Variance	Electric YTD Dec ACT 2012	Electric YTD Dec BGT 2012	Variance	ACT FE%	BGT FE%
Corporate Services	$11,038,674.29	$11,101,995.00	($63,320.71)	$1,019,417.25	$1,089,491.00	($70,073.75)		
Corporate Overhead	12,248,022.15	13,191,517.00	(943,494.85)	1,209,503.55	1,346,677.00	(137,173.45)		
Grand Total	23,286,696.44	24,293,512.00	(1,006,815.56)	2,228,920.80	2,436,168.00	(207,247.20)		
Corporate Services								
AA800 - Corporate Accruals	(35,194.20)	45,014.00	(80,208.20)	19,437.19	19,260.00	177.19	NMF	NMF
Business Unit Accounting								
AC800 - Business Unit Accounting	1,903,935.08	2,116,611.00	(212,675.92)	222,693.00	247,366.00	(24,673.00)	11.70%	11.69%
Internal Audit								
IA800 - Internal Audit	697,688.28	678,128.00	19,560.28	73,954.97	72,563.00	1,391.97	10.60%	10.70%
Risk Management								
RM800 - Insurance Costs	2,280,028.77	2,265,596.00	14,432.77	150,319.22	135,503.00	14,816.22	6.59%	5.98%
RM840 - Insurance	381,316.00	127,620.00	253,696.00	121,620.00	121,620.00	0.00	31.89%	95.30%
Total Risk Management	2,661,344.77	2,393,216.00	268,128.77	271,939.22	257,123.00	14,816.22		
Information Systems								
IT800 - Dover Staff/General	1,800,130.95	1,854,800.00	(54,669.05)	203,414.79	209,221.00	(5,806.21)	11.30%	11.28%
IT801 - Financial System	378,755.76	479,977.00	(101,221.24)	56,813.35	70,747.00	(13,933.65)	15.00%	14.74%
IT802 - Natural Gas Billing System	184,204.17	265,275.00	(81,070.83)	0.00	0.00	0.00	0.00%	0.00%
IT803 - Propane Billing System	115,644.67	104,000.00	11,644.67	0.00	0.00	0.00	0.00%	0.00%
IT804 - HR & Payroll System	83,652.95	73,953.00	9,699.95	10,791.24	7,116.00	3,675.24	12.90%	9.62%
IT805 - System Support	570,368.25	635,355.00	(64,986.75)	0.00	0.00	0.00	0.00%	0.00%
IT806 - Network Support	642,343.40	493,748.00	148,595.40	0.00	0.00	0.00	0.00%	0.00%
IT846 - WPB Network Support	283,610.14	486,060.00	(202,449.86)	83,948.63	145,092.00	(61,143.37)	29.60%	29.85%
IT807 - Desktop Support	166,524.42	195,160.00	(28,635.58)	0.00	0.00	0.00	0.00%	0.00%
IT808 - Software Development	0.00	0.00	0.00	0.00	0.00	0.00	0.00%	0.00%
IT809 - ECIS	170,993.84	153,656.00	17,337.84	31,804.86	28,595.00	3,209.86	18.60%	18.61%
IT849 - WPB ECIS	161,083.05	150,000.00	11,083.05	44,620.00	32,408.00	12,212.00	27.70%	21.61%
Total Information Systems	4,557,311.60	4,891,984.00	(334,672.40)	431,392.87	493,179.00	(61,786.13)		
Facilities								
OB800 - Silver Lake	1,253,588.76	977,042.00	276,546.76	0.00	0.00	0.00	0.00%	0.00%
XX800 - Out of period adjustments	0.00	0.00	0.00	0.00	0.00	0.00	NMF	NMF
Total Corporate Services	11,038,674.29	11,101,995.00	(63,320.71)	1,019,417.25	1,089,491.00	(70,073.75)		
Corporate Overhead								
AA900 - Corporate Accruals	37,616.00	26,436.00	11,180.00	0.00	0.00	0.00	0.00%	0.00%
AC900 - Corp Acct	754,462.67	701,440.00	53,022.67	63,102.45	83,158.00	(20,055.55)	8.36%	11.86%
AU900 - Audit Committee/Fees	795,042.16	818,521.00	(23,478.84)	154,111.46	130,560.00	23,551.46	19.38%	15.95%
Treasury Management								
TM900 - Treasury Mgmt	830,359.65	830,978.00	(618.35)	55,250.07	53,347.00	1,903.07	6.65%	6.42%
IR900 - Investor Relations	419,450.08	554,619.00	(135,168.92)	33,136.54	43,315.00	(10,178.46)	7.90%	7.81%
Total Treasury Management	1,249,809.73	1,385,597.00	(135,787.27)	88,386.61	96,662.00	(8,275.39)		
Human Resources								
HR900 - General	822,761.41	859,421.00	(36,659.59)	4,113.89	4,299.00	(185.11)	0.50%	0.50%
HR901 - CHOICE	53,425.36	70,724.00	(17,298.64)	0.00	0.00	0.00	0.00%	0.00%
HR902 - Retiree Benefits	69,575.64	114,489.00	(44,913.36)	0.00	0.00	0.00	0.00%	0.00%
HR903 - COBRA	15,275.91	0.00	15,275.91	0.00	0.00	0.00	0.00%	0.00%
HR905 - Delmarva events	66,469.06	50,341.00	16,128.06	0.00	0.00	0.00	0.00%	0.00%
HR940 - WPB Human Resources	600,012.59	896,839.00	(296,826.41)	177,603.73	269,178.00	(91,574.27)	29.60%	30.01%
HR942 - Retiree Benefits - FPU	(2,853.00)	287,712.00	(290,565.00)	54,384.20	83,976.00	(29,591.80)	NMF	NMF
HR944 - FPU Co. Events	1,940.81	64,999.00	(63,058.19)	450.27	15,249.00	(14,798.73)	23.20%	23.46%
Total Human Resources	1,626,607.78	2,344,525.00	(717,917.22)	236,552.09	372,702.00	(136,149.91)		
CM900 - Communications	448,660.22	296,991.00	151,669.22	7,178.61	4,692.00	2,486.61	1.60%	1.58%
SP900 - Strategic Development	230,972.51	512,579.00	(281,606.49)	18,246.81	40,035.00	(21,788.19)	7.90%	7.81%
NE980 - New Energy Development	0.00	0.00	0.00	0.00	0.00	0.00	0.00%	0.00%
BD900 - Board of Directors	1,347,238.08	1,231,062.00	116,176.08	106,431.79	96,145.00	10,286.79	7.90%	7.81%
GV900 - Governance	166,137.69	125,927.00	40,210.69	13,124.85	9,838.00	3,286.85	7.90%	7.81%
Sr. Management & Support								
MG901 - Vice Chairman	124,675.74	127,000.00	(2,324.26)	0.00	0.00	0.00	0.00%	0.00%
MG902 - Chief Executive Officer	2,777,723.98	2,657,614.00	120,109.98	83,806.14	79,278.00	4,528.14	3.02%	2.98%
MG903 - Chief Financial Officer	816,174.44	753,593.00	62,581.44	62,845.42	60,663.00	2,182.42	7.70%	8.05%
MG904 - Controller	335,267.75	296,696.00	38,571.75	38,220.53	37,356.00	864.53	11.40%	12.59%
MG905 - VP of Strategic Development	1,114,241.58	1,481,654.00	(367,412.42)	100,281.75	102,962.00	(2,680.25)	9.00%	6.95%
MG911 - Executive (former FPU COO)	142,644.00	142,644.00	0.00	15,120.24	15,264.00	(143.76)	10.60%	10.70%
MG912 - Executive (former FPU CFO)	135,264.42	212,764.00	(77,499.58)	13,647.72	40,148.00	(26,500.28)	10.09%	18.87%
SU900 - Corporate Support	145,483.40	135,743.00	9,740.40	0.00	0.00	0.00	0.00%	0.00%
Total Sr. Mgmt & Support	5,591,475.31	5,807,708.00	(216,232.69)	313,921.80	335,671.00	(21,749.20)		
CU900 - CRC	0.00	0.00	0.00	203,738.05	235,645.00	(31,906.95)	NMF	NMF
FP900 - FPU CRC	0.00	0.00	0.00	4,709.03	(84,064.00)	88,773.03	NMF	NMF
XX900 - Out of period adjustments	0.00	(59,269.00)	59,269.00	0.00	25,633.00	(25,633.00)	NMF	NMF
Total Corporate Overhead	12,248,022.15	13,191,517.00	(943,494.85)	1,209,503.55	1,346,677.00	(137,173.45)		
Total Corporate Costs	23,286,696.44	24,293,512.00	(1,006,815.56)	2,228,920.80	2,436,168.00	(207,247.20)		

