STATE OF FLORIDA

COMMISSIONERS:
RONALD A. BRISÉ, CHAIRMAN
LISA POLAK EDGAR
ART GRAHAM
EDUARDO E. BALBIS
JULIE I. BROWN

OFFICE OF THE GENERAL COUNSEL
S. CURTIS KISER
GENERAL COUNSEL
(850) 413-6199

Public Service Commission

January 24, 2013

Beth Keating, Esquire
Gunster, Yoakley & Stewart, P.A.
215 South Monroe Street, Suite 601
Tallahassee, Florida 32301

STAFF'S FIRST DATA REQUEST

Re: Docket Number 120311-GU - Petition for approval of positive acquisition adjustment to reflect the acquisition of Indiantown Gas Company by Florida Public Utilities Company.

Dear Ms. Keating:

By this letter, the Commission staff requests that Florida Public Utilities Company (FPUC or utility) provide responses to the following data requests.

<u>For the following questions, please refer to the direct testimony of FPUC witness Matthew Kim:</u>

1. Exhibit MK-1, Note 1 specifies that there was no outside valuation work performed due to lack of materiality. Please provide a detailed explanation identifying the individuals within FPUC which reviewed Indiantown Gas Company's (IGC) accounting staff's fair valuation calculation and determined that it supported the "fairness of the purchase price." Please submit all supporting documentation used in the analysis of the valuation process to include the company's policies and procedures and correspondence with IGC accounting staff that prepared the valuation.

2. Note 2 to Exhibit MK-1, provides that the acquisition was for plant assets, but transportation equipment-vehicle was excluded. Please provide a detailed explanation why the transportation equipment-vehicle was excluded and if FPUC received any payment from IGC for the transportation equipment-vehicle.

3. Note 4 to Exhibit MK-1, provides that there were no intangible assets from IGC due to the non-compete agreement, no previous book value, and no material fair value.
   a. Please explain how the regulatory restriction for service provided to the existing or future customers in the franchised areas impact the non-compete clause.
   b. Please provide a detailed explanation of Note 4(b) including an elaboration on the importance of the physical restriction and intensive capital requirement to compete.

c. Please provide a detailed explanation of Note 4(c) to the non-compete agreement which states that there was a "lack of economic substance to such agreement in a rate-regulated environment."

4. The revised Annual Report for FPUC-Indiantown Division as of December 31, 2010 shows for Account 392-Transportation Equipment-vehicle, a beginning balance of $86,469 and a transfer-out in the amount of $86,469, resulting in an ending balance of $0.
   a. Please explain in detail the basis for this transfer-out, that is, what account was it transferred to and why, type of transportation equipment, and how will it be used in its new capacity.
   b. Please explain whether the $86,469 for Account 392-Transportation Equipment is the same transportation equipment-vehicle(s) that was excluded from the acquisition of IGC's plant assets. If so, please explain why it was excluded from the acquisition agreement.
   c. Please provide a detailed explanation on how the accumulated depreciation in the amount of $20,0556 was handled for Account 392-Transportation Equipment.
   d. Please provide a detailed explanation based on the transfer-out of the transportation equipment-vehicle. In your response, please explain whether it is being used by IGC for its regulated or non-regulated business.

5. Please provide a detailed explanation of why IGC was paid a $500,000 operation/maintenance fee as shown on the December 31, 2011 Annual Report for FPUC-Indiantown Gas Company. In your response, please include a breakdown of the operation and maintenance fee by account with a brief description of why it is being rendered by IGC. In addition, please include any supporting documentation or workpapers that will further clarify your response.

6. Please provide a detailed explanation and breakdown of the consulting services provided by Palima, Inc. in the amount of $99,999.96 and the account charged for this expenditure.

7. Page 29, line 103, of the 2011 Annual Report as of December 31, 2011 shows for Account 923- Outside Services Employed, the current dollar amount of $183,151.
   a. Please explain why this amount is different from the $500,000 and $99,999.96 shown on page 33 of the 2011 Annual Report for "Charges For Outside Professional and Other Consultative Services."
   b. Please provide a breakdown of cost and a brief description of all individuals or companies listed under "Outside Services Employed" which is included in the $183,151 total for Account 923. In addition, provide all supporting documentation or workpapers to support your response.

8. On page 3, witness Kim testified that FPUC entered into an asset purchase agreement with IGC.
   a. Please provide a copy of the asset purchase agreement.
   b. Please provide a copy of the non-compete agreement signed by the former owners of IGC.

9. On page 3, lines 11-12, witness Kim testified that the acquisition of IGC was treated as a cash purchase of assets in a taxable transaction. Please provide a detailed explanation as to why FPUC treated this transaction as taxable instead of tax-free and the applicable tax rules.

