

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

REVIEW OF 2007 ELECTRIC INFRASTRUCTURE DOCKET NO. 070300-EI  
Storm Hardening Plan FILED PURSUANT TO  
RULE 25-6.0342, F.A.C., SUBMITTED BY  
FLORIDA PUBLIC UTILITIES COMPANY.

PETITION FOR RATE INCREASE BY DOCKET NO. 070304-EI  
FLORIDA PUBLIC UTILITIES COMPANY.

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VOLUME 1  
Pages 1 through 152

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN MATTHEW M. CARTER, II  
COMMISSIONER LISA POLAK EDGAR  
COMMISSIONER KATRINA J. McMURRIAN  
COMMISSIONER NANCY ARGENZIANO  
COMMISSIONER NATHAN A. SKOP

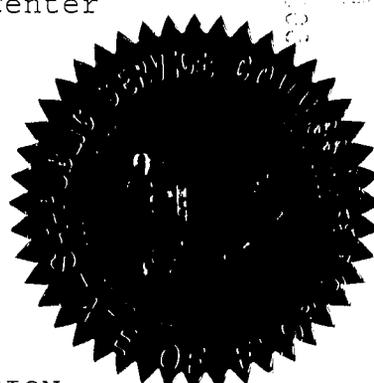
DATE: Wednesday, February 27, 2008

TIME: Commenced at 9:37 a.m.

PLACE: Betty Easley Conference Center  
Room 148  
4075 Esplanade Way  
Tallahassee, Florida

REPORTED BY: LINDA BOLES, CRR, RPR  
Official FPSC Reporter  
(850) 413-6734

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## 1 APPEARANCES:

2 NORMAN H. HORTON, JR., ESQUIRE, Messer Law Firm, Post  
3 Office Box 15579, Tallahassee, Florida 32317, appearing on  
4 behalf of Florida Public Utilities Company.

5 J. R. KELLY, PUBLIC COUNSEL, and PATRICIA  
6 CHRISTENSEN, ESQUIRE, Office of Public Counsel, c/o The Florida  
7 Legislature, 111 West Madison Street, Room 812, Tallahassee,  
8 Florida 32399-1400, appearing on behalf of the Citizens of the  
9 State of Florida.

10 TRACY HATCH, ESQUIRE, AT&T Florida, 150 South Monroe  
11 Street, Suite 700, Tallahassee, Florida 32301, appearing on  
12 behalf of AT&T Florida.

13 SUSAN S. MASTERTON, ESQUIRE, Embarq Florida, Inc.,  
14 1313 Blair Stone Road, Tallahassee, Florida 32301, appearing on  
15 behalf of Embarq Florida, Inc.

16 BETH KEATING, ESQUIRE, Akerman Senterfitt Law Firm,  
17 106 East College Avenue, Suite 1200, Tallahassee, Florida  
18 32301, and DAVE KONUCH, ESQUIRE, 246 East Sixth Avenue, Suite  
19 100, Tallahassee, Florida 32303, appearing on behalf of Florida  
20 Cable Telecommunications Association, Inc.

21 MARTHA CARTER BROWN, ESQUIRE, KEINO YOUNG, ESQUIRE,  
22 H. F. RICK MANN, ESQUIRE, and KATHERINE FLEMING, ESQUIRE, FPSC  
23 General Counsel's Office, 2540 Shumard Oak Boulevard,  
24 Tallahassee, Florida 32399-0850, appearing on behalf of the  
25 Florida Public Service Commission Staff.

## I N D E X

## WITNESSES

| NAME:  | PAGE NO. |
|--|----------|
| SANDRA A. KHAZRAEE   |          |
| Prefiled Direct Testimony Inserted   | 26       |
| KIRK SMITH   |          |
| Prefiled Direct Testimony Inserted   | 37       |
| KATHY L. WELCH   |          |
| Prefiled Direct Testimony Inserted   | 47       |
| Prefiled Supplemental Testimony Inserted   | 58       |
| DOREEN COX   |          |
| Prefiled Rebuttal Testimony Inserted   | 62       |
| P. MARK CUTSHAW  |          |
| Direct Examination by Mr. Horton   | 79       |
| Prefiled Direct Testimony Inserted   | 83       |
| GEORGE BACHMAN   |          |
| Direct Examination by Mr. Horton   | 102      |
| Prefiled Direct Testimony Inserted   | 104      |
| CHERYL MARTIN and JAMES V. MESITE, JR. (Panel)   |          |
| Direct Examination by Mr. Horton   | 108      |
| Prefiled Direct Testimony of Cheryl Martin,<br>Mehrdad Khojasteh (As adopted by Cheryl<br>Martin) and James V. Mesite, Jr., Inserted | 112      |
| Cross Examination by Ms. Christensen   | 129      |
| CERTIFICATE OF REPORTER  | 152      |

## EXHIBITS

| 2  | NUMBER:   | ID. | ADMTD. |
|----|---|-----|--------|
| 3  | 1 Notice of Publication of Service Hearings                                       | 7   | 78     |
| 4  | 2 Staff's Comprehensive Exhibit List  | 7   | 78     |
| 5  | 3 Staff's Stipulated Exhibit List   | 8   | 78     |
| 6  | 4 through 90 (As identified on Exhibit 2 -<br>Staff's Comprehensive Exhibit List) | 8   |        |
| 7  |   |     |        |
| 8  | 5   |     | 150    |
| 9  | 6   |     | 150    |
| 10 | 7   |     | 150    |
| 11 | 26  |     | 69     |
| 12 | 50  |     | 36     |
| 13 | 51  |     | 25     |
| 14 | 52  |     | 46     |
| 15 | 53  |     | 46     |
| 16 | 54  |     | 46     |
| 17 | 55  |     | 61     |
| 18 | 56  |     | 61     |
| 19 | 57  |     | 61     |
| 20 | 58  |     | 61     |
| 21 | 59  |     | 61     |
| 22 | 91 Storm Hardening Plan and Revisions   | 81  | 100    |
| 23 | 92 FPUC Support for Corporate Accounting<br>Over and Above Adjustments            | 148 | 150    |
| 24 |   |     |        |
| 25 |   |     |        |

## P R O C E E D I N G S

1  
2 CHAIRMAN CARTER: Good morning. Call the hearing to  
3 order.

4 First of all, ask staff if you would read the notice,  
5 if you can see me beyond these reams of paper.

6 MR. YOUNG: Good morning, Commissioners. By notice  
7 issued January 23rd, 2008, this time and place has been set for  
8 a hearing in Dockets Numbers 070300-EI and 070304-EI. The  
9 purpose of the hearing is set out in the notice.

10 CHAIRMAN CARTER: Okay. Let's, let's take  
11 appearances.

12 MR. HORTON: Good morning, Commissioners. Norman H.  
13 Horton, Jr., Messer, Caparello & Self, appearing on behalf of  
14 Petitioner, Florida Public Utilities Company.

15 CHAIRMAN CARTER: Okay.

16 MR. KONUCH: David Konuch on behalf of Florida Cable  
17 Television Association -- Telecommunications Association, and  
18 Beth Keating is with me as well.

19 CHAIRMAN CARTER: Okay.

20 MR. HATCH: Tracy Hatch appearing on behalf of  
21 BellSouth Telecommunications, Inc., d/b/a AT&T Florida.

22 MS. MASTERTON: Good morning. Susan Masterton  
23 appearing on behalf of Embarq Florida, Inc.

24 MS. CHRISTENSEN: Good morning. Patty Christensen,  
25 J. R. Kelly is also here, with the Office of Public Counsel.

1 CHAIRMAN CARTER: Okay.

2 MR. YOUNG: Martha Carter Brown, Katherine E.  
3 Fleming, H. F. Mann and Keino Young on behalf of staff.

4 CHAIRMAN CARTER: Okay. Thank you.

5 Commissioners, before we go a little further, let me  
6 kind of give you the lay of the landscape for how I see the day  
7 progressing is that probably, in order to give the court  
8 reporter a break after a couple of hours, we'll probably take a  
9 break around 11:30, if not sooner.

10 And also for lunch plans, if you have lunch plans,  
11 I'm thinking about maybe taking a break around 1:15 and maybe  
12 reconvening in about an hour from that, so to just kind of give  
13 you a way to plan your day from there.

14 Okay. Now let's see here. Is -- we probably need to  
15 find out if there's any public testimony. Let me just ask is  
16 there anyone from the general public that's here to present  
17 testimony on this FPUC Storm Hardening Plan or rate case?  
18 Anyone from the public? Okay. I don't see anyone. That was  
19 my big chance to swear people in too. Well, since there's no  
20 public testimony, staff, let's -- well, I guess we'll just  
21 convene the technical hearing and ask staff are there any  
22 preliminary matters in our technical hearing?

23 MR. YOUNG: Yes, Mr. Chairman, there are several  
24 preliminary matters which staff recommends be taken up one at a  
25 time.

1 CHAIRMAN CARTER: Okay. You're recognized.

2 MR. YOUNG: The first preliminary matter is staff has  
3 prepared a Comprehensive Exhibit List. The list itself is  
4 marked as Exhibit Number 2. There are no objections to the  
5 Comprehensive Exhibit List. Staff would note that Exhibit  
6 Number 1, which includes, which is included in the staff  
7 comprehensive -- I mean, in the Comprehensive Exhibit List is  
8 the notice of publication of the service hearings held on  
9 December 5th and 6th in Marianna and Fernandina Beach for FPUC,  
10 and that's 2007. Staff would ask that Exhibit Number 1 and  
11 2 be entered into the record after the opening statements.

12 CHAIRMAN CARTER: Okay. The parties have heard  
13 staff's recommendation on the exhibit list. Any questions or  
14 any objections?

15 MR. HORTON: No questions.

16 CHAIRMAN CARTER: Okay. Show it done.

17 (Exhibit 1 and 2 marked for identification.)

18 You're recognized.

19 MR. YOUNG: Also, Mr. Chairman, staff asks that  
20 staff's stipulated exhibit be marked as Exhibit Number 3, and  
21 it be entered into the record also after the opening statements  
22 by the parties.

23 CHAIRMAN CARTER: Okay. Well, I think for the rest  
24 of them we'll just deal with them after opening statements. I  
25 just wanted to get the exhibit list in for now so we're all on

1 the same page. Commissioners, so what we've done is just taken  
2 the exhibit list. And as we go beyond our opening statements,  
3 then we'll deal with the -- staff, you'll be recognized to deal  
4 with your exhibit at that point in time.

5 (Exhibit 3 marked for identification.)

6 Further preliminary matters.

7 MR. YOUNG: Yes, Mr. Chairman. Staff asks that you  
8 marked the listed exhibits as numbered in the Comprehensive  
9 Exhibit List and that any other exhibits proffered during the  
10 hearing be numbered sequentially following those listed in the  
11 comprehensive exhibit list.

12 CHAIRMAN CARTER: Okay. Show it done without  
13 objection.

14 (Exhibits 4 through 90 marked for identification.)

15 MR. YOUNG: All right. At this time, Mr. Chairman,  
16 the following witnesses have been excused from the hearing:  
17 FPUC's witness Doreen Cox, AT&T's witness Kirk Smith, Embarq's  
18 witness Sandra Khazraee. I hope I didn't chop that up.

19 CHAIRMAN CARTER: I'm glad you did it instead of me.

20 MR. YOUNG: And staff's witness Kathy L. Welch.

21 CHAIRMAN CARTER: Okay. Is that agreeable to all the  
22 parties? Any objection by any of the parties?

23 MR. HATCH: No objection.

24 CHAIRMAN CARTER: Commissioners? Show it done.

25 MS. MASTERTON: Uh --

1 CHAIRMAN CARTER: Did I hear somebody say "Uh"?

2 MS. MASTERTON: Well, I had a question because I had  
3 understood that since the witnesses were going to be excused,  
4 we were going to go ahead and move their testimony into the  
5 record.

6 CHAIRMAN CARTER: At the appropriate time.

7 MS. MASTERTON: Well, right now Embarq's witness,  
8 Sandy Khazraee, is at the very bottom of the agenda, and I had  
9 been going to ask to be excused from the hearing after the  
10 completion of the testimony related to the storm hardening  
11 issues because those are the only issues that we were involved  
12 in when we intervened and we didn't take a position on the  
13 remainder of the issues. And if you wait until her name comes  
14 up on the list, I'll have to sit through the entire hearing  
15 before I can move her testimony into the record. So I would  
16 respectfully request to move that up a little bit.

17 MR. YOUNG: Mr. Chairman.

18 CHAIRMAN CARTER: Misery loves company. (Laughter.)  
19 Staff.

20 MR. YOUNG: Mr. Chairman, staff would recommend that  
21 after the proposed stip, proposed stipulation of the process to  
22 engage third-party attachers that those witnesses that have  
23 been excused be, their prefiled testimony and exhibits be  
24 entered into the record at that time.

25 CHAIRMAN CARTER: Okay. We'll just do it at that

1 time.

2 MS. MASTERTON: Thank you.

3 CHAIRMAN CARTER: Okay. So without objection, show  
4 it done.

5 Staff, you're recognized.

6 MR. YOUNG: Keeping in line with that, Mr. Chairman,  
7 as stated, staff recommends that the prefiled testimony and  
8 exhibits be taken up in turn other than the ones that are  
9 excused at the time. Staff would recommend that the testimony  
10 of the stipulated witness be inserted into the record.

11 CHAIRMAN CARTER: Okay. Any further preliminary  
12 matters?

13 MR. YOUNG: Yes, Mr. Chairman. We move to proposed  
14 stipulations. At this time, staff, staff would note that all  
15 the parties have stipulated to the process to engage  
16 third-party attachers that is attached as Exhibit KS-1 to the  
17 prefiled testimony of AT&T's witness Kirk Smith. Staff will  
18 ask that the Commission vote to approve the agreement at this  
19 time.

20 CHAIRMAN CARTER: Any objection from any of the  
21 parties? Hearing none. Commissioners? Okay. We, I suppose  
22 we're going to need to vote on whether or not we accept the  
23 stipulation. Commissioners?

24 COMMISSIONER EDGAR: Mr. Chairman, if this is the  
25 appropriate time --

1 CHAIRMAN CARTER: You're recognized.

2 COMMISSIONER EDGAR: Thank you. A motion in support  
3 of Exhibit KS-1, the stipulated agreement.

4 COMMISSIONER SKOP: Second.

5 CHAIRMAN CARTER: It's been moved and properly  
6 seconded. All in favor, let it be known by the sign of aye.

7 (Unanimous affirmative vote.)

8 All those opposed, like sign. Show it done.

9 Staff.

10 MS. BROWN: Mr. Chairman, we have passed out a  
11 separate document entitled Proposed Stipulated Issues for the  
12 rest of the case. And at this time staff would recommend that  
13 the Commission approve the stipulations as identified in that  
14 document and also as identified in the Prehearing Order. We  
15 can go through this by group, if you'd like; however you'd like  
16 to proceed.

17 CHAIRMAN CARTER: Commissioners, I think because of  
18 the nature of these issues and if we go about them group by  
19 group, that way if there's a question about any one of the  
20 issues, we can take that at that point in time and we vote them  
21 out, vote them out as a complete group, if that's okay with  
22 you.

23 So at this point in time, Ms. Brown, you're  
24 recognized. Wait a minute. Did you have --

25 COMMISSIONER ARGENZIANO: No. Excuse me.

1 CHAIRMAN CARTER: Okay. Ms. Brown, you're  
2 recognized.

3 MS. BROWN: Chairman, Group 1 is the Storm Hardening  
4 Plan filed pursuant to Rule 25-6.0342. This group of  
5 stipulated exhibits does not include Issues 10, 11 and 13 from  
6 this section of the Prehearing Order. Those are not  
7 stipulated. Issue 1, 2, 3, 4, 6, 7, 8, 9, 5 and 12 are  
8 stipulated.