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Chesapeake Utilities Corporation (Incl Capitalized Costs)
Operating Expenses -- Corporate Departments Only
For the Twelve Months Ending December 31, 2013

	CPK YTD Dec ACT 2013	CPK YTD Dec BGT 2013	Variance	Electric YTD Dec ACT 2013	Electric YTD Dec BGT 2013	Variance	ACT FE%	BGT FE%
Corporate Services	$12,489,253.02	$12,612,422.00	($123,168.98)	$1,333,486.19	$1,333,438.00	$48.19		
Corporate Overhead	14,527,879.75	16,167,971.00	(1,640,091.25)	1,421,099.65	1,585,910.00	(164,810.35)		
Grand Total	27,017,132.77	28,780,393.00	(1,763,260.23)	2,754,585.84	2,919,348.00	(164,762.16)		
Corporate Services								
AA800 - Corporate Accruals	**125,143.69**	**180,000.00**	**(54,856.31)**	**9,490.12**	**18,300.00**	**(8,809.88)**	NMF	NMF
Business Unit Accounting								
AC800 - Business Unit Accounting	2,202,066.68	2,313,280.00	(111,213.32)	203,066.28	211,311.00	(8,244.72)	9.22%	9.13%
Internal Audit								
IA800 - Internal Audit	797,893.81	845,080.00	(47,186.19)	82,671.23	85,956.00	(3,284.77)	10.36%	10.17%
Risk Management								
RM800 - Insurance Costs	2,383,942.48	2,469,896.00	(85,953.52)	203,395.00	210,623.00	(7,228.00)	8.53%	8.53%
RM840 - Insurance	254,468.04	127,620.00	126,848.04	121,620.00	121,620.00	0.00	47.79%	95.30%
Total Risk Management	**2,638,410.52**	**2,597,516.00**	**40,894.52**	**325,015.00**	**332,243.00**	**(7,228.00)**		
Information Systems								
IT800 - Dover Staff/General	2,115,921.94	2,379,889.00	(263,967.06)	232,523.24	256,227.00	(23,703.76)	10.99%	10.77%
IT801 - Financial System	449,112.11	474,013.00	(24,900.89)	62,283.74	61,555.00	728.74	13.87%	12.99%
IT802 - Natural Gas Billing System	213,938.26	185,312.00	28,626.26	0.00	0.00	0.00	0.00%	0.00%
IT803 - Propane Billing System	148,985.07	142,680.00	6,305.07	0.00	0.00	0.00	0.00%	0.00%
IT804 - HR & Payroll System	112,657.14	135,354.00	(22,696.86)	14,693.00	16,984.00	(2,291.00)	13.04%	12.55%
IT805 - System Support	796,297.66	753,102.00	43,195.66	87,765.69	81,095.00	6,670.69	11.02%	10.77%
IT806 - Network Support	1,205,438.68	1,034,892.00	170,546.68	132,368.03	111,457.00	20,911.03	10.98%	10.77%
IT846 - WPB Network Support	0.00	0.00	0.00	0.00	0.00	0.00	0.00%	0.00%
IT807 - Desktop Support	185,495.67	194,229.00	(8,733.33)	20,383.95	20,900.00	(516.05)	10.99%	10.76%
IT808 - Software Development	100,934.29	0.00	100,934.29	9,345.14	0.00	9,345.14	9.26%	0.00%
IT809 - ECIS	0.00	0.00	0.00	0.00	0.00	0.00	0.00%	0.00%
IT849 - WPB ECIS	161,494.42	158,220.00	3,274.42	47,966.24	36,444.00	11,522.24	29.70%	23.03%
Total Information Systems	**5,490,275.24**	**5,457,691.00**	**32,584.24**	**607,329.03**	**584,662.00**	**22,667.03**		
Facilities								
OB800 - Silver Lake	1,236,312.95	1,218,855.00	17,457.95	105,914.53	100,966.00	4,948.53	8.57%	8.28%
XX800 - Out of period adjustments	**(849.87)**	**0.00**	**(849.87)**	**0.00**	**0.00**	**0.00**	NMF	NMF
Total Corporate Services	12,489,253.02	12,612,422.00	(123,168.98)	1,333,486.19	1,333,438.00	48.19		
Corporate Overhead								
AA900 - Corporate Accruals	**12,839.72**	**33,221.00**	**(20,381.28)**	**0.00**	**0.00**	**0.00**	0.00%	0.00%
AC900 - Corp Acct	**768,156.67**	**728,603.00**	**39,553.67**	**55,631.42**	**55,572.00**	**59.42**	7.24%	7.63%
AU900 - Audit Committee/Fees	**857,750.10**	**818,832.00**	**38,918.10**	**131,773.60**	**130,560.00**	**1,213.60**	15.36%	15.94%
Treasury Management								
TM900 - Treasury Mgmt	777,911.76	901,329.00	(123,417.24)	58,920.99	60,972.00	(2,051.01)	7.57%	6.76%
