

State of Florida



Public Service Commission

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COMMISSION
CLERK

DATE: December 5, 2011

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

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

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

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

DOCUMENT NUMBER-DATE
08768 DEC-5 =
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Florida Public Utilities Company
 Comparison of Rate Base and Revised Presentation of Purchase Premium Calculation

<u>Comparison of Rate Base - 10/31/2009 and 12/31/2009</u>	<u>As of 10/31/2009</u>	<u>As of 12/31/2009</u>
Rate Base		
Per Books		
Net Utility Plant	\$ 77,091,187	\$ 77,655,389
Working Capital	(3,821,289)	(2,785,613)
Total Rate Base - Per Books	<u>73,269,898</u>	<u>74,869,776</u>
Adjustments to Rate Base (FPSC Adjustments)		
Non-utility Plant	(1,568,384)	(1,231,459)
SFNG Acquisition Goodwill	(2,545,004)	(2,545,004)
Rate Refund Pending	165,729	257,745
Regulatory Asset - Pension Adj		(82,005)
Total Adjustments to Rate Base (FPSC Adjustments)	<u>(3,947,659)</u>	<u>(3,600,723)</u>
Total Rate Base - FPSC Adjusted	<u>\$ 69,322,239</u>	<u>\$ 71,269,053</u>
<u>Purchase Premium Calculation - Revised Presentation</u>	<u>As of 10/31/2009</u>	<u>As of 12/31/2009</u>
Purchase Price	\$ 88,276,234	Not Applicable
Calculation of Book Value of Net Assets:		
Total Rate Base - FPSC Adjusted (see above)	\$ 69,322,239	\$ 71,269,053
Non-investor-supplied Capital Included in Rate-Making Capital Structure		
Payable to Associated Company / Special Deposit	627,417	
Customer Deposits	(7,442,551)	(7,409,035)
Deferred Income Taxes	(9,102,310)	(9,434,362)
Tax Credits	(104,466)	(97,797)
Total Non-Investor-supplied Capital Included in Rate-Making Capital Structure	<u>(16,021,910)</u>	<u>(16,941,194)</u>
Other Balance Sheet Items Not Included in Rate Base		
Environmental Insurance Proceeds	(5,611,007)	(5,611,069)
Misc Deferred Debit - Area Expansion Program	1,822,737	1,698,235
Misc Deferred Debit - Rate Case	573,453	548,022
Notes Receivable	3,211,934	3,223,853
Other	109,642	(83,541)
Total Other Balance Sheet Items Not Included in Rate Base	<u>106,757</u>	<u>(224,500)</u>
Other Reconciling Items (subsequently reversed below)		
Goodwill - Prior to the Chesapeake/FPU Merger	552,803	552,803
Intangible Assets - Prior to the Chesapeake/FPU Merger	1,900,000	1,900,000
Total Other Reconciling Items	<u>2,452,803</u>	<u>2,452,803</u>
Net Asset Value Before Subsequent Adjustments to Opening Balance Sheet	<u>55,859,889</u>	<u>56,556,162</u>
Subsequent Adjustments to Opening Balance Sheet (included in Exhibit MK-1)		
Loss on Recquired Debt	100,949	100,949
Bonus Accrual Reversal	40,610	40,610
Income Tax Contingencies	(42,728)	(42,728)
Existing Goodwill (see "Other Reconciling Items" above)	(552,803)	(552,803)
Existing Intangible Assets (see "Other Reconciling Items" above)	(1,900,000)	(1,900,000)
Deferred Tax Liability Step-up (Fair Value Adjustment)	(290,459)	(290,459)
Regulatory Asset on Deferred Tax Step-up (Fair Value Adjustment)	381,029	381,029
To Total Adjustments to Net Asset Value	<u>(2,263,402)</u>	<u>(2,263,402)</u>
Book Value of Net Assets	<u>\$ 53,596,487</u>	<u>\$ 54,292,760</u>
Purchase Premium (Purchase Price less Book Value of Net Assets)	<u>\$ 34,679,747</u>	Not Applicable

(A) The December 2009 Earnings Surveillance Report and Attachment 1 of the Staff's Fourth Data Request shows \$7,693,916 in deferred tax balance. This balance is missing \$1,740,446 of deferred tax balance from the "common" balance that should have been allocated to the natural gas business as it was related to the common plant balance allocated to natural gas. The amount included here adjusts for this omission.