9 CHAIRMAN CARTER: They're on the back page.

10 MS. BROWN: Staff recommends that the Commission  
11 approve these issue stipulations. And we're available to  
12 answer any questions at this time on them, if the Commission  
13 has them.

14 CHAIRMAN CARTER: From the parties, any objection to  
15 the stipulated issues in Group 1 from any of the parties?

16 MR. HATCH: No objection.

17 MR. HORTON: No objection.

18 CHAIRMAN CARTER: Commissioners, any questions on  
19 Group 1? It's 1 through 12 with the exclusion of Issues 10,  
20 11 and 13.

21 Commissioner McMurrin, you're recognized.

22 COMMISSIONER McMURRIAN: Thank you. And I think  
23 staff can probably help me with this. The position under  
24 stipulated Issue 7, and it's the next to the last sentence, and  
25 I guess I'll read it. "There are some additional more detailed

1 design specifications, construction standards and construction  
2 methodologies that will be completed when the approval of  
3 dockets are completed." I just want to make sure I understand  
4 what that means, "the approval of dockets." Does that mean  
5 when these dockets are completed and closed?

6 MS. BROWN: Yes. I think that language is designed  
7 to recognize that there are costs involved with approval of the  
8 Storm Hardening Plan, and the company has asked for some  
9 modifications of its plan to limit the costs incurred. And I  
10 think that language is designed to recognize that. That when  
11 the Commission has approved the modifications to the plan and  
12 when the, when the costs are determined, then more detail will  
13 take place in the design of the methodologies.

14 COMMISSIONER McMURRIAN: Chairman, if that's  
15 consistent with the parties' understanding, then that's fine  
16 with me. I just wanted to make sure I understood.

17 CHAIRMAN CARTER: Okay. Let me, let me just ask from  
18 the parties, is that your understanding?

19 MR. KONUCH: Yes, it is.

20 MR. HATCH: Yes.

21 MS. MASTERTON: Yes on behalf of Embarq.

22 CHAIRMAN CARTER: OPC?

23 MS. CHRISTENSEN: Yes.

24 CHAIRMAN CARTER: Okay. Commissioner, does that  
25 answer your question?

1 COMMISSIONER McMURRIAN: Thank you.

2 CHAIRMAN CARTER: Okay. The Chair is now open for a  
3 motion on Group 1, issues in Group 1. Commissioner Edgar,  
4 you're recognized.

5 COMMISSIONER EDGAR: Thank you. Mr. Chairman, I  
6 would move acceptance of the stipulated issues as described by  
7 our staff in Group 1.

8 COMMISSIONER McMURRIAN: Second.

9 CHAIRMAN CARTER: It's been moved and properly  
10 seconded. All in favor, let it be known by the sound of aye.

11 (Unanimous affirmative vote.)

12 All those opposed, like sign.

13 Now we're in Group 2. Ms. Brown.

14 MS. BROWN: Yes, Commissioner. This is the 10 Point  
15 Preparedness Initiatives, excluding Issue 15. Issue 14 is the,  
16 is the stipulated issue in that group. Staff recommends that  
17 the Commission approve it, and we're available to answer any  
18 questions.

19 CHAIRMAN CARTER: Any objection from any of the  
20 parties? Commissioner -- Commissioners, any questions? We're  
21 dealing with Issue 14 in Group 2, and I believe Ms. Brown said  
22 that Issue 15 has been taken out of that.

23 Hearing none, Commissioner Edgar.

24 COMMISSIONER EDGAR: Mr. Chairman, I'd make a motion  
25 in support of stipulated Issue 14.

1 COMMISSIONER SKOP: Second.

2 CHAIRMAN CARTER: It's been moved and properly  
3 seconded. All those in favor of approval for Issue 14, let it  
4 be known by the sign of aye.

5 (Unanimous affirmative vote.)

6 All those opposed, like sign.

7 Ms. Brown, you're recognized for Group 3.

8 MS. BROWN: Mr. Chairman, Costs for the Storm  
9 Hardening Plan and 10 Point Preparedness Initiatives is the  
10 title for this group. It excludes several issues, which are  
11 19, 20, 22, 23, 26, 27 and 28. The issues up for approval as  
12 stipulated issues are 16, 17, 18, 21 and 25.

13 CHAIRMAN CARTER: Is that the agreement of the  
14 parties?

15 Commissioners, any questions on Issues 16, 17, 18,  
16 21 and 25? Commissioner Argenziano, you're recognized.

17 COMMISSIONER ARGENZIANO: Thank you. My  
18 understanding is that one concrete pole will be replaced per  
19 year.

20 MS. BROWN: That's correct.

21 COMMISSIONER ARGENZIANO: And in this section, that  
22 16, 17 and 18, what would be the cost to the consumer on their  
23 average monthly bill?

24 MR. COLSON: The cost that FPUC has spelled out is  
25 it's going to be an average about \$20,000 annually to -- and

1 they said that they're not going to replace one pole a year.  
2 It's an average. Some years they might replace one pole, some  
3 years they might not, and then they might replace maybe two or  
4 three poles in a year.

5 COMMISSIONER ARGENZIANO: So the total cost,  
6 Mr. Chair, is -- what I'm trying to figure out is what kind of  
7 an increase to the consumer per -- every month when they open  
8 up their bill what are they going to see? What cost will be --  
9 I guess depending on how many poles are replaced. But if we're  
10 talking one or two poles -- I'm just trying to find out if  
11 there's a big hit to the consumer.

12 MR. COLSON: No. This should not be -- the \$20,000  
13 annually --

14 COMMISSIONER ARGENZIANO: Okay. That pretty much  
15 will help me. \$20,000, in that area. I just knew that we had  
16 a small consumer base and I was concerned with the cost to the  
17 consumer. But if it's only \$20,000 -- now let me go back a  
18 second. If we're using the figure \$20,000, is that for one  
19 pole?

20 MR. COLSON: No. It's an average. I wouldn't think  
21 it's one pole. What they did was they looked at history in  
22 terms of what they had been doing in the past and said it  
23 looked like it was an average of one pole per year.

24 COMMISSIONER ARGENZIANO: Okay.

25 MR. COLSON: So it was an average over --

1           COMMISSIONER ARGENZIANO: Okay. So then if they're  
2 going back, remaining with their current practice and if it's  
3 costing them about \$20,000 a year for one pole, that's probably  
4 the cost for one pole. So I appreciate that. Thank you.

5           CHAIRMAN CARTER: Any further questions,  
6 Commissioners? If I turn my mike on, that might help. Any  
7 further questions, Commissioners? Okay. Hearing none,  
8 Commissioner Edgar, you're recognized.

9           COMMISSIONER EDGAR: Mr. Chairman, I'd make a motion  
10 in support of Group 3, stipulated Issues 16, 17, 18, 21 and 25.

11           COMMISSIONER SKOP: Second.

12           CHAIRMAN CARTER: It's been moved and properly  
13 seconded. All those in favor, let it be known by the sign of  
14 aye.

15           (Unanimous affirmative vote.)

16           All those opposed, like sign. Thank you,  
17 Ms. Brown, Group 4.

18           MS. BROWN: Group 4 is identified as Test Period.  
19 There are two issues in this group, Issue 29 and Issue 30.  
20 Staff recommends that the Commission approve the stipulations.

21           CHAIRMAN CARTER: Is this the understanding and  
22 agreement of the parties?

23           MS. CHRISTENSEN: Yes.

24           CHAIRMAN CARTER: Thank you.

25           Commissioners, any questions on this group of issues?

1 Well, actually there's only two. But in this group of issues,  
2 any questions?

3 Hearing none, Commissioner Edgar, you're recognized.

4 COMMISSIONER EDGAR: Make a motion in support of  
5 stipulated Issues 29 and 30.

6 COMMISSIONER SKOP: Second.

7 CHAIRMAN CARTER: It's been moved and properly  
8 seconded that we adopt the recommendations in Group, for the  
9 issues in Group 4. All those in favor, let it be known by the  
10 sign of aye.

11 (Unanimous affirmative vote.)

12 All those opposed, like sign. Thank you.

13 Ms. Brown, you're recognized for the issues in  
14 Group 5.

15 MS. BROWN: Quality of Service. There is one issue  
16 in this group, Issue 31. Staff recommends that the Commission  
17 approve the stipulation.

18 CHAIRMAN CARTER: Does this reflect the agreement of  
19 the parties, all the parties?

20 Commissioners, did we have any questions on this  
21 Group 5, which is Issue 31? Any Commissioners have any  
22 questions?

23 Hearing none, Commissioner Edgar, you're recognized.

24 COMMISSIONER EDGAR: Mr. Chairman, I make a motion in  
25 support of stipulated Issue 31.

1 COMMISSIONER SKOP: Second.

2 CHAIRMAN CARTER: It's been moved and properly  
3 seconded that we adopt the stipulation in Issue 31. All those  
4 in favor, let it be known by the sign of aye.

5 (Unanimous affirmative vote.)

6 All those opposed, like sign.

7 Ms. Brown, you're recognized for Group 6.

8 MS. BROWN: Group 6 is Rate Base. It excludes  
9 several issues, which are 33, 38, 42, 43, 46, 48, 53, 54, 55,  
10 57, 58, 59 and 61. And we note that Issues 32, 34, 39 and 45  
11 as identified in the Prehearing Order have been dropped. The  
12 issues up for approval of the stipulations are Issue 32, 35,  
13 36, 37, 40, 41, 44, 47, 49, 50, 51, 52, 56 and 60.

14 CHAIRMAN CARTER: Ms. Brown, before I ask the parties  
15 is there agreement, in the notice it says issues dropped would  
16 have been 32 and it's --

17 MS. BROWN: I think that's correct, Commissioner.  
18 Let me, let me look though.

19 CHAIRMAN CARTER: Take a moment to check your notes  
20 on that.

21 MS. BROWN: Yes. Give me just a minute.

22 Yes, it's dropped. That's a mistake on our proposed  
23 stipulation list. You don't need to vote on that one.

24 CHAIRMAN CARTER: So 32 comes out of this grouping?

25 MS. BROWN: Yes.

1 CHAIRMAN CARTER: Commissioners, as we're looking  
2 here in Group 6, the issues here as presented, delete Issue 32.  
3 So, therefore, we'll have in Group 6 Issue 35, 36, 37, 40, 41,  
4 44, 47, 49, 50, 51, 52, 56, and 60. Is that correct, staff?

5 MS. BROWN: Yes. That's correct.

6 CHAIRMAN CARTER: Commissioners, any questions?  
7 Hearing none, Commissioner Edgar, you're recognized.

8 COMMISSIONER EDGAR: Mr. Chairman, I make a motion in  
9 support of the stipulated issues as listed in Group 6.

10 COMMISSIONER SKOP: Second.

11 CHAIRMAN CARTER: It's been moved and properly  
12 seconded that we adopt the stipulated recommendation, the  
13 recommend -- recommended stipulations and the issues in  
14 Group 6. All those in favor, let it be known by the sign of  
15 aye.

16 (Unanimous affirmative vote.)

17 All those opposed, like sign. Thank you.

18 Ms. Brown, you're recognized for Group 7.

19 MS. BROWN: Group 7 is Cost of Capital. There is one  
20 issue to be stipulated. The following issues are excluded:  
21 62, 63, 65, 67, 68 and 69. 66 has been dropped. Issue 64 has  
22 stipulated. We recommend that the Commission approve the  
23 stipulation.

24 CHAIRMAN CARTER: Okay. Does this reflect the  
25 agreement of all the parties on Issue 64, all the parties?

1           Commissioners, are there any questions on Issue 64?  
2       Hearing none, Commissioner Edgar, you're recognized.

3           COMMISSIONER EDGAR: Mr. Chairman, I make a motion in  
4       support of stipulated Issue 64.

5           COMMISSIONER SKOP: Second.

6           CHAIRMAN CARTER: It's been moved and properly  
7       seconded that we adopt this proposed stipulation on Issue 64.  
8       All those in favor, let it be known by the sign of aye.

9           (Unanimous affirmative vote.)

10          All those opposed, like sign.

11          Ms. Brown, you're recognized for the issues in  
12       Group 8.

13          MS. BROWN: This is Net Operating Income excluding  
14       the following issues: 70, 71, 74, 75, 76, 77, 78, 86, 88, 89,  
15       90, 91, 97, 98, 99, 101, 104, 107, 109, 111, 113, 114, 115, 16,  
16       17 and 118, with Issues 96, 102, 105 and 112 that have been  
17       dropped. The issues up for stip, for approval as stipulated  
18       issues are 72, 73, 79, 80, 81, 82, 83, 84, 85, 87, 92, 93, 94,  
19       95, 100, 103, 106, 108 and 110.

20          CHAIRMAN CARTER: Thank you. Does this reflect the  
21       agreement of the parties?

22          Commissioners, do you have any questions on any of  
23       the issues in Group 8? Hearing none, Commissioner Edgar,  
24       you're recognized.

25          COMMISSIONER EDGAR: Mr. Chairman, I make a motion in

1 support of the stipulated issues in Group 8.

2 COMMISSIONER SKOP: Second.

3 CHAIRMAN CARTER: It's been moved and properly  
4 seconded that we adopt the issues in the proposed, proposed  
5 stipulation for the issues in Group 8. All those in favor, let  
6 it be known by the sign of aye.

7 (Unanimous affirmative vote.)

8 All those opposed, like sign. Show it done.

9 Ms. Brown, Group 9.

10 MS. BROWN: Cost of Service and Rate Design excluding  
11 the following issues: 125, 126 and 129. The issues for  
12 proposed stipulations are 121, 122, 123, 124, 127, 128, 130,  
13 131, 132 and 133.

14 CHAIRMAN CARTER: Okay. Does this reflect the  
15 agreement of the parties?

16 MS. CHRISTENSEN: Yes.

17 CHAIRMAN CARTER: Commissioners, are there any  
18 questions on the issues listed in Group 9? Hearing none,  
19 Commissioner Edgar, you're recognized.

20 COMMISSIONER EDGAR: Mr. Chairman, I make a motion in  
21 support of the stipulated issues in Group 9.

22 COMMISSIONER SKOP: Second.

23 CHAIRMAN CARTER: It's been moved and properly  
24 seconded that we adopt the proposed stipulated agreements in  
25 the issues listed in Group 9. All those in favor, let it be

1 known by the sign of aye.

2 (Unanimous affirmative vote.)

3 Those opposed, like sign.

4 Ms. Brown, you're recognized.

5 MS. BROWN: Group 10 is Other Issues excluding  
6 Issue 134. This includes Issue 135 and 136. I would point out  
7 that Issue 136 is the close the docket issue. We're not going  
8 to be closing the docket today. But the parties agree that  
9 when we're finished with the process, the docket can be closed.

10 CHAIRMAN CARTER: That sounds like the appropriate  
11 time to close it when we're finished.

12 Does this reflect, does this reflect the agreement of  
13 all the parties?

14 Okay. Commissioners, are there any questions on the  
15 issues listed in Group 10? Hearing none, Commissioner Edgar,  
16 you're recognized.

17 COMMISSIONER EDGAR: Thank you, Mr. Chairman. I make  
18 a motion in support of stipulated Issues 135 and 136.

19 COMMISSIONER SKOP: Second.

20 CHAIRMAN CARTER: It's been moved and properly  
21 seconded that we adopt the proposed stipulation for the issues  
22 listed in Group 10. That would be Issue 135 and 136. All  
23 those in favor, let it be known by the sign of aye.