IR900 - Investor Relations	390,029.91	406,298.00	(16,268.09)	38,588.13	35,950.00	2,638.13	9.89%	8.85%
Total Treasury Management	**1,167,941.67**	**1,307,627.00**	**(139,685.33)**	**97,509.12**	**96,922.00**	**587.12**		
Human Resources								
HR900 - General	1,203,349.00	1,488,820.00	(285,471.00)	124,398.66	153,272.00	(28,873.34)	10.34%	10.29%
HR901 - CHOICE	105,033.18	75,000.00	30,033.18	10,887.86	0.00	10,887.86	10.37%	0.00%
HR902 - Retiree Benefits	39,965.64	84,144.00	(44,178.36)	0.00	0.00	0.00	0.00%	0.00%
HR903 - COBRA	35,846.97	0.00	35,846.97	0.00	0.00	0.00	0.00%	0.00%
HR905 - Delmarva events	169,591.37	75,146.00	94,445.37	0.00	0.00	0.00	0.00%	0.00%
HR940 - WPB Human Resources	686,540.08	989,805.00	(303,264.92)	71,229.26	101,552.00	(30,322.74)	10.38%	10.26%
HR942 - Retiree Benefits - FPU	78,386.35	457,728.00	(379,341.65)	23,273.20	133,284.00	(110,010.80)	29.69%	29.12%
HR944 - FPU Co. Events	44,326.64	24,551.00	19,775.64	10,150.80	5,573.00	4,577.80	22.90%	22.70%
Total Human Resources	**2,363,039.23**	**3,195,194.00**	**(832,154.77)**	**239,939.78**	**393,681.00**	**(153,741.22)**		
CM900 - Communications	**1,256,074.99**	**1,432,335.00**	**(176,260.01)**	**130,555.01**	**145,883.00**	**(15,327.99)**	10.39%	10.18%
SP900 - Strategic Development	**574,683.82**	**342,793.00**	**231,890.82**	**56,255.59**	**30,355.00**	**25,900.59**	9.79%	8.86%
NE980 - New Energy Development	**1,345,741.72**	**1,920,827.00**	**(575,085.28)**	**132,303.82**	**170,449.00**	**(38,145.18)**	9.83%	8.87%
BD900 - Board of Directors	**1,425,363.82**	**1,392,231.00**	**33,132.82**	**140,476.03**	**123,320.00**	**17,156.03**	9.86%	8.86%
GV900 - Governance	**267,741.42**	**263,589.00**	**4,152.42**	**26,385.84**	**23,355.00**	**3,030.84**	9.85%	8.86%
Sr. Management & Support								
MG901 - Vice Chairman	74,408.50	0.00	74,408.50	0.00	0.00	0.00	0.00%	0.00%
MG902 - Chief Executive Officer	1,652,081.41	1,966,335.00	(314,253.59)	112,371.33	87,566.00	24,805.33	6.80%	4.45%
MG903 - Chief Financial Officer	995,783.47	1,035,415.00	(39,631.53)	83,580.43	81,451.00	2,129.43	8.39%	7.87%
MG904 - Controller	371,249.53	447,708.00	(76,458.47)	35,960.56	42,835.00	(6,874.44)	9.69%	9.57%
MG905 - VP of Strategic Development	909,554.99	869,586.00	39,968.99	83,615.14	76,037.00	7,578.14	9.19%	8.74%
MG911 - Executive (former FPU COO)	142,644.00	142,644.00	0.00	14,787.39	14,506.00	281.39	10.37%	10.17%
MG912 - Executive (former FPU CFO)	128,663.06	127,764.00	899.06	13,338.62	12,986.00	352.62	10.37%	10.16%
SU900 - Corporate Support	215,922.16	143,267.00	72,655.16	0.00	0.00	0.00	0.00%	0.00%
Total Sr. Mgmt & Support	**4,490,307.12**	**4,732,719.00**	**(242,411.88)**	**343,653.47**	**315,381.00**	**28,272.47**		
CU900 - CRC	**0.00**	**0.00**	**0.00**	**65,472.82**	**95,103.00**	**(29,630.18)**	NMF	NMF
FP900 - FPU CRC	**0.00**	**0.00**	**0.00**	**1,143.15**	**5,329.00**	**(4,185.85)**	NMF	NMF
XX900 - Out of period adjustments	**(1,760.53)**	**0.00**	**(1,760.53)**	**0.00**	**0.00**	**0.00**	NMF	NMF
Total Corporate Overhead	14,527,879.75	16,167,971.00	(1,640,091.25)	1,421,099.65	1,585,910.00	(164,810.35)		
Total Corporate Costs	27,017,132.77	28,780,393.00	(1,763,260.23)	2,754,585.84	2,919,348.00	(164,762.16)		

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Chesapeake Utilities Corporation (Incl Capitalized Costs)
Operating Expenses -- Corporate Departments Only
For the Four Months Ending April 30, 2014