10. On page 4 of 9, lines 1-2, witness Kim testified that a small adjustment of $3,909 was included to reduce the book value of certain assets after the acquisition. Please submit the calculations and supporting documents used, to include any journal entries and/or account transfers, to compute the small adjustment.

11. On page 4 of 9, lines 11-19, witness Kim testified that the bottom-up valuation calculation was used to support the fair value of IGC, and that it is similar to the discounted cash flow method shown in Exhibit (MK-2). However, the actual bottom-up valuation calculation was not provided. Please submit the bottom-up valuation calculation.

12. On page 6, lines 15-21 witness Kim testified that IGC is located adjacent to FPUC's largest natural gas distribution operating division in West Palm Beach and the geographic proximity provides opportunities for significant synergies and cost savings to be harvested.
    a. Please identify whether any of the significant synergies and cost savings stated in this portion of your testimony been received by FPUC. If yes, please specify the synergies and the cost savings and explain how they benefit FPUC and the ratepayers.
    b. Please provide examples of historical and projected significant synergies and cost savings opportunities.

13. On page 8 of 9, lines 3-4, witness Kim testified that FPUC is not requesting approval to recover any transaction or transition costs attributable to the acquisition. Please provide an explanation as to why FPUC is not requesting to recover any transaction or transition costs attributable to the acquisition of IGC.

14. The revised Annual Report for FPUC-Indiantown Division as of December 31, 2010, shows for Account 376.11-Mains-Plastic, an ending balance of $119,955. The Exhibit MK-1 shows for the same account, a balance of $100,663. In addition, the exhibit shows A/D-Mains-Replacement, a balance of ($1,924), which is not included in the revised Annual Report for FPUC-Indiantown Division.
    a. Please provide an explanation and supporting documents as to why Account 376.11-Mains-Plastic (A/D-Mains-Plastic) differs between the annual report and the exhibit.

b. Please provide an explanation as to why A/D-Mains-Replacement is not included in the annual report.

15. On page 7, lines 1-6, witness Kim referenced FPUC's Strategic Plan. Please provide a copy of FPUC's Strategic Plan that identifies IGC as an attractive acquisition target that is consistent with the FPUC's strategic plan for natural gas system growth.

16. On page 7, lines 14-22, what did FPUC use to determine that the amortization of the gas plant acquisition should be amortized over 15 years instead of 20, 25, or 30 years?

17. On page 8, line 14 through page 9, line 2, witness Kim referenced several natural gas cases and asserted that the Commission approved a shorter 15 year amortization period for a smaller acquisition adjustment in the Chesapeake Acquisition of Central Florida Gas although a 30 year amortization had been approved in most of the cases.
    a. What was the total amount of the amortization approved in Chesapeake's acquisition of Central Florida Gas?
    b. What is the approximate difference in the amount of the amortization approved in Chesapeake's acquisition of Central Florida Gas and the amount FPUC is requesting in this proceeding?
    c. How are the circumstances in FPUC's request similar to the circumstances in the Chesapeake acquisition of Central Florida Gas?
    d. Why should the Commission approve the requested 15 year amortization period instead of a different amortization period?

<u>For the following questions, please refer to the direct testimony of FPUC witness Cheryl Martin:</u>

18. On pages 5 and 6 witness Martin testified that the primary savings resulted from the reduction of IGC personnel since no employees were retained.
    a. Please explain in detail the "scheduled operational and maintenance" tasks that FPUC is doing with its existing employees that were done by IGC employees.
    b. Please provide a comparative analysis of the services and costs, if any, provided under the O&M Agreement with IGC and the scheduled operational and maintenance tasks performed by FPUC existing employees.
    c. As discussed on lines 7 through 9, please provide a detailed explanation and breakdown of the "significant savings" that have occurred since FPUC employees began charging their time to FPUC-Indiantown Division than when IGC provided the services as a stand-alone entity.

19. On page 5, lines 16-18, witness Martin testified that the Company believes that IGC's ESR as of June 30, 2010 and FPUC-Indiantown's ESR as of December 31, 2011, is the most appropriate data to compare. Please provide a detailed explanation as to why this is the most appropriate data to compare and how the Historic Test Year ending December 31, 2002 is the best example of such appropriateness of the comparison.

20. On page 5, line 23, witness Martin testified that the primary savings results from the reduction of IGC personnel. However, page 6, lines 1-3, provides that no IGC employees were retained, but an O&M Agreement with IGC was implemented so that local service to customers remained intact.
    a. Please provide the number of IGC personnel previously and currently employed, if any, by FPUC.
    b. Please provide the O&M Agreement.