24 (Unanimous affirmative vote.)

25 All those opposed, like sign. Thank you,

1 Commissioners.

2 Staff, are there any additional preliminary matters?

3 MR. YOUNG: Yes, Mr. Chairman.

4 CHAIRMAN CARTER: You're recognized.

5 MR. YOUNG: At this time staff would recommend that  
6 we take up the prefiled testimony and exhibits of the witnesses  
7 that have been excused, starting with Embarq can go first.

8 MS. MASTERTON: Thank you. Thank you, Mr. Chairman.  
9 Yes. At this time Embarq would like to request that the  
10 prefiled direct testimony of Witness Sandra Khazraee, which was  
11 filed on December 27th, 2007, and consists of nine pages be  
12 moved into the record as though read.

13 CHAIRMAN CARTER: Are there any objections from any  
14 of the parties?

15 MR. HORTON: No objection.

16 CHAIRMAN CARTER: Staff, what's your recommendation?

17 MS. BROWN: Yes. That they be moved into the record,  
18 that the testimony be moved into the record as though read.  
19 And I think there are exhibits.

20 MS. MASTERTON: Yes, there is. There's one exhibit.  
21 It's Exhibit SAK-1, which has been identified on the stipulated  
22 exhibit list as Exhibit 51, and Embarq would respectfully  
23 request that that be entered into the record at this time.

24 CHAIRMAN CARTER: Okay. Does this reflect the  
25 agreement of the parties, all of the parties?

1           Commissioners, any questions? Commissioner Edgar,  
2 you're recognized.

3           COMMISSIONER EDGAR: I think at this time it's  
4 appropriate to enter in the prefiled testimony as though read  
5 and Exhibit 51.

6           COMMISSIONER SKOP: Second.

7           CHAIRMAN CARTER: Any objections? All those in  
8 favor, let it be known by the sign of aye.

9           (Unanimous affirmative vote.)

10          Those opposed, like sign. Show it done.

11          (Exhibit 51 admitted into the record.)

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1                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2                   **DOCKET NO. 070300-EI**

3                   **DIRECT TESTIMONY OF**

4                   **SANDRA A. KHAZRAEE**

5

6   **Q.     Please state your name, title and business address.**

7   **A.     My name is Sandra A. Khazraee and I am employed by Embarq as Regulatory**  
8   **Manager. My business address is 1313 Blair Stone Road, Tallahassee, Florida, 32301.**

9

10 **Q.     On whose behalf are you testifying in this proceeding?**

11 **A.     I am testifying on behalf of Embarq Florida, Inc.**

12

13 **Q.     Please describe briefly your educational background and work experience.**

14 **A.     I graduated from McNeese State University with a Bachelor of Science degree in**  
15 **Mathematics. I have worked 30+ years in the telecommunications industry, specifically for**  
16 **South Central Bell, Pacific Bell and Embarq Florida and its predecessor companies. During**  
17 **those 30 years, I have worked as an Outside Plant Engineer, Long Range Network Planner,**  
18 **Pricing and Product Evaluation Manager, Costing Manager and Regulatory Manager. In my**  
19 **previous position as Costing Manager and my current position as Regulatory Manager, I have**  
20 **testified before this Commission in various dockets.**

21

22 **Q.     What is the purpose of your testimony?**

23 **A.     The purpose of my testimony is to provide Embarq's position on the storm hardening**  
24 **plan ("the Plan"), submitted by Florida Public Utility Company ("FPUC") for approval in**  
25 **Docket 070300-EI.**

1 **Q. How is Embarq potentially affected by the storm hardening plan proposed by**  
2 **FPUC?**

3 **A.** Embarq attaches facilities to FPUC's poles under a joint use agreement. As an  
4 attacher, Embarq may be affected both operationally and financially by the implementation of  
5 the storm hardening measures proposed by FPUC in its storm hardening plan. Embarq must  
6 have certain specific information from FPUC to allow Embarq to determine which, if any, of  
7 its attachments will be affected by the storm hardening measures set forth in the plan.

8

9 **Q. Could you provide an overview of Embarq's position on FPUC's storm**  
10 **hardening plan?**

11 **A.** Embarq has needed more detailed information than that set out in the plan filed by  
12 FPUC to fully evaluate the reasonableness of the proposed storm hardening measures as they  
13 affect Embarq. FPUC provided additional information that may include this necessary detail  
14 on December 21, 2007. Embarq is in the process of evaluating this information. In addition,  
15 Embarq supports the stipulation of the Process to Engage Third Party Attachers, discussed in  
16 the Direct Testimony of AT&T's witness, Kirk Smith and included in Exhibit KS-1, which  
17 was filed in this docket on December 21, 2007. I will address Embarq's position on each of  
18 the 13 issues identified in the Order Establishing Procedure (Order No. PSC-07-0811-PCO-  
19 EI) in the remainder of my testimony.

20

21 **ISSUE 1: Does the Company's Plan address the extent to which, at a minimum, the**  
22 **Plan complies with the National Electric Safety Code (ANSI C-2) [NESC]**  
23 **that is applicable pursuant to subsection 25-6.0345(2), F.A.C.? [Rule 25-**  
24 **6.0342(3)(a)]**

1    **Q.**     **What is Embarq's position on Issue 1?**

2    **A.**     Embarq's review indicates that the Plan appears to comply with the applicable NESC  
3 requirements.

4  
5    **ISSUE 2:**    **Does the Company's Plan address the extent to which the extreme wind**  
6                   **loading standards specified by Figure 250-2(d) of the 2007 edition of the**  
7                   **NESC are adopted for new distribution facility construction? [Rule 25-**  
8                   **6.0342(3)(b)1]**

9  
10   **ISSUE 3:**    **Does the Company's Plan address the extent to which the extreme wind**  
11                   **loading standards specified by Figure 250-2(d) of the 2007 edition of the**  
12                   **NESC are adopted for major planned work on the distribution system,**  
13                   **including expansion, rebuild, or relocation of existing facilities, assigned**  
14                   **on or after the effective date of this rule distribution facility construction?**  
15                   **[Rule 25-6.0342(3)(b)2]**

16  
17   **ISSUE 4:**    **Does the Company's Plan reasonably address the extent to which the**  
18                   **extreme wind loading standards specified by Figure 250-2(d) of the 2007**  
19                   **edition of the NESC are adopted for distribution facilities serving critical**  
20                   **infrastructure facilities and along major thoroughfares taking into**  
21                   **account political and geographical boundaries and other applicable**  
22                   **operational considerations? [Rule 256.0342(3)(b)3]**

23

1 **Q. What is Embarq's position on Issues 2 through 4 regarding extreme wind**  
2 **loading standards?**

3 **A.** FPUC has stated that new specifications are being developed that will allow for certain  
4 future installations to exceed the NESC by utilizing extreme wind loading standards (Section  
5 3.1 of the Plan). FPUC is also proposing a program that will replace all remaining wood  
6 transmission poles with concrete poles that will meet or exceed the NESC extreme wind  
7 loading standards (Section 3.2 of the Plan). While Embarq does not believe these changes  
8 should affect existing Embarq facilities, without specific details it cannot be determined that  
9 this is the case.

10 In general, Embarq is aware that the NESC extreme wind loading provision is  
11 designed for poles exceeding 60 feet in height due to the attachments (electric circuits) with a  
12 greater exposure to the wind. Shorter poles with attachments closer to the ground, such as  
13 Embarq's attachments, are not as exposed and therefore are not considered by the NESC  
14 standards.

15  
16 **ISSUE 5: Does the Company's Plan address the extent to which its distribution**  
17 **facilities are designed to mitigate damage to underground and supporting**  
18 **overhead transmission and distribution facilities due to flooding and**  
19 **storm surges? [Rule 25-6.0342(3)(c)]**

20  
21 **Q. What is Embarq's position on Issue 5?**

22 **A.** FPUC states in the Plan (Section 4.0) that it is currently beginning the development of  
23 an expanded specifications book that will include detail on mitigating damage of underground

1 and overhead distribution and transmission facilities. Therefore, Embarq cannot provide a  
2 position on this issue until that effort is completed and details shared with Embarq.

3

4 **ISSUE 6:** Does the Company's Plan address the extent to which the placement of  
5 new and replacement distribution facilities facilitate safe and efficient  
6 access for installation and maintenance pursuant to Rule 25- 6.0341,  
7 F.A.C? [Rule 25-6.0342(3)(d)]

8

9 **Q. What is Embarq's position on Issue 6?**

10 **A.** FPUC has stated that facilities will be placed along public rights of way or located on  
11 private easements that are readily accessible from public streets. With regard to the placement  
12 of new facilities, Embarq has no problem with FPUC's Plan. If, however, FPUC intends to  
13 relocate existing facilities from rear lot lines based on these guidelines, then Embarq will need  
14 additional information with specificity before determining whether Embarq's facilities will be  
15 affected and any resulting impact on Embarq.

16

17 **ISSUE 7:** Does the Company's Plan provide a detailed description of its deployment  
18 strategy including a description of the facilities affected; including  
19 technical design specifications, construction standards, and construction  
20 methodologies employed? [Rule 25-6.0342(4)(a)]

21

22 **Q. What is Embarq's position on Issue 7?**

23 **A.** FPUC witness Mark Cutshaw indicates in his testimony that the company has  
24 provided a description of its deployment strategy in Section 6.1 of the Plan. Initially, Embarq

1 provided an estimate of the number of poles and dollar impact to Embarq based on the general  
2 description provided by FPUC in the Plan (Section 3.4). This estimate was communicated to  
3 FPUC in a letter dated July 12, 2007 included as Exhibit SAK-1. Embarq also requested  
4 additional information with specifics at the route or street level so that a more precise  
5 response could be provided to FPUC. On Friday afternoon, December 21, FPUC provided a  
6 diagram of the route maps of the routes that would be impacted within the Marianna area.  
7 Because Embarq has had this information for less than a week, there has not yet been time to  
8 evaluate the information and make a field inspection to determine which, if any, of these poles  
9 carry Embarq attachments. Embarq cannot take a final position on this issue until this review  
10 is completed.

11 In addition, the Process to Engage Third Party Attachers discussed in the Direct  
12 Testimony of AT&T witness Kirk Smith and included in Exhibit KS-1 establishes a  
13 mechanism for FPUC to provide attachers with necessary details about the technical design  
14 specifications, construction standards, and construction methodologies FPUC will employ.  
15 Embarq supports this process which is the same process approved by the Commission in the  
16 dockets to consider the other investor-owned electric utilities' storm hardening plans.

17 **ISSUE 8: Does the Company's Plan provide a detailed description of the**  
18 **communities and areas within the utility's service area where the electric**  
19 **infrastructure improvements, including facilities identified by the utility**  
20 **as critical infrastructure and along major thoroughfares pursuant to**  
21 **subparagraph (3)(b)3. are to be made? [Rule 25-6.0342(4)(b)]**

22 **Q. What is Embarq's position on Issue 8?**

23 **A.** The plan currently does not provide detailed descriptions of the communities and areas  
24 within which the improvements will be made. However, as stated in my testimony on issues 2

1 through 4, FPUC provided some additional detail on December 21. Embarq is evaluating this  
2 additional information and will be prepared to update its position at the appropriate time.

3

4 **ISSUE 9:** Does the Company's Plan provide a detailed description of the extent to  
5 which the electric infrastructure improvements involve joint use facilities  
6 on which third-party attachments exist? [Rule 25-6.0342(4)(c)]

7

8 **Q.** What is Embarq's position on Issue 9?

9

10 **A.** FPUC's Plan is not specific as to the extent to which the electric infrastructure  
11 improvements involve joint use facilities. However, as stated previously, FPUC has provided  
12 some additional detail which Embarq is currently evaluating.

13

14 **ISSUE 10:** Does the Company's Plan provide a reasonable estimate of the costs and  
15 benefits to the utility of making the electric infrastructure improvements,  
16 including the effect on reducing storm restoration costs and customer  
17 outages? [Rule 25-6.0342(4)(d)]

18 **Q.** What is Embarq's position on Issue 10?

19 **A.** Embarq has not taken a position on this issue.

20

21 **ISSUE 11:** Does the Company's Plan provide an estimate of the costs and benefits,  
22 obtained pursuant to subsection (6) below, to third-party attachers  
23 affected by the electric infrastructure improvements, including the effect

1                   **on reducing storm restoration costs and customer outages realized by the**  
2                   **third-party attachers? [Rule 25-6.0342(4)(e)]**

3

4   **Q.    What is Embarq's position on Issue 11?**

5

6   **A.    FPUC has not provided an estimate of the costs and benefits to third-party attachers.**  
7   As discussed in my testimony on Issue 7, Embarq provided FPUC with an estimate of the cost  
8   impacts to Embarq, based on the information FPUC had provided at that time. This estimate is  
9   detailed in the letter to FPUC attached as Exhibit SAK-1. Embarq may be in a position to  
10   revise this cost estimate after completing the review of the information FPUC provided on  
11   December 21. As stated in the letter, Embarq has no data that supports a quantification of the  
12   potential benefits of the storm hardening measures, but anticipates that these benefits would  
13   include a reduction in the amount of damage to Embarq's facilities, thereby reducing the  
14   number of customer outages and reducing the time to restore service.

15

16   **ISSUE 12: Does the Company's Plan include written Attachment Standards and**  
17   **Procedures addressing safety, reliability, pole loading capacity, and**  
18   **engineering standards and procedures for attachments by others to the**  
19   **utility's electric transmission and distribution poles that meet or exceed**  
20   **the edition of the National Electrical Safety Code (ANSI C-2) that is**  
21   **applicable pursuant to Rule 25-6.034, F.A.C.? [Rule 25-6.0342(5)]**

22

23   **Q.    What is Embarq's position on Issue 12?**

1    **A.**     FPUC has indicated in the Plan that the current contracts with third-party attachers  
2    will continue in effect and will govern the standards and procedures at this time. (Section 7.3)  
3    Embarq agrees that its current joint use agreement with FPUC governs the relationship  
4    between the parties and the operational and cost impacts to Embarq resulting from the  
5    implementation of FPUC's storm hardening plan. FPUC has indicated that it intends to  
6    develop additional construction standards and that third-party attachers will have the ability to  
7    provide input into the new specifications. Embarq certainly intends to participate fully in any  
8    discussions of changes to the attachment standards.

9  
10    **ISSUE 13:**    Based on the resolution of the preceding issues, should the Commission  
11                    find that the Company's Plan meets the desired objectives of enhancing  
12                    reliability and reducing restoration costs and outage times in a prudent,  
13                    practical, and cost-effective manner to the affected parties? [ Rule 25-  
14                    6.0342(1) and (2)]

15  
16    **Q.**     What is Embarq's position on Issue 13?

17    **A.**     Embarq cannot take a final position on this issue until it completes its review of the  
18    information provided by FPUC on December 21 and determines the specific impact of the  
19    plan on Embarq. In addition, implementation of the Process to Engage Third Party Attachers  
20    is key to Embarq's ability to be comfortable with the level of detail provided by FPUC.

21

22    **Q.**     Does that conclude your testimony?

23    **A.**     Yes it does.

1 CHAIRMAN CARTER: Staff.

2 MS. BROWN: Yes. Mr. Chairman, I think AT&T has a  
3 witness that's been excused.

4 CHAIRMAN CARTER: Mr. Hatch, you're recognized.

5 MR. HATCH: Mr. Chairman, AT&T Florida would request  
6 that the testimony of Kirk Smith be inserted into the record as  
7 though read.