	CPK YTD Apr ACT 2014	CPK YTD Apr BGT 2014	Variance	Electric YTD Apr ACT 2014	Electric YTD Apr BGT 2014	Variance	ACT FE%	BGT FE%
Corporate Services	$4,533,093.31	$4,619,098.00	($86,004.69)	$440,213.44	$444,693.00	($4,479.56)		
Corporate Overhead	5,302,128.32	6,076,630.00	(774,501.68)	470,409.07	504,602.00	(34,192.93)		
Grand Total	9,835,221.63	10,695,728.00	(860,506.37)	910,622.51	949,295.00	(38,672.49)		
Corporate Services								
AA800 - Corporate Accruals	**59,419.37**	**60,000.00**	**(580.63)**	**5,539.37**	**5,520.00**	**19.37**	NMF	NMF
Business Unit Accounting								
AC800 - Business Unit Accounting	862,863.04	808,343.00	54,520.04	75,969.43	71,061.00	4,908.43	8.80%	8.79%
Internal Audit								
IA800 - Internal Audit	254,128.18	262,947.00	(8,818.82)	23,379.82	24,192.00	(812.18)	9.20%	9.20%
Risk Management								
RM800 - Insurance Costs	823,197.28	824,799.00	(1,601.72)	70,907.00	65,336.00	5,571.00	8.61%	7.92%
RM840 - Insurance	84,822.68	84,824.00	(1.32)	40,540.00	40,540.00	0.00	47.79%	47.79%
Total Risk Management	**908,019.96**	**909,623.00**	**(1,603.04)**	**111,447.00**	**105,876.00**	**5,571.00**		
Information Systems								
IT800 - Dover Staff/General	837,111.53	906,872.00	(69,760.47)	77,630.21	85,268.00	(7,637.79)	9.27%	9.40%
IT801 - Financial System	165,512.45	145,853.00	19,659.45	18,371.86	16,481.00	1,890.86	11.10%	11.30%
IT802 - Natural Gas Billing System	79,501.59	71,843.00	7,658.59	0.00	0.00	0.00	0.00%	0.00%
IT803 - Propane Billing System	51,056.74	52,320.00	(1,263.26)	0.00	0.00	0.00	0.00%	0.00%
IT804 - HR & Payroll System	39,371.63	38,056.00	1,315.63	4,212.77	4,604.00	(391.23)	10.70%	12.10%
IT805 - System Support	205,080.21	224,526.00	(19,445.79)	19,892.80	22,004.00	(2,111.20)	9.70%	9.80%
IT806 - Network Support	440,465.01	480,851.00	(40,385.99)	42,725.12	47,123.00	(4,397.88)	9.70%	9.80%
IT846 - WPB Network Support	0.00	0.00	0.00	0.00	0.00	0.00	0.00%	0.00%
IT807 - Desktop Support	77,841.21	81,211.00	(3,369.79)	7,550.60	7,959.00	(408.40)	9.70%	9.80%
IT808 - Software Development	47,383.66	61,054.00	(13,670.34)	0.00	1,526.00	(1,526.00)	0.00%	2.50%
IT809 - ECIS	0.00	0.00	0.00	0.00	0.00	0.00	0.00%	0.00%
IT849 - WPB ECIS	55,865.96	55,888.00	(22.04)	17,039.11	17,324.00	(284.89)	30.50%	31.00%
Total Information Systems	**1,999,189.99**	**2,118,474.00**	**(119,284.01)**	**187,422.47**	**202,289.00**	**(14,866.53)**		
Facilities								
OB800 - Silver Lake	444,772.77	459,711.00	(14,938.23)	36,455.35	35,755.00	700.35	8.20%	7.78%
XX800 - Out of period adjustments	**4,700.00**	**0.00**	**4,700.00**	**0.00**	**0.00**	**0.00**	NMF	NMF
Total Corporate Services	**4,533,093.31**	**4,619,098.00**	**(86,004.69)**	**440,213.44**	**444,693.00**	**(4,479.56)**		
Corporate Overhead								
AA900 - Corporate Accruals	**1,505.00**	**5,048.00**	**(3,543.00)**	**0.00**	**0.00**	**0.00**	0.00%	0.00%
AC900 - Corp Acct	**272,546.35**	**285,512.00**	**(12,965.65)**	**17,790.25**	**19,176.00**	**(1,385.75)**	6.53%	6.72%
AU900 - Audit Committee/Fees	**268,794.00**	**262,548.00**	**6,246.00**	**41,912.16**	**29,256.00**	**12,656.16**	15.59%	11.14%
Treasury Management								
TM900 - Treasury Mgmt	270,973.06	328,784.00	(57,810.94)	19,510.07	22,687.00	(3,176.93)	7.20%	6.90%
IR900 - Investor Relations	169,312.09	122,714.00	46,598.09	15,746.03	10,309.00	5,437.03	9.30%	8.40%
Total Treasury Management	**440,285.15**	**451,498.00**	**(11,212.85)**	**35,256.10**	**32,996.00**	**2,260.10**		
Human Resources								
HR900 - General	449,698.76	562,992.00	(113,293.24)	41,372.34	51,795.00	(10,422.66)	9.20%	9.20%
HR901 - CHOICE	75,334.77	30,014.00	45,320.77	6,930.81	2,762.00	4,168.81	9.20%	9.20%
HR902 - Retiree Benefits	22,599.88	21,716.00	883.88	0.00	0.00	0.00	0.00%	0.00%
HR903 - COBRA	1,894.87	0.00	1,894.87	0.00	0.00	0.00	0.00%	0.00%
HR905 - Delmarva events	116,571.58	110,000.00	6,571.58	0.00	0.00	0.00	0.00%	0.00%
HR940 - WPB Human Resources	262,247.30	276,997.00	(14,749.70)	24,126.77	25,482.00	(1,355.23)	9.20%	9.20%
HR942 - Retiree Benefits - FPU	29,233.03	24,576.00	4,657.03	8,612.73	7,308.00	1,304.73	29.46%	29.74%
HR944 - FPU Co. Events	(1,275.72)	0.00	(1,275.72)	(271.73)	0.00	(271.73)	21.30%	0.00%
Total Human Resources	**956,304.47**	**1,026,295.00**	**(69,990.53)**	**80,770.92**	**87,347.00**	**(6,576.08)**		
CM900 - Communications	**526,496.69**	**439,879.00**	**86,617.69**	**48,437.72**	**40,468.00**	**7,969.72**	9.20%	9.20%
SP900 - Strategic Development	**130,230.90**	**459,749.00**	**(329,518.10)**	**12,111.48**	**38,619.00**	**(26,507.52)**	9.30%	8.40%
NE980 - New Energy Development	**502,174.20**	**743,165.00**	**(240,990.80)**	**46,702.19**	**62,426.00**	**(15,723.81)**	9.30%	8.40%
BD900 - Board of Directors	**431,394.47**	**482,228.00**	**(50,833.53)**	**40,119.69**	**40,508.00**	**(388.31)**	9.30%	8.40%
GV900 - Governance	**121,777.71**	**94,318.00**	**27,459.71**	**11,325.32**	**7,924.00**	**3,401.32**	9.30%	8.40%
Sr. Management & Support								
MG901 - Vice Chairman	21,777.78	20,000.00	1,777.78	0.00	0.00	0.00	0.00%	0.00%
MG902 - Chief Executive Officer	728,768.23	603,555.00	125,213.23	41,012.12	29,935.00	11,077.12	5.63%	4.96%
MG903 - Chief Financial Officer	347,833.06	343,261.00	4,572.06	30,408.35	26,773.00	3,635.35	8.74%	7.80%
MG904 - Controller	132,739.33	176,046.00	(43,306.67)	11,548.33	15,316.00	(3,767.67)	8.70%	8.70%
MG905 - VP of Strategic Development	296,052.37	573,032.00	(276,979.63)	24,868.39	46,989.00	(22,120.61)	8.40%	8.20%
MG911 - Executive (former FPU COO)	11,887.00	11,887.00	0.00	1,093.60	1,094.00	(0.40)	9.20%	9.20%
MG912 - Executive (former FPU CFO)	21,286.00	21,294.00	(8.00)	1,958.30	1,960.00	(1.70)	9.20%	9.20%
SU900 - Corporate Support	87,075.61	77,315.00	9,760.61	0.00	0.00	0.00	0.00%	0.00%
Total Sr. Mgmt & Support	**1,647,419.38**	**1,826,390.00**	**(178,970.62)**	**110,889.09**	**122,067.00**	**(11,177.91)**		
CU900 - CRC	**0.00**	**0.00**	**0.00**	**24,600.96**	**23,383.00**	**1,217.96**	NMF	NMF
FP900 - FPU CRC	**0.00**	**0.00**	**0.00**	**493.19**	**432.00**	**61.19**	NMF	NMF
XX900 - Out of period adjustments	**3,200.00**	**0.00**	**3,200.00**	**0.00**	**0.00**	**0.00**	NMF	NMF
Total Corporate Overhead	**5,302,128.32**	**6,076,630.00**	**(774,501.68)**	**470,409.07**	**504,602.00**	**(34,192.93)**		
Total Corporate Costs	**9,835,221.63**	**10,695,728.00**	**(860,506.37)**	**910,622.51**	**949,295.00**	**(38,672.49)**		