21. On page 7, lines 12-13, witness Martin states that because of IGC's size, it did not have a credit rating and was extremely limited in its ability to attract capital. Please provide an explanation as to what "...size..." means and supporting documents regarding IGC's lack of credit rating and its limited ability to attract capital.

22. On page 7, lines 21-23, witness Martin states that Chesapeake has access to large lines of credit and revolving facilities. Please provide any and all supporting documentation substantiating this statement.

23. On page 11, lines 4-9, witness Martin states that the "return of investment" or amortization component was calculated using the straight-line amortization method. However, the amortization period was not specified.
    a. Please provide a statement which describes the amortization period used to derive these calculations. In your response, please explain the amortization period's impact on the revenue requirements.
    b. If the above amortization period was for 15 years, please submit an explanation and supporting calculations if an amortization period for the asset is based on 30 years.

24. On page 11, lines 12-14, witness Martin testified that the total amount of actual operating costs savings is $191,449 and that the total revenue requirements is $138,631. However, per supporting Exhibit CM-4, the total savings for the year 2011 equals to $190,007. Please provide an explanation or calculation where the actual operating costs saving of $191,449 comes from and why does the figure differ from the supporting exhibit.

25. Please refer to page 7, lines 2 through 6, of the direct testimony of witness Martin.
    a. Please explain why the acquisition rate base items were not included in rate base for the calculation of the cost of capital savings of $2,215.
    b. What would the cost of capital savings be if the acquisition rate base items were included in the rate base?
    c. What does the revenue requirement savings of $2,215 equate to per customer on a monthly basis?

26. Please refer to page 7, lines 18 through 21, of the direct testimony of witness Martin. Please provide copies of the four series of FPUC's secured first mortgage bonds and the unsecured Chesapeake Senior Notes to which she refers.

27. Please refer to page 7, lines 15 through 16, of the direct testimony of witness Martin. Please provide any documentation demonstrating FPUC's parent company's long-term debt rating of NAIC 1, and explain how that rating is considered equivalent to a rating by S&P of AAA to A-.

28. Please refer to Exhibit CM-1, page 6 of 6, attached to the direct testimony of witness Martin. Please provide an explanation for the pro rata adjustments to the average capital structure components in Schedule 4.

29. Please refer to Exhibit CM-2, page 6 of 6, attached to the direct testimony of witness Martin. Please describe how the cost rates for each component of debt, that is, Long Term Debt, Short Term Debt, and Short Term Debt Refinanced LTD, was calculated in the average capital structure in REVISED Schedule 4. Please provide a list of all the debt issuances that comprise each of the debt components and provide copies of the debt securities issued.

30. Please refer to Exhibit CM-2, page 6 of 6, and Exhibit CM-5, page 2 of 2, attached to the direct testimony of witness Martin. Please clarify the discrepancy between the description of Long Term Debt – Refinanced in Exhibit CM-5 and Short Term Debt Refinanced LTD in Exhibit CM-2. Specifically, did FPUC replace Long Term Debt with Short Term Debt in the capital structure?

31. Please refer to the average capital structures in Exhibit CM-1, page 6 of 6, and Exhibit CM-2, page 6 of 6, attached to the direct testimony of witness Martin. Please explain why:
    a. The cost rates for Long Term Debt increased from 6.28 percent in June 30, 2010, to 6.91 percent in December 31, 2011.
    b. The refinanced cost rate for long term debt is 6.33 percent in Exhibit CM-2 as compared to the cost rate of 6.28 percent in Exhibit CM-1.
    c. The ratio of common equity increased from 53.28 percent in Exhibit CM-1 to 55.65 percent in Exhibit CM-2.

32. Please refer to Exhibit CM-2, page 6 of 6, attached to the direct testimony of witness Martin.
    a. Please explain why the average capital structure as of December 31, 2011, contains Deferred Taxes but the average capital structure on June 30, 2010, in Exhibit CM-1 does not.
    b. Please provide a schedule showing how the deferred taxes in the average capital structure as of December 31, 2011, were calculated.

33. Please refer to Exhibit CM-5 attached to the direct testimony of witness Martin.
    a. Please provide a calculation of the cost of capital for the 13-month average capital structure on page 1 of 2 based on investor sources only, that is, only common equity and long term debt.
    b. Please provide a calculation of the cost of capital for the 13-month average capital structure on page 2 of 2, based on investor sources only, that is, common equity, long term debt, short term debt, and long term debt – refinanced.
    c. Please explain the reason for any decrease on increase in the cost of capital based on investor sources only.

34. On page 5, lines 21-23, witness Martin stated that annual savings of $187,792 are attributable to the acquisition. Please provide by expense account a breakdown of these savings.

35. On page 6, lines 7-9, what is the amount of employee payroll-related savings that FPUC has recognized when compared to IGC as a stand-alone entity?