8 CHAIRMAN CARTER: And does he have exhibits attached  
9 to --

10 MR. HATCH: He has one exhibit that can be marked for  
11 identification and also admitted.

12 CHAIRMAN CARTER: Okay. Is there, is there any  
13 objection from any of the parties?

14 Staff, your recommendation.

15 MS. BROWN: Yes. That the testimony should be  
16 entered into the record as though read and the exhibits  
17 admitted as well.

18 CHAIRMAN CARTER: Commissioners, any questions?  
19 Commissioner Edgar, you're recognized.

20 COMMISSIONER EDGAR: Thank you, Mr. Chairman. I  
21 would make a motion that at this time the prefiled testimony of  
22 Witness Smith be entered into the record as though read and  
23 Exhibit 50 also be entered into the record.

24 COMMISSIONER SKOP: Second.

25 CHAIRMAN CARTER: All those in favor, let it be known

1 by the sign of aye.

2 (Unanimous affirmative vote.)

3 All those opposed, like sign. Thank you.

4 (Exhibit 50 admitted into the record.)

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BELLSOUTH TELECOMMUNICATIONS, INC.  
d/b/a AT&T FLORIDA

DIRECT TESTIMONY OF KIRK SMITH

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 070300-EI

DECEMBER 21, 2007

1  
2  
3  
4  
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7  
8  
9  
10  
11  
12  
13 Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH BELLSOUTH  
14 TELECOMMUNICATIONS, INC. d/b/a AT&T FLORIDA (“AT&T FLORIDA”  
15 OR THE “COMPANY”), AND YOUR BUSINESS ADDRESS.  
16

17 A. My name is Kirk Smith. I am employed by the Company as Supervising Manager –  
18 Network Staff Support on the Network Operations Construction and Engineering  
19 Staff for the Company’s nine-state Southeast region. My business address is 3535  
20 Colonnade Parkway, Rm. W3D, Birmingham, Alabama 35243.  
21

22 Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR BACKGROUND AND  
23 EXPERIENCE.  
24

25 A. I graduated from Auburn University in 1973 with a Bachelor of Science degree in  
26 Industrial Engineering. I became employed by the Company in June 1973. I have  
27 held various line and staff positions with the Company, including positions in  
28 Construction, Engineering, Installation, Maintenance, Mechanization (Deployments  
29 and Support) and Contract Administration (Outside Plant Construction, Facility

1 Locates, Engineering and Joint Use). I managed Regional Emergency Generator  
2 Pools that deploy emergency generators in large scale power outages throughout the  
3 Company's nine-state southeast region. I provided support in my capacity as  
4 Manager–Network Operations Support for the Company to its Regional Emergency  
5 Control Center and have field experience in storm restoration, including hurricanes,  
6 ice storms and tornadoes. I assumed my current position as Supervising Manager –  
7 Network Staff Support on the Network Operations Construction and Engineering  
8 Staff in October 2002, and my current responsibilities include supervising a team of  
9 managers responsible for bidding and negotiating contracts for Outside Plant  
10 Construction, Facility Locating, Engineering, and Joint Use. The team is also  
11 responsible for administration of CATV license agreements, agreements for CLECs  
12 pertaining to pole attachments and conduit occupancy, and agreements for  
13 attachments to towers on some central offices. I also participated in Docket No.  
14 060077-TL regarding the mandated pole inspection cycle, Dockets Nos. 060172-EU  
15 and 060173-EU regarding storm hardening activities of investor-owned, rural  
16 cooperative and municipal electric utilities, and consolidated Dockets Nos 070297-  
17 EI, 070298-EI, 070299-EI and 070301-EI regarding storm hardening plans of four  
18 investor-owned utilities (“IOUs”).

19

20 Q. HAVE YOU ATTACHED ANY EXHIBITS TO YOUR TESTIMONY?

21 A. Yes, I have attached Exhibit KS-1 to my testimony.

22

23

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

2  
3 A. The purpose of my testimony is to explain AT&T Florida's position on the 2007 –  
4 2009 storm hardening plan (the "Plan") filed by Florida Public Utilities Company  
5 ("FPUC") with the Florida Public Service Commission (the "Commission") on  
6 July 3, 2007.

7  
8 Q. PLEASE PROVIDE AN OVERVIEW OF AT&T FLORIDA'S POSITION  
9 REGARDING FPUC'S PLAN.

10  
11 A. As a result of cooperative, good faith negotiations, AT&T Florida and FPUC have  
12 reached an agreement wherein AT&T Florida and FPUC have committed that they  
13 will support the terms and conditions contained in the Process to Engage Third-  
14 Party Attachers (the "Third-Party Attacher Process"), a copy of which is attached as  
15 Exhibit KS-1. It is my understanding that the other parties to this docket that attach  
16 to FPUC's poles have also agreed to the Third-Party Attacher Process, and that the  
17 Florida Office of Public Counsel has no objection to it. As information, the Third-  
18 Party Attacher Process has been previously approved by the Commission in  
19 consolidated Dockets Nos 070297-EI, 070298-EI, 070299-EI and 070301-EI.  
20 AT&T Florida submits this testimony, in part, to explain the Third-Party Attacher  
21 Process and its value.

22

1 In addition, based on our review of the project details that FPUC has included in its  
2 Plan and with the agreement between AT&T Florida and FPUC to support the  
3 Third-Party Attacher Process, AT&T Florida has no objections to FPUC's Plan at  
4 this time.

5 Q. PLEASE EXPLAIN THE PURPOSE OF THE THIRD-PARTY ATTACHER  
6 PROCESS.

7  
8 A. AT&T Florida appreciates the Commission's interest in minimizing widespread  
9 power outages in the state following hurricanes or other extreme adverse weather  
10 conditions. As Rule 25-6.0342 of the Florida Administrative Code (the "Rule")  
11 provides, however, the IOUs have a responsibility to develop storm hardening plans  
12 that meet the desired objectives of enhancing reliability and reducing restoration  
13 costs and outage times in a manner that is prudent, practical and cost-effective to the  
14 affected parties. AT&T Florida's primary concerns are that it (1) have sufficient  
15 time to review the IOUs' detailed deployment plans, (2) have the opportunity to  
16 provide meaningful input to the IOUs as contemplated by the Rule, (3) have enough  
17 details about the proposed work so that AT&T Florida can ascertain its projected  
18 costs and perform the cost-benefit analysis contemplated by the Rule, and (4) have  
19 sufficient time to communicate concerns, if any, to the Commission through the  
20 complaint process referenced in the Rule. The Third-Party Attacher Process  
21 alleviates these concerns by establishing a reasonable timetable for the exchange of  
22 information between the IOUs and the third-party attachers. The Third-Party  
23 Attacher Process is a critical tool for ensuring that an electric utility is hardening its

1 infrastructure in a way that is prudent, practical and cost-effective to affected parties  
2 as required by the Rule.

3

4 Q. PLEASE EXPLAIN FURTHER WHY AT&T FLORIDA VIEWS THE THIRD  
5 PARTY ATTACHER PROCESS AS CRITICAL TO COST-EFFECTIVE STORM  
6 HARDENING.

7

8 In order to perform a meaningful cost-benefit analysis of a particular storm  
9 hardening project, AT&T Florida needs to know which poles will be affected, as  
10 well as the type of work the electric utility plans to perform. For example, AT&T  
11 Florida needs to know whether the electric utility will replace poles, change from  
12 wood poles to poles of another material such as concrete or steel, place poles in  
13 locations different from the existing poles, or relocate or underground existing aerial  
14 facilities. Once AT&T Florida has this level of detail, it can evaluate how its  
15 facilities will be impacted, what work it would need to perform, and if there are  
16 potentially more cost-effective ways to harden the infrastructure in question.

17

18 I understand that it may not be feasible for electric utilities to develop this level of  
19 detail years, or sometimes even many months in advance of a storm hardening  
20 project due to changes in field conditions, changes in service needs, and even  
21 changes in internal budgets. Without this level of detail, however, AT&T Florida  
22 cannot perform a meaningful cost benefit analysis of a proposed project as required  
23 by the Rule. Even for proposed projects that the IOUs may provide a higher level of

1 detail for when they file their storm hardening plans, engineering plans can change  
2 as you get closer in time to the start of the project for the reasons I previously  
3 mentioned.

4  
5 The Third-Party Attacher Process is a way to address this engineering reality. It  
6 ensures that the electric utility engages third-party attachers during the design phase  
7 of a project and that the dialogue continues through the construction phase. Under  
8 the Third-Party Attacher Process, AT&T Florida will have sufficient time to review  
9 FPUC's proposed engineering plans, determine how AT&T Florida's facilities will  
10 be affected and provide input on potentially more cost-effective ways to achieve the  
11 storm hardening goals. In the end, if the parties cannot overcome a disagreement,  
12 AT&T Florida will also have sufficient time to file a complaint with the  
13 Commission pursuant to the Rule.

14  
15 As an added benefit, the Third-Party Attacher Process opens the lines of  
16 communication between the parties which will likely result in a better overall  
17 working relationship, even beyond the storm hardening context.

18  
19 Q. HOW WILL THE THIRD-PARTY ATTACHER PROCESS WORK?

20  
21 A. By September 5 of each year, FPUC will provide the third-party attachers with a list  
22 of projects identified in its 3-year plan that FPUC plans to undertake in the  
23 following calendar year, pending internal budget approval. FPUC will update this

1 list and provide it to the third-party attachers once it receives final budget approval  
2 for the proposed projects.

3  
4 Prior to engineering a job relative to a storm hardening project identified in its Plan,  
5 FPUC will initiate a meeting with third-party attachers to discuss FPUC's  
6 preliminary ideas for the scope of the work. At this pre-design meeting, FPUC will  
7 (a) identify the poles involved; (b) identify whether it plans to replace poles, change  
8 from wood poles to poles of another material, place poles in different locations than  
9 the existing poles, relocate overhead facilities or underground existing aerial  
10 facilities; (c) provide the projected commencement date; and (d) provide other  
11 available information that would enable the third-party attachers to make necessary  
12 preparations and evaluate whether to seek dispute resolution before the  
13 Commission. During this pre-design phase, FPUC will also seek input from the  
14 third-party attachers as required by the Rule. Once FPUC finalizes its engineering  
15 plans, it will promptly provide them to the third-party attachers. FPUC will also  
16 initiate a meeting with third-party attachers prior to construction to discuss  
17 coordination of work and a construction schedule.

18  
19 If FPUC wants to amend its Plan, for example, to add a storm hardening project not  
20 previously identified in its Plan, it can file a petition with the Commission pursuant  
21 to the Rule.

22

1           Again, it is my opinion that implementation of the Third-Party Attacher Process  
2           gives FPUC the flexibility to finalize some of its engineering plans closer in time to  
3           construction, while giving the attaching entities sufficient time to evaluate specific  
4           projects, provide input on them, perform a meaningful cost benefit analysis, and  
5           bring concerns before the Commission if necessary.

6

7           Q. Does this conclude your direct testimony?

8

9           A. Yes.

10

1 CHAIRMAN CARTER: Staff, you're recognized.

2 MS. BROWN: FPUC has a witness that's been excused as  
3 well.

4 CHAIRMAN CARTER: Mr. Horton, you're recognized.

5 MR. HORTON: Actually I was going to wait. Her  
6 testimony is rebuttal testimony, so when we get to the rebuttal  
7 witnesses, I'll be happy to do it then.

8 MS. BROWN: Staff has a witness as well. It's --

9 CHAIRMAN CARTER: Staff, you're recognized.

10 MS. BROWN: We ask that the direct testimony and  
11 supplemental direct testimony of Kathy L. Welch be entered into  
12 the record as though read, and exhibits KL-1 through 3 be  
13 marked for identification and entered into the record. They're  
14 on the Comprehensive Exhibit List 52, 53 and 54.

15 CHAIRMAN CARTER: Okay. Any objection from any of  
16 the parties?

17 MS. CHRISTENSEN: No.

18 CHAIRMAN CARTER: Commissioners, any questions?  
19 Commissioner Edgar, you're recognized.

20 COMMISSIONER EDGAR: Thank you, Mr. Chairman. I  
21 would make a motion that we enter the prefiled testimony of  
22 Witness Welch into the record as though read, and Exhibits 52,  
23 53 and 54.

24 COMMISSIONER SKOP: Second.

25 CHAIRMAN CARTER: It's been moved and properly

1 seconded. All those in favor, let it be known by the sign of  
2 aye.

3 (Unanimous affirmative vote.)

4 All those opposed, like sign.

5 (Exhibits 52, 53 and 54 admitted into the record.)  
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## DIRECT TESTIMONY OF KATHY L. WELCH

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Q. Please state your name and business address.

A. My name is Kathy L. Welch and my business address is 3625 N.W. 82nd Ave., Suite 400, Miami, Florida, 33166.

Q. By whom are you presently employed and in what capacity?

A. I am employed by the Florida Public Service Commission as a Public Utilities Supervisor in the Division of Regulatory Compliance and Consumer Assistance.

Q. How long have you been employed by the Commission?

A. I have been employed by the Florida Public Service Commission since June, 1979.

Q. Briefly review your educational and professional background.

A. I have a Bachelor of Business Administration degree with a major in accounting from Florida Atlantic University and a Masters of Adult Education and Human Resource Development from Florida International University. I have a Certified Public Manager certificate from Florida State University. I am also a Certified Public Accountant licensed in the State of Florida, and I am a member of the American and Florida Institutes of Certified Public Accountants. I was hired as a Public Utilities Analyst I by the Florida Public Service Commission in June of 1979. I was promoted to Public Utilities Supervisor on June 1, 2001.

Q. Please describe your current responsibilities.

A. Currently, I am a Public Utilities Supervisor with the responsibilities of administering the District Office and reviewing work load and allocating resources to

1 complete field work and issue audit reports when due. I also supervise, plan, and conduct  
2 utility audits of manual and automated accounting systems for historical and forecasted  
3 financial statements and exhibits.

4  
5 Q. Have you presented testimony before this Commission or any other regulatory  
6 agency?

7 A. Yes. I have testified in several cases before the Florida Public Service  
8 Commission. Exhibit KLW-1 lists these cases.

9  
10 Q. What is the purpose of your testimony today?

11 A. The purpose of my testimony is to sponsor the staff audit report of Florida Public  
12 Utilities Company (FPUC or Utility) which addresses the Utility's application for  
13 increase in electric rates, Audit Control Number 07-262-4-1. This audit report is filed  
14 with my testimony and is identified as Exhibit KLW-2.

15  
16 Q. Did you prepare or cause to be prepared under your supervision, direction, and  
17 control this audit report?

18 A. Yes, I was the supervisor in charge of this audit.

19  
20 Q. Please describe the work you performed in this audit.

21 A. For rate base, we reconciled the rate base supporting schedules and traced those to  
22 the general ledger and obtained supporting documentation for all adjustments in 2006.  
23 We recalculated the adjustments, traced the amounts to the ledgers, and reviewed prior  
24 orders. We reviewed the board of directors' minutes, the internal audit reports and the  
25 external audit work papers. We sampled plant additions for the period January 1, 2003,

1 through December 31, 2006, for compliance with the audit objectives. We verified that  
2 the utility properly recorded retirements when a capital item was removed or replaced.  
3 We sampled construction project additions and the corresponding source documentation.  
4 We sampled Customer Advance additions for the period January 1, 2003, through  
5 December 31, 2006, for compliance with the audit objectives and traced them to  
6 contracts. We traced the accumulated depreciation schedules to the corresponding plant  
7 in service schedules. We verified that the utility used Commission authorized rates to  
8 depreciate its plant accounts by calculating a sample of accumulated depreciation account  
9 balances to test for calculation errors. We verified that the utility properly recorded  
10 retirements to accumulated depreciation when the corresponding plant was removed or  
11 replaced. We recalculated a sample of accumulated depreciation account balances as of  
12 December 31, 2006. We traced the working capital accounts to the general ledger, and  
13 reviewed any allocations of common accounts. We recalculated the utility's working  
14 capital balance as of December 31, 2006.