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Chesapeake Utilities Corporation (Incl Capitalized Costs)
Operating Expenses -- Corporate Departments Only
For the Twelve Months Ending December 31, 2014 & 2015 Budgets

	CPK YTD Dec BGT 2014	Electric YTD Dec BGT 2014	2014 FE%	CPK YTD Dec BGT 2015	Electric YTD Dec BGT 2015	2015 FE%
Corporate Services	14,203,641	1,369,320		15,421,162	1,487,716	
Corporate Overhead	18,372,218	1,543,737		20,715,826	1,750,903	
Grand Total	32,575,859	2,913,057		36,136,988	3,238,619	
Corporate Services						
AA800 - Corporate Accruals	180,000	16,560	NMF	180,000	16,560	NMF
Business Unit Accounting						
AC800 - Business Unit Accounting	2,412,436	212,049	8.79%	2,481,939	218,159	8.79%
Internal Audit						
IA800 - Internal Audit	883,152	81,249	9.20%	949,910	87,389	9.20%
Risk Management						
RM800 - Insurance Costs	2,518,687	199,286	7.91%	2,659,320	211,068	7.94%
RM840 - Insurance	254,472	121,620	47.79%	254,472	121,620	47.79%
Total Risk Management	2,773,159	320,906		2,913,792	332,688	
Information Systems						
IT800 - Dover Staff/General	2,974,376	280,672	9.44%	3,432,108	325,527	9.48%
IT801 - Financial System	484,815	54,784	11.30%	637,506	72,040	11.30%
IT802 - Natural Gas Billing System	204,771	0	0.00%	186,807	13,648	7.31%
IT803 - Propane Billing System	155,616	0	0.00%	159,512	0	0.00%
IT804 - HR & Payroll System	159,908	19,348	12.10%	210,539	25,473	12.10%
IT805 - System Support	680,547	66,693	9.80%	716,865	70,251	9.80%
IT806 - Network Support	1,320,463	129,405	9.80%	1,471,301	144,188	9.80%
IT846 - WPB Network Support	0	0	0.00%	0	0	0.00%
IT807 - Desktop Support	240,137	23,535	9.80%	266,109	26,078	9.80%
IT808 - Software Development	184,712	4,616	2.50%	190,141	4,757	2.50%
IT809 - ECIS	0	0	0.00%	0	0	0.00%
IT849 - WPB ECIS	167,787	52,011	31.00%	171,414	37,320	21.77%
Total Information Systems	6,573,132	631,064		7,442,302	719,282	
Facilities						
OB800 - Silver Lake	1,381,762	107,492	7.78%	1,453,219	113,638	7.82%
XX800 - Out of period adjustments	0	0	NMF	0	0	NMF
Total Corporate Services	14,203,641	1,369,320		15,421,162	1,487,716	
Corporate Overhead						
AA900 - Corporate Accruals	15,147	0	0.00%	15,529	0	0.00%
AC900 - Corp Acct	838,561	56,233	6.71%	862,393	57,861	6.71%
AU900 - Audit Committee/Fees	787,644	87,768	11.14%	803,460	89,532	11.14%
Treasury Management						
TM900 - Treasury Mgmt	905,274	62,464	6.90%	934,931	64,511	6.90%
IR900 - Investor Relations	458,006	38,474	8.40%	469,457	39,434	8.40%
Total Treasury Management	1,363,280	100,938		1,404,388	103,945	
Human Resources						
HR900 - General	1,588,371	146,128	9.20%	1,623,370	149,351	9.20%
HR901 - CHOICE	90,000	8,282	9.20%	92,245	8,486	9.20%
HR902 - Retiree Benefits	65,148	0	0.00%	66,168	0	0.00%
HR903 - COBRA	0	0	0.00%	0	0	0.00%
HR905 - Delmarva events	150,000	0	0.00%	153,750	0	0.00%
HR940 - WPB Human Resources	887,853	81,679	9.20%	911,384	83,848	9.20%
HR942 - Retiree Benefits - FPU	73,728	21,924	29.74%	73,728	21,924	29.74%
HR944 - FPU Co. Events	0	0	0.00%	0	0	0.00%
Total Human Resources	2,855,100	258,013		2,920,645	263,609	
CM900 - Communications	1,552,740	142,848	9.20%	1,593,191	146,574	9.20%
SP900 - Strategic Development	1,352,033	113,569	8.40%	1,387,624	116,562	8.40%
NE980 - New Energy Development	2,190,992	184,042	8.40%	2,216,374	186,178	8.40%
BD900 - Board of Directors	1,528,484	128,394	8.40%	1,708,176	143,487	8.40%
GV900 - Governance	280,715	23,582	8.40%	291,321	24,470	8.40%
Sr. Management & Support						
MG901 - Vice Chairman	60,000	0	0.00%	60,000	0	0.00%
MG902 - Chief Executive Officer	1,829,364	87,742	4.80%	3,541,594	94,321	2.66%
MG903 - Chief Financial Officer	1,089,867	85,005	7.80%	1,182,361	92,222	7.80%
MG904 - Controller	534,283	46,482	8.70%	549,523	47,808	8.70%
MG905 - VP of Strategic Development	1,826,788	149,796	8.20%	1,938,478	158,955	8.20%
MG911 - Executive (former FPU COO)	11,887	1,094	9.20%	0	0	0.00%
MG912 - Executive (former FPU CFO)	21,294	1,960	9.20%	0	0	0.00%
SU900 - Corporate Support	234,039	0	0.00%	240,769	0	0.00%
Total Sr. Mgmt & Support	5,607,522	372,079		7,512,725	393,306	
CU900 - CRC	0	74,962	NMF	0	224,014	NMF
FP900 - FPU CRC	0	1,309	NMF	0	1,365	NMF
XX900 - Out of period adjustments	0	0	NMF	0	0	NMF
Total Corporate Overhead	18,372,218	1,543,737		20,715,826	1,750,903	
Total Corporate Costs	32,575,859	2,913,057		36,136,988	3,238,619	