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The purchase price was calculated based on the valuation prepared by Ernst & Young. As stated in Ernst & Young's valuation report (Exhibit MF-1) on page 8, the valuation was based on the Business Enterprise Value, or as Ernst & Young referred to as the Total Invested Capital. These two terms – Business Enterprise Value and Total Invested Capital – are the same concept, often used interchangeably in the accounting and valuation professions.

Total Invested Capital is essentially the value of equity (common equity, preferred equity and minority interest) and debt financing (short-term and long-term debt provided by the investors). In our response to the Question 11 of the Staff's First Data Request, we provided the reconciliation between the total value of Chesapeake stock issued, cash paid and FPU debt assumed in the acquisition to the purchase price of FPU's businesses based on the Total Invested Capital (see below – excerpts from the response).

	Short-term Debt	Long-term Debt	Value of Chesapeake Stock Issue	Total Value Exchanged
FPUC Total	\$4,249,000	\$47,812,431	\$75,698,624	\$127,760,055

	Fair Value per Valuation	Difference between the Total Purchase Price and Total Fair Value (i.e., "excess paid")	Reallocation for "other" (not specifically valued in the Valuation)	Purchase Price (i.e., Total Value Exchanged in Acquisition)
Natural Gas	\$88,700,000	\$111,260	\$(535,026)	\$88,276,234
Electric	30,500,000	38,258	0	30,538,258
Propane	8,400,000	10,537	0	8,410,537
Other	0	0	535,026	535,026
FPUC Total	\$127,600,000	\$160,055	0	\$127,760,055

As the above tables show, the sum of the purchase price for all of the FPU businesses equal to the value of short-term debt, long-term debt and equity (i.e., Total Invested Capital).

The definition of the Total Invested Capital is different than the components of the Capital Structure for the Florida rate-making purposes. The Capital Structure for the Florida rate-making purposes includes any affiliate balances, customer deposits, deferred taxes and investment tax credit, in addition to the equity and debt financing included in the Total Invested Capital.

If Ernst & Young had prepared the valuation based on the Capital Structure for the Florida rate-making purposes, the above information would have changed as follows:

	Short-term Debt	Long-term Debt	Value of Chesapeake Stock Issue	Affiliate Balances, Customer Deposits, Deferred Taxes and Investment Tax Credit	Total Value Exchanged
FPUC Total	\$4,249,000	\$47,812,431	\$75,698,624	\$35,783,415	\$163,543,470

	Fair Value per Valuation*	Difference between the Total Purchase Price and Total Fair Value (i.e., "excess paid")	Reallocation for "other" (not specifically valued in the Valuation)	Purchase Price (i.e., Total Value Exchanged in Acquisition)
Natural Gas	\$104,721,910	\$111,260	\$(535,026)	\$104,298,144
Electric	43,962,978	38,258	0	44,001,236
Propane	14,698,527	10,537	0	14,709,064
Other	0	0	535,026	535,026
FPUC Total	\$163,383,415	\$160,055	0	\$163,543,470

*The value of affiliate balances, customer deposits, deferred taxes and investment tax credit related to each FPU business was added to their respective TIC value.

The calculation of the premium for the FPU natural gas business would have changed as follows (we modified the presentation to align it more closely with the Florida regulatory reporting):

	As of 10/31/2009	As of 12/31/2009
Purchase Price	\$104,298,144	Not Applicable
Calculation of Net Book Value:		
Total Rate Base – FPSC Adjusted	\$69,322,239	\$71,269,053
Other Balance Sheet Items Not Included in Rate Base	106,757	(224,500)
Other Reconciling Items and Subsequent Adjustments to Opening Balance Sheet	189,401	189,401
Net Book Value	\$69,618,397	\$71,233,954
Premium (Purchase Price less Net Book Value)	\$34,679,747	Not Applicable

The premium amount for the natural gas business of \$34,679,747 does not change.