15 For net operating income, we reconciled the individual components of net  
16 operating income (NOI) balances to the utility's general ledger for the 12-month period  
17 ended December 31, 2006. We recalculated the adjustments, traced the components to  
18 the ledger and reviewed them with the last rate case. We obtained the December entry for  
19 the unbilled calculation and traced the components to source documentation. We sampled  
20 Operation and Maintenance (O&M) Expense items from the general ledger based on  
21 auditor judgment. We reviewed the sample for the proper utility system, classification,  
22 amount, period and recurring nature. We examined invoices and supporting  
23 documentation to determine if the audit objectives were met. We obtained the detail for  
24 direct and allocated salaries. We reviewed the allocation methodology and recomputed  
25 clearing amounts. We compared uncollectible expense to the four year average ratio of

1 uncollectible amounts to revenue. We recalculated regulatory assessment fees and  
2 reconciled them to the general ledger. We reviewed the property tax bills and determined  
3 whether the amount booked reflects the discount amount. We compared the percent of  
4 payroll tax to total salaries for reasonableness. We recalculated depreciation expense for  
5 the period using Commission approved rates.

6 For capital structure, we reconciled the individual components of capital structure  
7 to balances in the utility's general ledger as of December 31, 2006. We recalculated the  
8 overall weighted cost of capital for the test year ended 2006. We compared actual debt  
9 balances and interest rates to the original loan agreements. We compared actual deferred  
10 tax balances to the taxes. We reconciled the common equity components and the  
11 investment tax credit components and recalculated the investment tax credit rate. We  
12 compared actual deposits to the utility records.

13  
14 Q. Please review the audit findings in the audit report that are you are testifying on.

15 A. **Audit Finding No. 1**

16 Audit Finding No. 1 discusses missing invoices. The utility was unable to provide  
17 invoices and supporting documentation for several of the sample items. Because the  
18 utility was unable to support these items, they should be removed from rate base. The  
19 plant 13-month average should be reduced by \$900,539.37, to remove these items. The  
20 accumulated depreciation 13-month average should be reduced by \$125,449.15. The  
21 depreciation expense should be reduced \$43,391.26.

22 **Audit Finding No. 2**

23 Audit Finding No. 2 discusses trucks transferred from the water division. The  
24 utility's Plant in Service includes two trucks transferred from its water company, which  
25 was sold in March 2003, a 1999 Ford 150 and a 2000 Ford. The transaction occurred in

1 September 2006 when the trucks were discovered during the inventory. When the electric  
2 company booked the acquisition of the trucks, it recorded the difference between the  
3 original cost and the accumulated depreciation as a gain. Since the vehicles were  
4 transferred to electric plant, the company applied the electric depreciation rate in  
5 calculating the depreciation expense from the time the trucks were purchased to the time  
6 they were transferred. I recalculated the depreciation expense using the correct rates and  
7 determined a different amount than the company's amount as of December 2006. In  
8 order to correct the plant and depreciation balances, I recommend that the plant 13-month  
9 average should be increased by \$22.30, the accumulated depreciation 13-month average  
10 should be reduced by \$14,532.41, and depreciation expense should be increased by  
11 \$4,464.53.

12 **Audit Finding No. 3**

13 Audit Finding No. 3 discusses uncollectible expense. In 2006, the utility expensed  
14 \$87,415 to electric for uncollectible expense. This amount was increased by \$129,249 in  
15 the 2008 forecast for increased fuel rates and a projected increase in consumption. Actual  
16 write offs in 2006 were \$58,025. The actual write offs were much less than the amount  
17 actually accrued by the utility. We compared the average of four years of write offs  
18 compared to revenue (net of industrial customers and interdepartmental revenue) as a test  
19 and found that the average is even less than the actual write offs. If the four year average  
20 write off is used, uncollectible expense should be reduced by \$33,762.

21 **Audit Finding No. 4**

22 Audit Finding No. 4 discusses public relation expenses. In 2006, the utility paid  
23 Curly and Pynn for a multi media campaign, meetings with the key leadership at the  
24 utility to assign tasks and duties to educate the public in relation to the fuel increases, and  
25 meetings with the entire staff of each division to educate employees about the fuel

1 increases. Account 913.4, Information and Instructional Advertising expense includes  
2 invoices totaling \$120,405.89. In addition, Account 916, Miscellaneous Sales expense,  
3 was credited for an entry made to the 913.4 account of \$5,354.38 for each division. The  
4 net amount recorded in the 2006 expenses was \$109,697.13. In addition \$29,808 was  
5 added to the 2008 expense for informing the customers about the fuel increase. The total  
6 included in the 2008 expenses was \$147,205. Since the fuel increase is already in effect  
7 and the rate case will go into effect in 2008, the need for public relations may not extend  
8 for the four or five years that the rate increase will be in effect.

9 We annualized actual costs in the account as of September 2007. These amounted  
10 to \$67,076 which is significantly less than the \$147,205 projected. The Commission may  
11 decide to amortize costs that are not recurring over the estimated period the new rates will  
12 be in effect which would reduce expenses. The utility increased this account by 103.4% in  
13 2007 and 103.5% in 2008 for customer growth and inflation.

14 **Audit Finding No. 5**

15 Audit Finding No. 5 discusses legal costs and mailing. Included in account 928,  
16 Regulatory Commission expense, were 2006 costs of \$34,249.67 paid to Messer,  
17 Caparello and Self for work related to obtaining the new fuel contracts and for expanding  
18 the territory. The fuel contracts will not be renewed for another ten years. Therefore,  
19 these costs may not be recurring. These costs have been trended up by 102.2% in 2007  
20 and 102.3% in 2008.

21 The utility also included postage and printing costs for mailing a letter regarding  
22 increased electric costs in account 923.1, Outside Services, for \$6,609.96. This account  
23 was trended up using the same factors for a total of \$6,911.

24 The Commission may decide to amortize costs that are not recurring over the  
25 estimated period the new rates will be in effect which would reduce expenses.

1           **Audit Finding No. 6**

2           Audit Finding No. 6 discusses a customer survey. In 2006, the utility charged  
3 account 916, Miscellaneous Sales expenses, \$25,600 for a customer survey. The costs  
4 were split equally between Marianna and Fernandina. The account was trended up using  
5 inflation and customer growth of 103.4% in 2007 and 103.5% in 2008 or a total of  
6 \$27,397. The utility plans to continue doing surveys in the future but they may not be as  
7 extensive as this one and may cost less. Continuing surveys may only address one aspect  
8 of customer service as opposed to the extensive approach used in this one.

9           Schedule C-7, Operation and Maintenance Expenses, for 2008 shows less in the  
10 account due to a credit that was posted to the wrong account as described in the audit  
11 finding on public relations costs.

12           The Commission may decide to amortize costs that are not recurring over the  
13 estimated period the new rates will be in effect which would reduce expenses.

14           **Audit Finding No. 7**

15           Audit Finding No. 7 discusses Opportunity Florida. Marianna account 930.23,  
16 Economic Development expense, includes \$5,000 for membership dues to Opportunity  
17 Florida. The utility joined this organization for networking opportunities with other  
18 industries. The 930.23 account was trended up using inflation and customer growth of  
19 103.4% in 2007 and 103.5% in 2008 or a total of \$5,351. If the Commission does not  
20 determine that the membership benefits the customers, these costs should be removed.

21           **Audit Finding No. 8**

22           Audit Finding No. 8 discusses office construction. Marianna's account 935,  
23 Maintenance of General Plant, includes \$2,219 to construct a wall in the office in March  
24 2006. The account was trended up using inflation and customer growth of 103.4% in  
25 2007 and 103.5% in 2008 for a total of \$2,375. This amount should be capitalized in

1 Structures and Improvements and depreciated at 2%. I recommend that expenses in 2008  
2 should be reduced by \$2,375, Plant in 2006 should be increased by the average of \$1,707,  
3 average accumulated depreciation should be increased by \$16, and Depreciation expense  
4 should be increased by \$37.

5 **Audit Finding No. 9**

6 Audit Finding No. 9 discusses travel expenses. Marianna's account 588.2, Other  
7 Distribution Expense, includes \$677.69 of airline expenses for the wife of its safety  
8 contractor. This account was trended up by payroll and customer growth of 106.8% in  
9 2007 and 106.8% in 2008 for a total of \$773. Because this is not a utility expense, I  
10 recommend that expenses should be reduced by \$773 in 2008.

11 **Audit Finding No. 10**

12 Audit Finding No. 10 discusses a transformer pad. Fernandina's account 595.3,  
13 Maintenance of Transformers, includes \$2,400 to remove a pad and set a new  
14 transformer at the Ritz Carlton Hotel in August 2006. The account was trended up using  
15 payroll and customer growth of 106.8% in 2007 and 106.8% in 2008 for a total of \$2,738.  
16 This amount should be capitalized to account 115.1010.368 and depreciated at 4.2%. I  
17 recommend that expenses should be reduced by \$2,738 in 2008, Plant in 2006 should be  
18 increased by the average of \$923, average accumulated depreciation should be increased  
19 by \$10, and Depreciation expense should be increased by \$42.

20 **Audit Finding No. 11**

21 Audit Finding No. 11 discusses moving expenses. The utility paid moving  
22 expenses for the new Division Manager. A deposit on a rental house and two months rent  
23 were paid in January 2006. The total costs for this expense report were \$3,734.21.  
24 Moving costs may not be recurring. The Commission may decide to amortize costs that  
25 are not recurring over the estimated period the new rates will be in effect which would

1 reduce expenses.

2 **Audit Finding No. 12**

3 Audit Finding No. 12 discusses substation maintenance. In its “over and above”  
4 expenses included in 2008 projected test year expenses on Schedule C-7, Operation and  
5 Maintenance Expenses, the utility included an amount for annual inspection and  
6 maintenance of the substations. The utility proposes to implement this program because  
7 lack of maintenance has caused failures. We could not determine if some of the expenses  
8 found in 2006 may not have occurred if this program had been in effect sooner. The  
9 utility did not make any allowance in its “over and above” calculation for a decrease in  
10 repairs. The Commission may decide to amortize costs that are not recurring over the  
11 estimated period the new rates will be in effect which would reduce expenses.

12 **Audit Finding No. 13**

13 Audit Finding No. 13 discusses storm reserve. Commission Order No. PSC-04-  
14 0369-AS-EI allowed for an annual increase to the storm reserve of \$121,625 with  
15 additional increases if the utility did not spend \$22,641, annually, for economic  
16 development. In 2006, the amount applied to the storm reserve was \$16,758. In its  
17 projected expenses for account 924 for 2008, the utility proposed an increase to the  
18 annual accrual to the reserve to \$203,880, plus the \$16,758 of unused economic  
19 development costs calculated in 2006. The \$16,758 should be removed as it should not  
20 be recurring in the future.

21 The utility has included \$5,000 of economic development costs in its 2006 test  
22 year which were trended up to \$5,351. It has also included an additional \$10,350 for  
23 economic development in its estimate of over and above expenses on C-7, Operation and  
24 Maintenance Expenses, for 2008 for its Fernandina division.

25 The 2008 forecast should be reduced by the \$16,758 for economic development

1 costs. The Commission may put a similar recommendation in this rate order for the new  
2 economic development forecast of \$15,701, but if the order is worded the same, costs  
3 will only go to the storm reserve if they are not expensed as planned in the economic  
4 development forecast. The new storm allowance accrual should also be reviewed for  
5 reasonableness.

6 **Audit Finding No. 14**

7 Audit Finding No. 14 discusses the medical benefit forecast. In the 2008  
8 projected expenses in C-7 for account 926.2, Employee Benefits, Medical, the utility  
9 included an 11.4% increase in its medical benefits for 2008. The utility has received a  
10 revised estimate from Cigna Health Care which indicates a 34.78% increase in 2008  
11 insurance expense. This would increase the projection from \$543,969 to \$650,336 or an  
12 increase of \$106,367

13 **Audit Finding No. 15**

14 Audit Finding No. 15 discusses overhead. The utility added several salaries in its  
15 "over and above" expense increases on C-7, Operation and Maintenance Expenses, for its  
16 2008 expense projection. The salary computations included a 37-38% overhead  
17 calculation. This calculation included vacation, holiday and sick leave which do not  
18 increase the base pay. Based on 2006 actual costs, we determined the actual 2006  
19 overhead for pension, taxes and insurance to be 30.65%. In order to reduce expenses to  
20 the actual level, I recommend that expenses for 2008 should be reduced by \$17,735.78.

21 **Audit Finding No. 16**

22 Audit Finding No. 16 discusses the allocation of clearing accounts. The utility  
23 puts several expenses in its 1840 clearing accounts. These accounts are not allocated to  
24 all divisions but instead are charged to the divisions through the payroll entry. The  
25 allocation through payroll does not allocate as much expense to non-regulated operations

1 as the regular allocation process. They are all payroll related costs. Based on the payroll  
 2 allocation used by the utility in 2006, 26% of payroll relates to propane and  
 3 merchandising and jobbing. If the payroll allocation is used, expenses allocated to  
 4 electric would decrease by \$204,264.05. Adjusting this amount for the 2007 and 2008  
 5 trending used by the utility, I recommend that expenses for 2008 should be reduced by  
 6 \$262,452.31.

7 **Audit Finding No. 17**

8 Audit Finding No. 17 compares actual 2007 costs to the 2007 forecast. We  
 9 annualized the 2007 expenses as of September 30, 2007 and compared them to the  
 10 forecast on schedule C-7 (2007), Operation and Maintenance Expenses, of the filing. The  
 11 actual annualized costs were \$488,245.33 less than the filing expenses for 2007. Many of  
 12 the differences related to accounts that had "over and above" expense adjustments. The  
 13 "over and above" expenses total \$574,896 in 2007. The only over and above amounts  
 14 that appear to have been substantially incurred were the general liability account 925.2  
 15 and the maintenance of underground lines account 594.2. The audit report includes a  
 16 schedule showing the annualized expenses, by account, compared to the forecast.

17

18 Q. Does that conclude your testimony?

19 A. Yes.

20

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## 1 SUPPLEMENTAL TESTIMONY OF KATHY L. WELCH

2 Q. Please state your name and business address.

3 A. My name is Kathy L. Welch and my business address is 3625 N.W. 82nd Ave.,  
4 Suite 400, Miami, Florida, 33166.

5

6 Q. By whom are you presently employed and in what capacity?

7 A. I am employed by the Florida Public Service Commission as a Public Utilities  
8 Supervisor in the Division of Regulatory Compliance and Consumer Assistance.

9

10 Q. How long have you been employed by the Commission?

11 A. I have been employed by the Florida Public Service Commission since June, 1979.

12

13 Q. Have you filed testimony in this docket?

14 A. I have.

15

16 Q. What is the purpose of your supplemental testimony today?

17 A. The purpose of my supplemental testimony is to address changes in the staff audit  
18 report of Florida Public Utilities Company (FPUC or Utility) which addresses the  
19 Utility's application for increase in electric rates, Audit Control Number 07-262-4-1. The  
20 audit report is filed with my earlier testimony and is identified as Exhibit KLW-2.

21

22 Q. What changes need to be made to your direct testimony?

23 A. In its response to the audit, the utility provided invoices to support the invoices  
24 listed in Audit Finding No. 1. These are also found in Exhibits CMMR-1 and CMMR-3  
25 to the Rebuttal testimony filed by Cheryl Martin.