Source:
DEPTEXP_CORP_BIPM
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Florida Public Utilities Company - Electric
Corporate Allocation Included in A&G
For Rate Case

EXHIBIT MK-5_____ (CORPORATE ALOCATION IN A&G)

	Historic Test Year			Increase Due to Applying Escalation to Historic Year Amount			Increase from Historic Test Year to 12 Months Ended June 2014		
	Payroll	Non-payroll	Total	Payroll	Non-payroll	Total	Payroll	Non-payroll	Total
				1.0671	*1.0516*				
IT	160,633	322,490	483,123	10,778	16,640	27,419	13,804	41,478	55,282
HR	92,847	99,712	192,560	6,230	5,145	11,375	(2,329)	33,232	30,903
Communications	19,089	82,504	101,593	1,281	4,257	5,538	15,344	(469)	14,875
Finance	273,780	313,177	586,956	18,371	16,160	34,531	11,445	3,369	14,814
Facility	-	78,258	78,258	-	4,038	4,038	-	29,366	29,366
Former FPU executive consulting	-	28,397	28,397	-	1,465	1,465	-	(11,514)	(11,514)
New Energy Development	21,987	60,241	82,229	1,475	3,108	4,584	48,269	2,517	50,786
SVP of Strategic Development	50,020	61,672	111,691	3,356	3,182	6,539	(1,016)	(39,314)	(40,329)
Other overhead	14,522	74,143	88,665	974	3,826	4,800	4,425	(28,190)	(23,765)
Other, net	146,672	521,254	667,926	9,842	26,900	36,742	19,980	14,827	34,806
	779,551	1,641,846	2,421,397	52,308	84,723	137,031	109,923	45,302	155,224

	Additional Increase From July 2014 to Projected Test Year			Total Increase from Historic Test Year to Projected Test Year			Projected Test Year		
	Payroll	Non-payroll	Total	Payroll	Non-payroll	Total	Payroll	Non-payroll	Total
IT	52,005	19,375	71,380	76,587	77,494	154,081	237,220	399,984	637,204
HR	(4,852)	13,338	8,485	(951)	51,715	50,764	91,896	151,427	243,323
Communications	15,025	4,681	19,706	31,650	8,469	40,119	50,739	90,973	141,712
Finance	18,382	(79,831)	(61,449)	48,197	(60,302)	(12,104)	321,977	252,875	574,852
Facility	-	(395)	(395)	-	33,008	33,008	-	111,266	111,266
Former FPU executive consulting	-	(18,348)	(18,348)	-	(28,397)	(28,397)	-	-	-
New Energy Development	(12,089)	53,480	41,391	37,656	59,105	96,760	59,643	119,346	178,989
SVP of Strategic Development	20,637	55,335	75,972	22,978	19,204	42,182	72,997	80,876	153,873
Other overhead	(19,922)	137,082	117,160	(14,522)	112,717	98,195	-	186,860	186,860
Other, net	(42,512)	17,655	(24,857)	(12,690)	59,382	46,691	133,982	580,635	714,617
	26,673	202,371	229,044	188,903	332,396	521,299	968,454	1,974,242	2,942,696

Note 1> Projected Test Year amount excludes $120,000 of general liability reserve recovery included in MFR C-7.

FLORIDA PUBLIC UTILITIES COMPANY
Docket No. 140025-EI

REBUTTAL TESTIMONY
OF

Jim Moss

REBUTTAL TESTIMONY OF JIM MOSS

ON BEHALF OF

Florida Public Utilities Company

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

A. I am Jim Moss, founder and Managing Director of PRM Consulting, Inc., a human resources, employee compensation and benefits consulting firm. My business address is 1814 13th Street, N.W., Washington, D.C. 20009.

I. QUALIFICATIONS

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

A. In 1970, I received a Bachelor of Arts degree in philosophy from Morehouse College. I also pursued graduate studies at New York University.

I have approximately 40 years of consulting and corporate human resources experience with a wide variety of public sector, quasi-government, for-profit and not-for-profit organizations, including several regulated utilities. Prior to founding PRM, I was a Principal and Practice Leader for the reward and recognition practice in Towers Perrin's (now Towers Watson) Washington consulting office. Towers Watson is one of the top three, largest international consulting firms in the world, which specializes in benefits, compensation and consulting firms in the world, which specializes in benefits, compensation and human resources. While at Towers, I conducted numerous executive compensation studies for such organizations as Baltimore Gas & Electric, Philadelphia Gas & Electric, Potomac Electric Power Corporation, and Virginia Power, and Washington Gas during my 23 year career with the firm. Before that, I was with RCA Corporation and Random House, Inc. for seven years, holding a number of positions in personnel, including Manager of Wage and Salary and Organizational Development.