36. On page 8, lines 19-21, is it correct that "the Company's" performance as used in this sentence refers to Chesapeake performance? If yes,
    a. Has a peer comparison of FPUC been performed since the acquisition of IGC that shows its performance related to growth and return on investment?
    b. If your answer is affirmative, please provide a copy of the peer group comparison that shows FPUC ranking in the peer group.
    c. Please provide a copy of the peer group comparison that shows FPUC ranking in the peer group.

37. On page 8, line 21 through page 9, line 1, witness Martin stated that Chesapeake is a multiple winner of the AGA Gas Safety Award.
    a. Please describe the AGA Gas Safety Award.
    b. Did Chesapeake win the AGA Gas Safety Award in 2010, 2011, or 2012?
    c. What criteria must a company meet in order to receive the AGA Gas Safety Award?
    d. Has Chesapeake's subsidiary, FPUC, recently won any similar safety awards? If affirmative, please specific the date(s) and type of award.

38. On page 9, lines 5-15, please explain the statement that "[M]any of these facilities fall under the Pipeline Integrity Management rules." In your response, explain how these rules affect Chesapeake's Florida operations.

39. On page 9, lines 19-21, witness Martin indicated that the Company's personnel have become very proficient with electronic measurement, communications, and odorizing equipment and other highly technical distribution and transmissions system devices.
    a. Please describe the Company's personnel proficiency with electronic measurement and state how it has resulted in more professional and experienced operations.
    b. Please describe the Company's personnel proficiency with communications and state how it has resulted in more professional and experienced operations.

c. Please describe the Company's personnel proficiency with odorizing equipment and other highly technical distribution and transmission system devices and state how it has resulted in more professional and experienced operations.

40. On page 11, lines 12-14, witness Martin testified that the total amount of actual operating cost savings is $191,449, which is greater than the total revenue requirements of $138,631.
    a. Is the $191, 449 amount of actual operating cost savings for the year 2011?
    b. Is the $138,631 amount of the total revenue requirement for the year 2011?

For the following questions, please refer to the direct testimony of FPUC witness Mariana Perea:

42. Please refer to page 5, line 7, and page 9, lines 3 and 16 of the direct testimony of witness Perea.
    a. When did the company obtain the services of the Profitable Group, Fiserv, Inc. and the Dealer Network? For the above companies, please provide staff with a copy of any executed agreements or contracts.
    b. Please provide a detailed list of the functions with the applicable costs provided by the comprehensive Dealer Network program to IGC customers.

43. On page 3, lines 1-5, witness Perea testified that the Company has implemented critical touch points which aide in exceeding their customer's needs. Please provide an explanation on how these factors are measured and please submit quantitative measures, if any, on how these factors have improved the Company's customer service.

44. On page 3, lines 8-13, witness Perea specified that critical performance measurements are gathered and standard metrics have been identified to determine whether the Company is moving toward providing a positive customer experience. Please provide a detailed explanation of these critical performance measurements and standard metrics.

45. On page 3, line 21, witness Perea testified that a Customer Care Strategy has been develop and implemented. Please submit a handbook or policy manual which dictates this strategy, if any.

46. On page 5, line 7, witness Perea testified that the Company hired a third party, The Profitable Group, to perform training. Please provide an explanation and supporting calculations as to how outsourcing these tasks are cost effective.

47. On page 6, lines 17-19, witness Perea testified that "the consolidation has allowed the Company to...capture valuable customer service metrics to evaluate our success in providing the perfect customer experience." Please provide the data from the applied metrics and indicate how customer service has improved with the consolidation.

48. On page 7, lines 1-7, witness Perea testified that since the acquisition the Company has generated an improved invoice (bill) that is sent out to customers. Please provide a sample of the current invoice sent by the Company and the previous invoice sent by IGC.

49. On page 7, lines 14-17, witness Perea testified that since implementing new telephony technologies the Company has the ability to collect a wide variety of valuable customer call metrics. Please provide any supporting documents sustaining the Company has collected from implementing the new telephony technologies.

50. The petition requested the authority to amortize the positive acquisition adjustment over 15 years, beginning August 1, 2010. Please identify and describe the estimated remaining life of the assets purchased.

51. On page 3, lines 5-7, please specify "best practices" that the Company has identified and is implementing throughout its operational departments, and describe how these best practices have resulted in customers becoming "promoters" of the Company based on increased quality and customer service that they have received.

Please file the original and five copies of the requested information by Friday, February 8, 2013, with Ms. Ann Cole, Commission Clerk, Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida, 32399-0850. Please feel free to call me at (850) 413-6220 if you have any questions.

Sincerely,

Caroline Klancke
Senior Attorney

CMK/ace

cc: Office of Commission Clerk
Gunster Law Firm