1           In addition, based on Florida Public Utility Company's response to staff's  
2 eleventh set of interrogatories to Florida Public Utilities Company (No. 135), we are  
3 withdrawing Audit Finding No. 16. The utility has reduced regulated costs for the  
4 amounts in non-regulated payroll. The utility response showed that they made these  
5 reductions to expense directly to the division expense accounts instead of the clearing  
6 accounts. This methodology may create a difference in the allocated amounts to divisions  
7 because the utility is basing the amounts on direct payroll instead of an allocation, but  
8 does not have the material affect that we were concerned occurred in the finding. I have  
9 attached a copy of this Response to this testimony as Exhibit K LW-3.

10 Q.     Does that conclude your testimony?

11 A.     Yes.

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1 CHAIRMAN CARTER: Staff, you're recognized.

2 MS. BROWN: I think FPUC --

3 MR. HORTON: Let me join the bandwagon.

4 CHAIRMAN CARTER: Mr. Horton, you're recognized.

5 MR. HORTON: We would request that the prefiled  
6 rebuttal testimony of Ms. Doreen Cox be inserted into the  
7 record as though read and that she be excused.

8 CHAIRMAN CARTER: I thought you wanted to hold on.

9 MR. HORTON: Well, we'll go ahead and do it now.  
10 That way I won't forget it later.

11 CHAIRMAN CARTER: Is there any objection from any of  
12 the parties?

13 MS. CHRISTENSEN: No objection.

14 CHAIRMAN CARTER: Commissioners, any questions?  
15 Staff, your recommendation.

16 MS. BROWN: Yes. We recommend that the testimony and  
17 exhibits be entered into the record.

18 CHAIRMAN CARTER: Commissioner Edgar, you're  
19 recognized.

20 COMMISSIONER EDGAR: Thank you, Mr. Chairman. I  
21 would make a motion that at this time the prefiled rebuttal  
22 testimony of Witness Cox be entered into the record as though  
23 read, and Exhibits 55, 56, 57, 58 and 59.

24 COMMISSIONER SKOP: Second.

25 CHAIRMAN CARTER: All those in favor, let it be known

1 by the sign of aye.

2 (Unanimous affirmative vote.)

3 All those opposed, like sign. Show it done.

4 (Exhibits 55, 56, 57, 58 and 59 admitted into the  
5 record.)

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**REBUTTAL TESTIMONY  
OF  
DOREEN COX**

**IN**

**FLORIDA PUBLIC UTILITIES COMPANY  
DOCKET NO. 070304-EI**

**IN RE: PETITION OF  
FLORIDA PUBLIC UTILITIES COMPANY  
FOR AN ELECTRIC RATE INCREASE**

1 **Q. Please state your name and business address.**

2 A. My name is Doreen Cox, and my business address is 401 South Dixie, West Palm Beach,  
3 Florida 33401

4

5 **Q. Have you prepared and prefiled direct testimony in this Docket?**

6 A. Yes, that is correct.

7

8 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

9 A. This testimony is to provide additional testimony in support of our rate proceeding, in part,  
10 in response to the testimony provided by the Office of Public Counsel witness Dr. J.  
11 Randall Woolridge.

12

13 **Q. Please summarize Dr. Woolridge's recommendation as it pertains to cost of equity.**

14 A. Dr. Woolridge, in his testimony, recommended an equity cost rate range of 8.41% – 9.15%,  
15 based on his application of the DCF and CAPM models. Based on the riskiness of FPU  
16 relative to the group, Dr. Woolridge recommended a 9.15% equity cost rate for FPU.

17

18 **Q. How does this compare with the cost rate as filed by FPU?**

1 A. FPU has requested a return on equity of 11.50%, based on the DCF, CAPM, RP and RMR  
2 models used by our consultant, Mr. Robert Camfield in his analyses.

3

4 **Q. Why is there such a wide discrepancy between the two recommendations?**

5 A. Cost of Capital analyses and theory are a function of the assumptions, methodologies,  
6 sample size and sample group applied. Each methodology often provides a wide range of  
7 results due to the assumptions and methodologies used in estimating the required return of  
8 the company's shareholders. As stated by Dr. Woolridge in his testimony "the cost of  
9 common equity capital, however, cannot be determined precisely and must instead be  
10 estimated from market data and informed judgment. This return to the stockholder should  
11 be commensurate with returns on investments in other enterprises having comparable risks"  
12 (Dr. Woolridge's Testimony Page 18 Lines 16 – 20).

13

14 **Q. Are there means to gauge the reasonableness of a Company's estimated cost of equity  
15 capital, or required return to shareholders, given the wide spectrum of results  
16 obtained through the application of cost of capital models?**

17 A. Yes, although the cost of equity surely differs among utility companies given their capital  
18 structure, financial stability etc., return on equity levels for other utility companies provide  
19 relevant information for the Florida Commission to gauge the reasonableness of the  
20 Company's cost of equity analyses, as advanced by Mr. Camfield. Specifically, the  
21 requested return on equity by the applicants and intervening parties, and the resulting  
22 allowed return on equity by regulatory authorities recently are useful benchmarks.

23

24 **Q. How does the cost of equity estimates developed by Mr. Camfield on behalf of FPU  
25 compare to the return on equity levels, as requested by other utility companies in  
26 their applications for changes in retail electric rates?**

27 A. A survey of six recent utility rate filings show an average requested return on equity of  
28 11.67%. Two of these of those companies being granted an average of 11.13%. In

1 December 2007, Georgia Power was granted an allowed return on equity of 11.25% by the  
2 Georgia Public Service Commission. Please reference Exhibit DC-1.

3

4 **Q. How does the allowed return on equity to other electric utilities, as recently granted**  
5 **by regulatory authorities, compare to FPU's requested return on equity?**

6 A. FPU is a much smaller company than the other utilities. Because the cost of capital is a  
7 function of risk and because capital risk decreases in larger size entities, other factors  
8 constant, these survey results may systematically understate the appropriate or allowed  
9 returns for FPU.

10

11 **Q. In your view, is the cost of equity requested by FPU reasonable when compared to**  
12 **recent filings within the utility sector?**

13 A. Yes. The Public Service Commissioners in Ohio and Georgia recently approved equity  
14 returns of 11.00% and 11.25% for Duke Energy Carolinas and Georgia Power respectively.  
15 Given FPU's smaller size, the requested cost of equity of 11.50% is justified when we look  
16 at approved return on equities recently granted by other Public Service Commissions and is  
17 appropriate for use in our current rate proceeding and cost of capital structure.

18

19 **Q. What was the allowed rate of return approved in FPU's 2004 electric rate**  
20 **proceeding?**

21 A. In 2004 a cost of equity rate of 11.50% was approved by the Public Service Commission.  
22 FPU's capital structure, financial strength and riskiness have not changed in any  
23 measurable way since the last rate case. I add, however, that the market context of the  
24 Company has become somewhat more uncertain in view of events such as natural disasters,  
25 the level of regional economic activity, and the Company's input costs.

26

27 **Q. Since the Commission's decision in the Company's 2004 electric rate case proceeding,**  
28 **has FPU's realized rate of return been in the allowed range?**

1 A. No. Since our last rate proceeding FPU's rate of return has been consistently less than the  
2 allowed range. The 3<sup>rd</sup> quarter results of 2007 for the Company demonstrate a realized  
3 return level of more than 2% points below the allowed range. Exhibits DC 2 – DC 5 shows  
4 that our shareholders have not been allowed to earn a reasonable return on their investment  
5 since 2004.

6

7 **Q. Does this conclude your written prepared testimony?**

8 A. Yes

1 CHAIRMAN CARTER: Staff.

2 MS. BROWN: That, that concludes the stipulated  
3 witnesses who have been excused and their testimony. And I  
4 think at least Embarq has a request to make at this time.

5 MS. MASTERTON: Yes. If this is the appropriate  
6 time, Mr. Chairman.

7 CHAIRMAN CARTER: You're recognized.

8 MS. MASTERTON: As I said earlier, Embarq intervened  
9 in this proceeding to address only the storm hardening issues,  
10 Issues 1 through 13, and our witness has been stipulated. And  
11 what I would like to request is there's one remaining witness,  
12 Mr. Cutshaw, and I think he's the first one up to address  
13 Issues 1 through 13. And I would respectfully request that at  
14 the conclusion of his testimony, Embarq -- that I be excused  
15 from the remainder of the hearing.

16 CHAIRMAN CARTER: I don't think she likes us.

17 (Laughter.)

18 MS. MASTERTON: I like you guys. It's the rate case  
19 issues that --

20 CHAIRMAN CARTER: Okay. We'll deal with it at the  
21 end of the testimony.

22 MS. MASTERTON: Okay. Thank you.

23 CHAIRMAN CARTER: Staff?

24 MR. YOUNG: We now move to opening statements, Mr.  
25 Chairman.

1 CHAIRMAN CARTER: Let's do this, Commissioners --

2 MS. CHRISTENSEN: Commissioner, excuse me. Can I  
3 have one --

4 CHAIRMAN CARTER: Ms. Christensen, you're recognized.

5 MS. CHRISTENSEN: Thank you. I have one more  
6 preliminary matter.

7 CHAIRMAN CARTER: Let's deal with it.

8 MS. CHRISTENSEN: I had handed out an OPC composite  
9 stipulated exhibit. I'm not sure that it made it onto the  
10 Comprehensive -- yes.

11 CHAIRMAN CARTER: This one?

12 MS. CHRISTENSEN: Exactly. Which is cases from other  
13 Commission jurisdictions. I'm not sure that it made it on to  
14 the Comprehensive Exhibit List. I would ask to have it marked  
15 for identification. I think the next available slot is 91.

16 CHAIRMAN CARTER: 91.

17 MS. CHRISTENSEN: And I would ask to then have that  
18 moved into the record.

19 CHAIRMAN CARTER: Any objection from the parties?  
20 Mr. Horton?

21 MR. HORTON: Mr. Chairman, I have no question, but I  
22 think that's been identified as 26.

23 MS. CHRISTENSEN: If it has, then I apologize. I did  
24 not see it.

25 MR. HORTON: Well, I just saw it.

1 MS. CHRISTENSEN: Okay. There.

2 CHAIRMAN CARTER: Mr. Horton, you're saying that's  
3 Exhibit --

4 MS. CHRISTENSEN: 26.

5 CHAIRMAN CARTER: -- 26?

6 MS. CHRISTENSEN: Yeah. If --

7 CHAIRMAN CARTER: Let's see here. Just take a moment  
8 and look it over and make sure it's what you have in the one  
9 that you passed out this morning. Let's do this while she's  
10 doing that.

11 MS. CHRISTENSEN: Yes, it appears, it appears to be.

12 CHAIRMAN CARTER: It does?

13 MS. CHRISTENSEN: Uh-huh.

14 CHAIRMAN CARTER: Okay. Good then. So we won't  
15 need -- we'll just keep slot 91 open.

16 MS. CHRISTENSEN: Okay.

17 CHAIRMAN CARTER: Let's do this, Commissioners. What  
18 I'd like to do right now is we've just gone through a number of  
19 stipulations, a number of exhibits and all like that. Let's  
20 kind of take a minute to kind of get our notes together before  
21 we go into the opening statements. So let's just take the  
22 clock on the wall -- actually the clock on my desk says 10:08.  
23 Let's, let's do it at 10:15. So that will be seven minutes.  
24 We're on recess.

25 (Recess taken.)

1           We are back on the record with our hearing. And when  
2 we last left, we had -- Ms. Christensen, you had a motion, I  
3 believe.

4           MS. CHRISTENSEN: I just wanted to clarify. Now that  
5 I see that 26 is the OPC composite exhibit, I'm thinking that  
6 the stipulated exhibits have already been moved into the record  
7 and I just wanted to clarify that. And if not, I would just  
8 make a motion to move OPC's composite Exhibit Number 26 into  
9 the record.

10           CHAIRMAN CARTER: Okay. Any objections from any of  
11 the parties?

12           Staff, recommendation.

13           MR. YOUNG: No, objection. You can move it in.

14           CHAIRMAN CARTER: Okay. Thank you.

15           Commissioners, any objection to OPC's composite  
16 exhibit being admitted? Show it done.

17           (Exhibit 26 admitted into the record.)

18           Staff, you're recognized.

19           MR. YOUNG: I think at this time we are officially  
20 ready for opening statements.

21           CHAIRMAN CARTER: Okay. Now each party is permitted  
22 up to ten minutes. Who's on first? Mr. Horton, you're  
23 recognized, sir.

24           MR. HORTON: Thank you, Mr. Chairman.

25           Mr. Chairman, Commissioners, thank you very much. In

1 a few minutes you're going to begin hearing testimony and  
2 receiving evidence on the petition for rate relief filed by  
3 Florida Public Utilities Company. In that petition, the  
4 Commission or the company originally requested permanent relief  
5 in the amount of \$5,249,000. The decision to seek rate relief  
6 is not popular with many of our customers, nor is it one that  
7 we easily made. But for the company to continue to provide  
8 service of the quality required to the utility -- of the  
9 utility the relief is necessary.

10           The company last received a base rate increase in  
11 2004. Since that time, however, the company has not even  
12 earned at the bottom, not even achieved the bottom of its  
13 authorized return. In fact, the company requested and received  
14 interim relief in November. We've continued to operate as  
15 efficiently as possible, but, like others, we continue to face  
16 increases that raise our cost of providing service and we are  
17 continuing to increase -- facing increasing and additional  
18 costs associated with complying with regulatory requirements.

19           Many of the issues in this case have been stipulated,  
20 you just went through the process of accepting those, and you  
21 know that there remain several issues for resolution. A lot of  
22 those issues fit into some general categories, and I'm not  
23 going to touch on every issue. But as general observations,  
24 some of the, some of the categories that you're going to hear  
25 about, first of all, would be cost of capital.

1 Florida Public Utilities will present expert  
2 testimony by Robert Camfield that the appropriate return on  
3 equity for this company is 11.5 percent. This ROE with the  
4 cost rates for the other components produces an overall rate of  
5 return appropriate for the company. Establishing the  
6 appropriate ROE is critical because FPUC competes with other  
7 businesses for investment dollars, and establishing an ROE that  
8 attracts capital helps the company keep its overall costs as  
9 low as possible, thereby benefiting the customers.

10 Storm hardening issues. You've heard a lot about  
11 storm hardening, the initiatives, and specifically from us the  
12 cost of implementing those, those initiatives and the concerns  
13 that we've raised. A large part of this request, as you've  
14 recognized, was associated with some of those initiatives. We  
15 stipulated to several of those that have resulted in some of, a  
16 lot of the costs being reduced. But there remain, there remain  
17 some issues with respect to the initiatives that do carry with  
18 them a cost of implementation. We still have to perform the  
19 inspections, we still have the reports and various other  
20 compliance requirements. So there's still some expenses  
21 associated with the initiatives that remain, although we have  
22 stipulated to a large, a large amount of those costs.

23 Employees, I call it employees, but there's several  
24 of the issues that you're going to hear as we go through that  
25 relate to employees. The company has identified a need for

1 several new positions and included those costs in the test  
2 year. The need for these employees can be attributed to  
3 increased compliance requirements, internal operations,  
4 training and other issues. All but one of the positions have  
5 been filled or are being advertised. There are benefits to the  
6 customers and company with the addition of these employees.

7 First of all, the company does not have a large staff  
8 to begin with, and these positions will take on many of the  
9 responsibilities that would have been added to existing  
10 personnel, are simply issues that we wouldn't have been able to  
11 address.