I also have been a guest lecturer on human resources management at the graduate schools of American University and Johns Hopkins University. I have written and published articles on executive compensation, and have co-authored a human resources textbook for the American Society of Association Executives.

I am a member of World at Work, the Society of Human Resource Management, and the National Association of African Americans in Human Resources. I also received the Lifetime Achievement Award from the World at Work.

Q. HAVE YOU REVIEWED INCENTIVE COMPENSATION PLANS FOR OTHER UTILITIES?

A. Yes, not only have I reviewed several plans, I have assisted many companies in the development of incentive compensation plans as well.

II. PURPOSE OF REBUTTAL TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony is to rebut certain assertions made by OPC Witness Ramas about FPUC's compensation package. I will provide information, based upon my experience in the employee benefits and compensation field, on the structure of the FPUC Incentive Performance Plan (IPP) within the context of similar employee pay programs. I also will testify as to the type of compensation programs that are necessary in the labor market for companies to attract, motivate and retain highly skilled employee talent.

Q. ARE YOU FAMILIAR WITH THE FPUC INCENTIVE COMPENSATION PLAN?

A. Yes, I am. In 2013, I studied the Plan independently as part of PRM's review of Chesapeake Utilities Corporation's (CUC's) employee pay program. We benchmarked competitive base salaries for similar positions in similar size utilities and general industry.

We also reviewed the design of the Company's current IPPs, including the FPUC incentive plan. In addition, we collaborate with CUC in helping to gather their compensation data for participation in the main utility industry surveys as the American Gas Association.

Q. WHAT ELSE HAVE YOU REVIEWED IN THE PREPARATION OF YOUR TESTIMONY?

A. I reviewed the testimony of the Florida Office of Public Counsel's witness Donna Ramas as well as information regarding this issue as it relates to another Florida utility involved in a recent rate proceeding.

III. FPUC COMPENSATION

Q. ARE ANNUAL EMPLOYEE INCENTIVES COMMON WITHIN THE UTILITY INDUSTRY?

A. Yes. According to the AGA 2012 compensation survey, approximately 80% of the utility industry survey respondents provide all employees with some form of variable pay:

% of Organizations with Least one Plan	# of Reponses	Bonus	Current Cash Profit Sharing	Team/ Small Group Incentive	Individual Incentives	Spot or Technical Achievement Awards	Gain-sharing	Other Short-Term Incentives

Entire Sample Combined Executive	83.7%	49	95.1%	4.9%	7.3%	26.8%	24.4%	0.0%	0.0%
Management, Excluding Executives	81.6%	49	97.5%	2.5%	30.0%	52.5%	52.5%	0.0%	2.5%
Exempt, Non Management	83.7%	49	95.1%	4.9%	31.7%	56.1%	56.1%	0.0%	2.4%
Nonexempt	79.6%	49	87.2%	5.1%	30.8%	59.0%	59.0%	0.0%	2.6%

The AGA information is consistent with variable pay practices within general industry. Word At Work reported salary and variable pay practices on 2,124 companies throughout the United States. Specifically, the 2013-14 Salary Budget Survey reported the following results on national variable pay practices for various types of employees:

	Nonexempt Hourly Nonunion		Nonexempt Salaried		Exempt Salaried		Officers/Executives	
National	Mean	Median	Mean	Median	Mean	Median	Mean	Median
2012								
Average percent budgeted	5.4%	5.0%	3.3%	5.0%	12.6%	12.0%	37.3%	35.0%
Average percent paid	5.2%	4.0%	6.4%	5.0%	12.6%	11.0%	38.0%	32.0%
Percent of employees eligible in 2012 for variable pay	90%	100%	93%	100%	83%	100%	94%%	100%
2013								
Average percent budgeted	5.4%	5.0%	6.3%	5.0%	12.7%	12.0%	37.6%	35.0%
Projected percent paid	5.3%	5.0%	6.4%	5.0%	12.8%	11.0%	37.6%	33.0%
2014								
Projected percent budgeted	5.4%	5.0%	6.4%	5.0%	12.7%	12.0%	37.2%	35.0%

Q. WHAT COMMENTS DO YOU HAVE IN REFERENCE TO WITNESS RAMAS' TESTIMONY ON THE IPP AT PAGES 29-33, IF ANY?

A. I noted in witness Ramas' testimony that she did not question the use of incentive or variable pay as an integral component of total pay (i.e., base salary, plus other annual cash) delivery. In today's marketplace, most progressive organizations rely upon variable pay (or "at risk") as an efficient and integral component of their pay delivery systems. Witness Ramas' testimony focused on whether 100% of FPUC's IPP expense should be passed along to the Florida ratepayers. She concluded that only 55% of FPUC's IPP expense should be allocated to the ratepayers because of the corporate measures used in determining the annual IPP payout. However, she did not take into account the size of the IPP pool needed for FPUC to provide competitive pay in order to attract, motivate and retain talented employees. In other words, the IPP opportunity is an essential component of employee pay unless FPUC were to increase employee base salaries to offset the exclusion of variable pay provided to similar employees in other utilities.

Q. I TAKE IT THAT YOU DO NOT AGREE WITH WITNESS RAMAS' TESTIMONY TO ALLOW ONLY A PORTION OF FPUC'S IPP EXPENSE IN RATES. IF NOT, WHY NOT?

A. No. OPC's recommendation, if implemented, would have the effect of requiring shareholders to cover costs otherwise appropriately recovered through rates. As industry studies demonstrate, as well as past Commission decisions conclude, incentive compensation is consistent with industry practice and is an accepted part of competitive compensation packages used throughout the industry. Disallowing recovery for this component of the package would unfairly shift costs to shareholders. It also disregards the importance and benefit of this compensation component to the customer. This package helps achieve the Company's goal to provide the best quality service to customers while offering a competitive compensation package attractive to employees. A financially viable company that provides consistent quality service with professional dedicated employees is in the best interests of the customer.

Q. CAN YOU COMMENT ON THE MARKET COMPETITIVENESS OF FPUC'S CURRENT EMPLOYEE PAY PROGRAM?

A. Yes, I can.

Q. DO YOU THINK IT IS COMPETITIVE IN RELATION TO SIMILAR UTILITIES?

A. In my opinion, FPUC's current employee pay is competitive relative to market norms. My review of CUC's current actual employee pay indicates base salaries are consistent with those provided to similar employees in comparable utilities. Also, FPUC's total pay opportunities are competitive in relation to market norms.

Q. WHY IS THE UTILITY INDUSTRY AN APPROPRIATE COMPARISON?

A. When companies benchmark employee pay, they want to make sure there is an "apples to apples" comparison. To help ensure appropriate comparison, companies typically consider the following factors in market pricing:

- Type of industry (*i.e.*, gas and electric, regulated, non-regulated) with whom they are competing for talent); and
- Companies of comparable size (*i.e.*, revenues, market share, profitability).

Most companies perceive the labor market for employee talent to vary. For instance, the market pool for executives is considered to be a national pool, while the market pool for non-exempt employees would tend to be a more localized pool. However, the utility labor market for talent is a national market for certain skills and disciplines.

Therefore, in my opinion, utilities of comparable size represent the appropriate labor market for determining competitive employee pay for those positions commonly found within the utility industry. For other positions, companies typically survey both the general labor market and the utility industry to determine competitive employee pay.

Q. WHY IS THIS POINT RELEVANT TO FPUC'S SITUATION?

A. It is relevant because my research indicates the Commission has ruled favorably in the past in the recovery of incentive compensation in prior rate cases. As a general matter, the Commission has considered it appropriate to include "at-risk" compensation as a component of an employee's overall compensation package for purposes of determining whether the total compensation package is reasonable. For instance, in Docket No. 080317-EI, the Commission noted that ". . .lowering or eliminating the incentive compensation (for Tampa Electric) would mean Tampa Electric employees would be compensated below the employees of other companies, which would adversely affect the Company's ability to compete in attracting and retaining a high quality and skilled workforce." Order No. PSC-09-0283-FOF-EI. The Commission, therefore, allowed recovery of incentive compensation expense.

Similarly, in the past, the Commission allowed recovery of similar incentive pay expenses for Florida Power Corporation (nka Duke Energy) and Gulf Power, in Dockets Nos. 910890-EI and 010949-EI, respectively. More recently, the Commission acknowledged that Gulf Power's incentive compensation plan included a goal of increased earnings per share for Southern Company, but affirmatively stated that it is appropriate to recognize that there is a benefit to ratepayers associated with a financially healthy company. Order No. PSC-12-0179-FOF-EI, page 95, issued in Docket No. 110138-EI. The Commission further stated that the OPC's recommendations in that case to remove all incentive-based compensation expense was unreasonable. *Id.*, at page 97. The Commission has consistently recognized that incentive, or at-risk, pay is an accepted and desirable way to simultaneously achieve corporate goals and control costs for the benefit of ratepayers.

Q. SHOULD THE COMMISSION REQUIRE A SHARING OF INCENTIVE COMPENSATION BETWEEN RATEPAYERS AND STOCKHOLDER(S) AS SUGGESTED BY WITNESS RAMAS?

A. No. The notion of cost sharing in the IPP ignores the fact that reasonable compensation cost is a fully recoverable rate expense. It is a necessary cost of providing service. A fundamental tenet of sound regulatory policy requires the Commission to allow the company an opportunity to earn its return on prudently incurred costs. For its part, the company must provide quality service to customers at just, fair, and reasonable rates. A basic principle of ratemaking is that all reasonable and prudent costs of doing business should be included in test year expenses. Unless the Commission finds specifically that the expenses in question are unreasonable or imprudently incurred, then these expenses should be allowed in calculating the appropriate revenue requirement. Assuming the Commission accepts this premise, then FPUC's IPP cost is an integral part of its employee pay and is in alignment with market norms within the utility industry. In other words, its total - base salary plus IPP - pay is reasonable relative to those provided similar utility industry employees. Therefore, FPUC should be permitted to recover 100% of its IPP cost in order to attract, retain and motivate talented employees to deliver quality customer service.

In implementation, OPC's recommendation would have the effect of requiring shareholders to cover costs otherwise appropriately recovered through rates. The net effect is to reduce investors' return on their investment even further than that recommended by OPC's witness Woolridge. This would significantly impact the Company's ability earn a fair rate of return, which ultimately would impair its ability to provide reliable service to its customers. Incentive compensation is consistent with industry practice and is an accepted part of competitive compensation packages used throughout the industry. Disallowing recovery for this component of the package would unfairly shift costs to shareholders, while also disregarding the importance of this compensation component to (1) helping achieve Company goals beneficial to ratepayers and (2) offering a competitive compensation package attractive to in-demand employees.

Q. HAVE YOU REVIEWED THE CUC CORPORATE BONUS PLAN?

A. Yes, I have reviewed the corporate bonus plan.

Q. BRIEFLY DESCRIBE THE STRUCTURE OF THE CORPORATE BONUS PLAN.

A. The corporate plan is similar to the design of the FPUC bonus plan. It consists of five eligibility levels based on position level, and the award opportunities at each level are set to provide competitive market median total cash (base salary plus target incentive award opportunities) for similar position levels within the utilities industry. Corporate awards are allocated to plan eligibles based on a combination of corporate earnings per share, corporate project, and department as well as individual goals and objectives which are weighted differently depending on eligibility level.

Q. SHOULD A PORTION OF THE CORPORATE BONUS OR INCENTIVE PLAN BE ALLOCATED TO FPUC?

A. Yes. It is typical market practice for organizations to allocate a portion of corporate employee compensation, including incentive pay, to its business units. Corporate employees help to direct and advise FPUC employees to help ensure quality customer service at reasonable prices. Without the corporate staff, FPUC would need to increase its employee population which would result in higher employee compensation costs/expenses to the rate payers.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Docket No. 140025-EI

AFFIDAVIT

IN THE DISTRICT OF COLUMBIA

BEFORE ME, the undersigned authority, an officer duly authorized in the District of Columbia aforesaid to take acknowledgments, personally appeared Jim Moss, who being duly sworn, deposed and stated that he is the sponsor of rebuttal testimony and that the foregoing testimony is true and correct to the best of his information, knowledge, and belief. He is personally known to me.

Sworn to and subscribed before me this 5th day of August, 2014.

In Witness Whereof, I have hereunto set my hand and seal in the District of Columbia aforesaid as of this 5th day of August, 2014.

Jim Moss

Notary Public
District of Columbia, at Large

My Commission Expires: 2/15/18

CRISTINA PEREZ DAVIS
District of Columbia Notary Public
My Commission Expires February 15, 2018

CRISTINA PEREZ DAVIS * DISTRICT OF COLUMBIA * NOTARY PUBLIC Exp. 02/15/18