12 Second, the level of controls, reporting, reports  
13 that are going to be required by Sarbanes-Oxley and other laws  
14 and regulations have and will be increasing. Adding these  
15 positions enables us or helps us to become more efficient.

16 Also, you're going to hear about some salary  
17 increases. The company has modified the salary ranges for a  
18 number of employees in an effort to maintain a competitive  
19 place in attracting and maintaining employees. A stable work  
20 force reduces training and transition expenses associated with  
21 new hires and offers efficiencies that develop as employees  
22 work with each other over a period of time.

23 One area that's going to be a little bit more  
24 emotional than substantive will be with respect to executive  
25 salaries. Although the company officers have responsibilities

1 to the company, customers and investors at least equal to  
2 similar-sized corporations and utilities, they've not been  
3 fairly compensated. Every employee, every employee is  
4 important to the company. The salary survey, the position  
5 review which we undertook would not have been undertaken if  
6 those employees weren't important and valuable to us. But the  
7 responsibility for the operation of FPUC lies with the  
8 executives, and they too have a value to the business which  
9 should be recognized.

10 Training is another area that's, that's going to be  
11 discussed. Florida Public Utilities will begin training its  
12 linemen. Now their linemen have been trained, but we've had  
13 other arrangements that have enabled us to get our linemen and  
14 personnel trained. These men and women are the ones who keep  
15 the electricity flowing and it's important that they be  
16 properly trained. In the past, we were able to have this done  
17 through other resources. Those are no longer available to us.  
18 And the company has studied some options and we have a plan to  
19 conduct that training with our personnel.

20 Training is not an area that can be shortchanged.  
21 Like I said, it's these men and women that keep the electricity  
22 flowing, and I think it's very important that they be properly  
23 trained, and we have a program and a plan in place to do that.

24 During this hearing you're going to -- you've read  
25 and you will, you will hear more that we've not met our burden

1 or that we've not given parties information that they, that  
2 they wanted, and that's simply not the case. We have support  
3 for what we requested. We submitted our minimum filing  
4 requirements, we've been audited by the staff, our witnesses  
5 have been deposed, we have responded to over 200, probably  
6 close to 300 interrogatories and POD requests. We have a basis  
7 for what, for what we seek. We may not be as detailed and  
8 sophisticated with responses as some larger-staffed companies  
9 are, but we've provided information supportive of our request.  
10 And we know you're going to listen to the testimony and the  
11 evidence and we know that when you review that which we have  
12 provided, you will see that we have indeed presented support  
13 and explanation for all of our requests sufficient to approve  
14 the petition. Thank you.

15 CHAIRMAN CARTER: Excellent. Right in at seven  
16 minutes. Perfect timing.

17 Ms. Keating, are you up next? Ms. Keating or --

18 MR. KONUCH: Florida Cable waives its opening  
19 statement.

20 CHAIRMAN CARTER: You're recognized. You waive your  
21 opening?

22 MR. KONUCH: We waive our opening.

23 CHAIRMAN CARTER: Even -- good timing. Mr. Hatch.

24 MR. HATCH: AT&T Florida waives its opening statement.

25 CHAIRMAN CARTER: Excellent. Ms. Masterton.

1 MR. MARKS: Embargo also waives its opening statement.

2 CHAIRMAN CARTER: Okay. Save the best for last,  
3 don't we?

4 MS. CHRISTENSEN: You're doing so well, but.

5 CHAIRMAN CARTER: You're recognized, Ms. Christensen.

6 MS. CHRISTENSEN: Good morning, Commissioners. My  
7 name is Patty Christensen and I'm an attorney with Office of  
8 Public Counsel.

9 As you're aware, we're here today to address Florida  
10 Public's request for a rate increase of approximately  
11 \$5.2 million. Citizens have spent a great deal of time and  
12 effort reviewing FPUC's request, as evidenced by our composite  
13 exhibit here. We have examined their minimum filing  
14 requirements, their responses to the discovery and the  
15 depositions in this case. And based on our review, we have  
16 found that FPU's request has been overstated and we think  
17 that's probably by approximately \$3 million.

18 Now we've had some fruitful negotiations with FPU and  
19 have been able to settle a good number of issues, as evidenced  
20 by our discussions here today on the Stipulated Exhibits List.

21 As you can see in your Prehearing Order, and we have  
22 resolved some tough issues such as those relating to the storm  
23 hardening. And, in particular, we note that we resolved the  
24 tree trimming issue which had some significant dollars attached  
25 to that, as well as the request to replace wood poles with

1 concrete poles, which had originally some significant dollars  
2 attached to that.

3 With that said, we have not been able to resolve all  
4 the issues and there are still some hard issues before you  
5 today.

6 Dr. Woolridge is here to testify. And as he's  
7 testified in his prefiled testimony and as you will hear again  
8 today, the appropriate ROE for FPU is 9.15 percent with an  
9 overall ROE of 7.09 percent. Now FPU has asked for  
10 11.5 percent ROE, which is overstated. Now this is primarily  
11 due to Mr. Camfield's approach for the Capital Asset Pricing  
12 Model, Risk Premia and Realized Market Returns Model. His  
13 approaches rely on risk premia derived from historical stocks  
14 and bond returns. And since the use of historical data is  
15 subject to a myriad of empirical errors, it serves to inflate  
16 the equity risk premium. Thus, Mr. Camfield's equity risk  
17 premiums are not in line with advanced academic studies,  
18 leading investment banks and management consulting firms and  
19 surveys of financial forecasters and corporate CFOs.

20 As Dr. Woolridge testifies, utilizing the  
21 appropriately weighted DCF and CAPM approaches results in a  
22 9.15 percent ROE for FPU. This result is in line with today's  
23 expected returns. Further, Mr. Camfield in his testimony tied  
24 the short-term debit rate to the federal fund rate. The  
25 federal fund rate has dropped significantly since the time

1 testimony has been filed in this case. The short-term debit  
2 rate should reflect today's current rate, which may result in a  
3 slightly lower ROE.

4 In addition, we have numerous other adjustments to  
5 the storm hardening rate base and net operating income issues.  
6 In Citizens' prefiled testimony, we adjust all of our  
7 adjustments in detail. Today we'll only highlight some of our  
8 adjustments such as FPU's request for a full year's inclusion  
9 of a transformer that's not yet in service, FPU's requested  
10 cash for working capital, FPU's request to deviate from the use  
11 of a 13-month average for cost of capital, FPU's request for  
12 additional positions and FPU's requested increase for its storm  
13 accrual.

14 Based on all of our adjustments and the recommended  
15 capital structure, FPU's request for an increase will be  
16 reduced significantly. Given that FPU's customers have  
17 recently experienced significant increases due to the new fuel  
18 contracts, the customers do not need any additional increases  
19 unless those are absolutely necessary. And we would ask that  
20 the Commission reduce FPU's increase in accordance with the  
21 adjustments outlined in the prefiled testimonies of Citizens'  
22 witnesses, Hugh Larkin, Dr. Randy Woolridge and Tricia  
23 Merchant. Thank you.

24 CHAIRMAN CARTER: Thank you so kindly.

25 Staff, are there any other preliminary matters before

1 we proceed?

2 MR. YOUNG: Yes, Mr. Chairman.

3 CHAIRMAN CARTER: You're recognized.

4 MR. YOUNG: Mr. Chairman, earlier staff asked that  
5 you mark Exhibits 1, 2 and 3. At this time, staff asks that  
6 those exhibits be entered into the record.

7 CHAIRMAN CARTER: Okay. Any objection from any of  
8 the parties?

9 Commissioners? Show it done.

10 MR. YOUNG: Thank you.

11 (Exhibits 1, 2 and 3 admitted into the record.)

12 CHAIRMAN CARTER: Okay. Are we ready to proceed now?

13 MR. YOUNG: Yes, sir.

14 CHAIRMAN CARTER: Okay. Then, Mr. Horton, I believe  
15 you're up.

16 MR. HORTON: Yes, sir. And I'd like to call Mr. Mark  
17 Cutshaw, if I may. And Mr. Cutshaw is appearing now with  
18 respect to the Storm Hardening Plan and the initiatives.

19 MR. YOUNG: Mr. Chairman?

20 CHAIRMAN CARTER: Let's do this. Are all the  
21 witnesses here inside the room? We could maybe do it in one,  
22 one fell swoop.

23 MS. CHRISTENSEN: All of our witnesses are.

24 CHAIRMAN CARTER: Okay. Will all the witnesses that  
25 are going to testify, would you please stand so I can

1 administer the oath? And we'll just take it at one time and be  
2 all one big, happy family. Excellent. Would you raise your  
3 right hand?

4 (Witnesses collectively sworn.)

5 Thank you. You may be seated.

6 Mr. Horton, you're up.

7 MR. HORTON: Mr. Chairman, preliminarily I wonder if  
8 the parties could lower the stacks so I could see my witness.  
9 Your's are fine. Thank you.

10 CHAIRMAN CARTER: It's called psychological warfare.

11 (Laughter.)

12 MR. HORTON: Thank you. Your's are all right.

13 MS. CHRISTENSEN: Is that sufficient? Is that good  
14 enough?

15 MR. HORTON: That's fine. Thank you very much.

16 We've probably seen more of each other lately than we want to,  
17 but.

18 P. MARK CUTSHAW

19 was called as a witness on behalf of Florida Public Utilities  
20 Company and, having been duly sworn, testified as follows:

21 DIRECT EXAMINATION

22 BY MR. HORTON:

23 Q Could you state your name and address for the record,  
24 please, sir.

25 A My name is Mark Cutshaw. I work for Florida Public

1 Utilities Company. My address is 911 South 8th Street,  
2 Fernandina Beach, Florida, 32034.

3 Q Mr. Cutshaw, in the 070300 docket, which is the storm  
4 plan approval docket, did you cause to be prefiled direct  
5 testimony consisting of 16 pages?

6 A Yes, I did.

7 Q Do you have any changes or corrections to make to  
8 that testimony at this time?

9 A There are no changes in the testimony. But I would  
10 mention that there have been some modifications to the storm  
11 plan based on some discussions we had in this proceeding.

12 MR. HORTON: Okay. I'm going to get back to that in  
13 a second. But, Mr. Chairman, with, with that, I would request  
14 that Mr. Cutshaw's prefiled direct testimony be inserted into  
15 the record as though read.

16 CHAIRMAN CARTER: The prefiled testimony will be  
17 entered into the record as though read.

18 BY MR. HORTON:

19 Q Mr. Cutshaw, you did not have any exhibits attached  
20 to that testimony, did you?

21 A No, I did not.

22 Q All right. In that docket did you cause to be filed  
23 the company's Storm Hardening Plan as required by Commission  
24 Rule 25-6.0342?

25 A Yes, I did.

1 MR. HORTON: Mr. Chairman, I previously passed out a  
2 copy of the Storm Hardening Plan as well as the revisions to  
3 that plan which we have proposed as a result of the  
4 stipulations. And I'd like to, if I could, have that marked as  
5 an exhibit, which would be 91.

6 CHAIRMAN CARTER: Do all the parties have --  
7 Ms. Christensen, do you have this?

8 MS. CHRISTENSEN: Yes.

9 CHAIRMAN CARTER: Staff? Show it done. This will be  
10 Exhibit Number 91.

11 (Exhibit 91 marked for identification.)

12 Could we have a title?

13 MR. HORTON: I'm sorry, sir?

14 CHAIRMAN CARTER: Give us a title for it.

15 MR. HORTON: Storm Hardening Plan Revisions.

16 CHAIRMAN CARTER: Okay. Storm Hardening Plan  
17 Revisions. Okay.

18 BY MR. HORTON:

19 Q Now, Mr. Cutshaw, the plan that's filed contains both  
20 the 10 Point Initiative Plan and the responses to the  
21 requirements of the Commission rule, do they not?

22 A Yes, they do.

23 Q And other than the changes -- I believe you indicated  
24 that there have been some changes to the plan necessitated by  
25 the stipulations; is that correct?

1           A     That's correct.

2           Q     Would you have any other changes to offer to the  
3 Storm Hardening Plan at this time?

4           A     There are no additional changes.

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**DIRECT TESTIMONY  
OF  
P. MARK CUTSHAW**

**IN**

**FLORIDA PUBLIC UTILITIES COMPANY  
DOCKET NO. 70300-EI**

**IN RE: FLORIDA PUBLIC UTILITIES COMPANY  
STORM HARDENING PLAN FOR THE  
YEARS 2007 -2009**

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

3    A. Witness Cutshaw: My name is P. Mark Cutshaw. I am the General  
4    Manager, Northeast Florida for Florida Public Utilities Company (FPU). My  
5    business office address is 911 South 8th Street, Fernandina Beach, Florida  
6    32034. I joined FPUC in May 1991 as Division Manager in the Marianna  
7    (Northwest Florida) Division. In January 2006, I moved into my current  
8    position of General Manager in our Northeast Florida Division. I graduated  
9    from Auburn University in 1982 with a B.S. in Electrical Engineering and  
10    began my career with Mississippi Power Company in June 1982. While at  
11    Mississippi Power Company I held positions of increasing responsibility that  
12    involved budgeting, operations and maintenance activities at different company  
13    locations. My work experience at FPUC includes all aspects of budgeting,  
14    customer service, operations and maintenance in both the Northeast and  
15    Northwest Florida Divisions. In 1993, I participated in the Cost of Service  
16    study for the Marianna Division Rate Case Filing and testified during the

1 proceeding. I also participated in the 2003 rate case filing that consolidated the  
2 rates for both divisions. I have also been involved with other filings, audits and  
3 data requests before the FPSC.

4 **Q. Are you also familiar with the operations and management of the**  
5 **Northeast and Northwest Florida divisions?**

6 A. Yes. As General Manager and having worked in both divisions, I am  
7 familiar with all aspects of the operations and management. I have also been  
8 responsible for collecting the information necessary to file this plan.

9 **Q. What is the purpose of your testimony in this proceeding?**

10 A. I will cover the Company's Storm Hardening Plan for the years 2007  
11 through 2009 as filed July 3, 2007.

12 **Q. Please describe your service area and the customers that will be impacted**  
13 **by this plan.**

14 A. The service area is divided into the Northeast and Northwest Florida  
15 Divisions with a total of approximately 28,000 customers. The Northeast  
16 Florida Division is located in Nassau County with the service area being  
17 confined to Amelia Island. The Northwest Florida Division is located in  
18 portions of Jackson, Calhoun and Liberty Counties with the majority of the  
19 customer base being located in Jackson County.

20 **Q. Please summarize the Company's Storm Hardening Plan and the proposed**  
21 **amendment regarding Vegetation Management.**

22 A. The Company's Storm Hardening Plan is comprise of seven sections that  
23 address the following items. It should also be noted that a Petition for

1 Amendment was filed to modify the initially proposed Vegetation Management  
2 Plan as described below.

3 Section 1.0 is the Wood Pole Inspection Plan that involves the inspection along  
4 with strength and loading assessments of all wood distribution poles on an eight  
5 year cycle.

6 Section 2.0 is the Ten Part Storm Preparedness Plan which includes the  
7 following.

8 Section 2.1 is the Vegetation Management Plan which includes a three year  
9 trim cycle on all main feeders and a six year trim cycle on all laterals. The  
10 plan also addresses the collection of data for the program, a hazard tree  
11 program and transmission line program.

12 Section 2.2 is the Joint-use Pole Attachment Audit which involves an audit  
13 of all attachments in order to determine the number of attachments and a  
14 general assessment of the attachments. The strength and loading  
15 assessments will not occur during this inspection but will occur during the  
16 pole inspection program.

17 Section 2.3 is the Inspection of Transmission Structures which includes a  
18 detailed inspection of all 138 KV and 69 KV transmission lines and  
19 substations. The inspection will ensure all facilities are inspected on a six  
20 year cycle.

21 Section 2.4 is the Storm Hardening Activities for Transmission Structures  
22 which includes schedule to replace all wood 69 KV structures with  
23 concrete. The initial plan included a fifteen year replacement for these

1 structures. However, in Docket #070304-EI, it has been proposed to  
2 extend this to a twenty year schedule.

3 Section 2.5 is the completion of the Geographic Information System in  
4 both divisions.

5 Section 2.6 is the Post Storm Data Collection and Forensic Analysis which  
6 include the development of the program and the collection data from  
7 forensic analysis after any major storm event.

8 Section 2.7 is the collection of Outage Data for Overhead and Underground  
9 Systems.

10 Section 2.8 is the Coordination with Local Governments which includes an  
11 increased level of interaction with local governments during storm events  
12 as well as discussions on vegetation management and undergrounding  
13 issues.

14 Section 2.9 is the Collaborative Research which includes involvement with  
15 storm hardening research with other utilities and the Public Utility  
16 Research Center at the University of Florida.

17 Section 2.10 is the Disaster Preparedness and Recovery Plan.

18 Section 3.0 is the Compliance with NESC Overhead Requirements which  
19 addresses the level at which all FPU facilities will meet or exceed the  
20 NESC requirements. This section also addresses the plan for incorporating  
21 the Extreme Wind Loading Standards for facilities along major highways  
22 or providing service to critical infrastructure.

1           Section 4.0 is the Mitigation of Damage Due to Storm Surge and Flooding  
2           which includes plans to address these issues when practical and cost  
3           effective.

4           Section 5.0 is the Placement of New and Replacement Facilities which  
5           requires that all new facilities will be placed on public rights of way or  
6           private easements that are readily accessible and provide for safe and  
7           efficient work space.

8           Section 6.0 is the Deployment Strategy and includes the following.

9           Section 6.1 is the Description of Facilities Affected which includes the  
10          proposed methods for deployment of many of the items included in the  
11          storm hardening plan. The detailed specifications have yet to be developed  
12          and are contingent upon the final resolution of the Rate Proceeding in  
13          Docket #070304.

14          Section 6.2 addresses the deployment within the Communities and Areas  
15          Affected by Electric Infrastructure Improvements.

16          Section 6.3 addresses the Upgrading of Joint Use Facilities and identifies  
17          the proposed projects that will impact third party attachers.

18          Section 6.4 addresses the Estimated Cost and Benefits for the projects  
19          included in the plan. This includes the cost of projects but does not include  
20          the benefits analysis due to a lack of data needed to support the  
21          assumptions.

22          Section 7.0 is the Joint Use Impact associated with the Storm Hardening  
23          Plan and includes the following.

1           Section 7.1 is the Wood Pole Inspections which addresses the process for  
2           determining how the inspection process will occur.

3           Section 7.2 is the Joint Use Audit program.

4           Section 7.3 is the Attachment Standards and Procedures which allows the  
5           continuation of the current contracts with third party attachers.

6           Section 7.4 is Soliciting Input from Third Party Attachers.

7           Section 7.5 is the Estimate of Costs and Benefits from Third Party  
8           Attachers.

9    **Q. What impact will this plan have on the continuing operations of the**  
10   **Company**

11           A. During the informal workshops as the storm hardening plans were being  
12           developed, the Company indicated a willingness to address these issues but also  
13           indicated the negative financial impact these would have on the Company. On  
14           September 20, 2006 in Docket #060638-EI the Company filed a petition to  
15           allow cost recovery of storm preparedness initiatives through a storm surcharge.  
16           The docket also offered other options to address the financial impact this would  
17           have on the Company. As of this date, the docket remains open and  
18           unresolved. On April 27, 2007, Docket #070304-EI was filed on behalf of the  
19           Company, in part, to address the financial implications of the Storm Hardening  
20           Plan. The storm hardening costs are included in this filing and result in a  
21           significant part of the rate increase requested.

22    **Q. Will the final resolution of Docket #070304 have an impact on the**  
23    **Company's Storm Hardening Plan?**

1 A. Yes. Based upon the final order issued in Docket #070304-EI,  
2 modifications may be necessary to the Company's Storm Hardening Plan.

3 **Q. Please describe the basis for the contents of the Storm Hardening Plan.**

4 A. The hurricane activities during the 2004 and 2005 storm seasons were  
5 considered during the development of the Storm Hardening Plan. Experiences  
6 from previous hurricanes were also included in the development. Management  
7 experience in analyzing the damage concluded that the majority of the damages  
8 were from tornadoes, wind blown debris and trees. From this it was determined  
9 that the Vegetation Management program was the key to addressing the  
10 majority of the outages. Undergrounding was also a consideration in that fact  
11 that this could be used to mitigate problems with tornadoes, wind blown debris  
12 and trees. The majority of new construction is now underground but the large  
13 investment in overhead construction makes the conversion to underground very  
14 costly and does not appear to be cost effective at this time. Concerns also exist  
15 regarding undergrounding in coastal areas that are subject to storm surges as  
16 well as the overall operational issues that extend outages times significantly  
17 during the routine operation of these underground systems.

18 The company has attempted to address all aspects of the Storm Hardening and  
19 Pole Inspection requirements in the Storm Hardening Plan. However, based  
20 upon a limited amount of data in some areas, the cost effectiveness can not be  
21 provided without assumptions based upon management experience and have not  
22 been included. Included in the plan are the following items that will be the most  
23 effective improving the overall storm preparedness and reducing outages times.

1        Vegetation Management – The Company has recognized for many years that  
2        tree contact has resulted in a significant amount of customer outages. During  
3        the previous two rate proceedings, the Company has requested but was denied  
4        increasing vegetation management activities to the level needed to have an  
5        impact on these outages and improve service to our customers. The three year  
6        main feeder trim cycle and six year lateral trim cycle combined with a danger  
7        tree program will have a positive impact on reducing outages.

8        Wood Pole Inspections – The pole inspections included in the storm hardening  
9        plan will provide some additional benefits over and above the current inspection  
10       program. The major benefit is a more detailed inspection of the pole which will  
11       include sounding, boring, excavation and re-treatment of the pole which will  
12       identify decayed pole issues. Also, the strength and loading assessment will  
13       identify those poles that may not be adequate to support all attachments in  
14       accordance with the NESC requirements. The strength and loading assessment  
15       is not being performed in the current inspection program.

16       Inspection of Transmission Facilities – This program will provide additional  
17       detail to the current inspection program for all transmission facilities. The  
18       inspection will allow for detailed, hands on inspection of all transmission and  
19       substation facilities to ensure the integrity of the system during storm events.

20       Storm Hardening Activities for Transmission Structures – A February 20, 2006  
21       letter from the FPSC recommended that “each investor owned utility should be  
22       required to prepare and file plans implementing a program that replaces existing  
23       wood transmission structures with steel and concrete construction by a certain

1 date". The plan was developed and submitted that would replace wood poles  
2 with concrete over 15 year period which was modified in the rate proceeding to  
3 20 years in order to decrease the revenue requirements for this plan. Although  
4 the wood poles in place meet the NESC requirements, the plan was developed  
5 to address the issues prior to reaching the end of the life expectancy of the poles  
6 and to eliminate the possibility of future damage to the poles caused by  
7 woodpeckers.

8 All other initiatives we included and could provide some benefits to reducing  
9 outages and decreasing restoration times. Additional information on each of  
10 them is included in the Storm Hardening Plan.

11 **Q. To what extent has the Company incorporated the NESC criteria into the**  
12 **Storm Hardening Plan.**

13 A. All Company transmission and distribution facilities were originally  
14 designed to meet or exceed the NESC criteria. The specifications used have  
15 included Grade B and Grade C construction standards and are based on the  
16 location and the type facilities. In the Northeast Florida Division Grade B  
17 construction has been used for many years due to the coastal location. In the  
18 Northwest Florida Division Grade C has been used in some instances with  
19 Grade B construction being used for rebuilding of feeders.

20 **Q. To what extent has the Extreme Wind Loading Criteria been incorporated**  
21 **into the Storm Hardening Plan?**

1 A. The Storm Hardening Plan includes the following projects that were  
 2 proposed to include the Extreme Wind loading criteria. These projects include  
 3 the rebuilding of main feeders providing service to critical infrastructure.

| 4 | <u>2007</u> | <u>Division</u> | <u>Critical Load</u> | <u>Feeder</u> | <u>Miles</u> | <u>Estimated</u> |
|---|-------------|-----------------|----------------------|---------------|--------------|------------------|
| 5 |             |                 |                      |               |              | <u>Cost</u>      |
| 6 |             | Northwest       | Prison/H.S. Shelter  | #9932         | 0.5          | \$62,500         |

| 8  | <u>2008</u> | <u>Division</u> | <u>Critical Load</u> | <u>Feeder</u> | <u>Miles</u> | <u>Estimated</u> |
|----|-------------|-----------------|----------------------|---------------|--------------|------------------|
| 9  |             |                 |                      |               |              | <u>Cost</u>      |
| 10 |             | Northwest       | Sewer Treatment      | #9992         | 1.1          | \$141,600        |
| 11 |             | Northeast       | Hospital             | #209          | 1.2          | \$154,500        |

| 13 | <u>2009</u> | <u>Division</u> | <u>Critical Load</u> | <u>Feeder</u> | <u>Miles</u> | <u>Estimated</u> |
|----|-------------|-----------------|----------------------|---------------|--------------|------------------|
| 14 |             |                 |                      |               |              | <u>Cost</u>      |
| 15 |             | Northwest       | Prison/H.S. Shelter  | #9932         | 3.2          | \$424,360        |
| 16 |             | Northeast       | Sewer Treatment      | #214          | 0.6          | \$79,600         |

17 Each of these projects will be evaluated when complete to determine the  
 18 effectiveness of the construction methods and associated costs. These will be  
 19 further evaluated when exposed to storm conditions to determine the overall  
 20 performance compared to standard construction techniques. Based on the  
 21 results of the final evaluation, additional projects may be proposed.

22 **Q. Will the Extreme Wing Loading criteria be used for all construction**  
 23 **activities?**

1 A. No. The Company will use the projects listed above to perform a  
2 comparative analysis to other facilities constructed under existing specifications.  
3 Future reliability and forensic analysis results will provide the data and  
4 information needed to make a determination on the overall effectiveness of  
5 utilizing the Extreme Wind Loading criteria for distribution facilities. Past  
6 experience during storm events indicates that tornadoes, wind blown debris and  
7 trees result in the majority of the outages and that straight line winds associated  
8 with storms has not resulted in any significant damage to poles. In these cases,  
9 it does not appear that the EWL criteria will have any effect on reducing these  
10 types of outages.

11 **Q. To what extent has the Company incorporated construction standards that**  
12 **are designed to mitigate damage resulting from flooding and storm surges?**

13 A. The Company is continuing to analyze and develop specifications that are  
14 designed to mitigate damage from flooding and storm surges. The details of  
15 these efforts are included in the Storm Hardening Plan. Transmission and  
16 underground facilities are being installed in such a manner that the impact due  
17 to storm surges and flooding should be minimal. The primary objective in the  
18 Northeast Florida Division is to protect the underground facilities by installing  
19 more secure pad mounted equipment and installing all conductors in conduit.

20 **Q. To what extent has the Company incorporated the placement of new and**  
21 **replacement facilities that allow for safe and efficient access for the**  
22 **installation and maintenance of those facilities?**

1 A. All new facilities will be located on public rights of way or private  
2 easements that allow for safe and efficient access. Although the vast majority  
3 of all Company facilities are located on public rights of way or private  
4 easements, those facilities that are not easily accessible will be addressed when  
5 practical and cost effective.

6 **Q. To what extent has the Company included a description of its deployment**  
7 **strategy and facilities affected including design specifications, construction**  
8 **specification and methodologies.**

9 A. The Company has included a deployment strategy in Section 6.1 of the  
10 Storm Hardening Plan that includes an implementation date on or before May  
11 2008. The intent is to follow the deployment strategy, however, as previously  
12 mentioned; the final resolution of Docket #070304 will have an impact actual  
13 implementation of the program and on the actual date of deployment.

14 **Q. To what extent has the Company included a detailed description of the**  
15 **communities and areas where electric infrastructure improvements will**  
16 **occur on facilities to critical infrastructure and along major thoroughfares?**

17 A. The Company has included this information in Section 6.2 of the Storm  
18 Hardening Plan. The plans include initiatives that will occur within all areas of  
19 the company service territory.

20 **Q. Has the Company provided a reasonable estimate of the costs and benefits**  
21 **of making electric infrastructure improvements including the effect on**  
22 **reducing storm restoration costs and customer outages?**

1 A. The Company has identified the estimates of costs associated with the  
2 making electric infrastructure improvements. These costs are included in  
3 Section 3.4 and Section 6.4 of the plan. The benefits analysis has not been  
4 completed due to the lack of verifiable data necessary to prepare this analysis.

5 **Q. Has the Company addressed the extent to which electric infrastructure**  
6 **improvements involve joint use facilities on which third party attachments**  
7 **exists.**

8 A. The Company has included impact to joint use facilities in Section 6.3 and  
9 Section 7.1 of the Storm Hardening Plan. The plan includes information on  
10 feeder upgrades that incorporate the extreme wind loading and the joint use  
11 poles that will be replaced as a result of the wood pole inspection program.

12 **Q. Has the Company solicited input from third party attachers.**

13 A. The storm hardening plan has been provided to all third party attachers and  
14 input has been received regarding the plan. The Company will continue to  
15 communicate with and seek input from all third party attachers during this  
16 process in order to develop effective joint use attachment procedures and  
17 address issues that arise during the discussions.

18 **Q. Has the Company provided an estimate of the cost and benefits obtained to**  
19 **third party attachers affected by the electric infrastructure improvements**  
20 **include the effect on reducing storm restoration cost and customer outages**  
21 **realized by third party attachers?**

22 A. Information regarding cost and benefits to third party attachers was not  
23 included in the plan as the information was available at the time of filing.

1 Information has been received from Embarq which details the cost associated  
2 with the Storm Hardening Plan. The benefits associated with these could not be  
3 determined at this time. No other cost and benefit information was obtained for  
4 other third party attachers.

5 **Q. Has the Company included written Attachment Standards and Procedures**  
6 **addressing safety, reliability, pole loading capacity and engineering**  
7 **standards and procedures for third party attachments to the transmission**  
8 **and distribution systems?**

9 A. The Company currently has contacts with all third party attachers that  
10 include the attachment standards and procedures. These contracts do not cover  
11 certain issues regarding pole loading capacity and overlashing. These standards  
12 will be developed and negotiated into new contracts that will cover these issues  
13 and other issues related to storm hardening. These requirements will be  
14 dependant upon the final approval of the Storm Hardening Plan in Docket  
15 #070300-EI and Rate Proceeding in Docket #070304-EI.

16 **Q. Do the Company's attachment standards and procedures meet or exceed**  
17 **the 2007 NESC requirements.**

18 A. Yes. The standards and procedures have been in use by all parties for  
19 many years.

20 **Q. Is the Company proposing any changes to the attachment standards and**  
21 **procedures?**

22 A. No. At this time the existing contracts will continue to guide the  
23 installation of any new attachments. Any future changes will be negotiated and

1 dependant upon the final approval of the Storm Hardening Plan in Docket  
2 #070300-EI and Rate Proceeding in Docket #070304-EI.

3 **Q. What experience has the Company had with third party attachers**  
4 **overlashing new cable to existing cable or messenger wire and will this**  
5 **require any changes to the standards and procedures.**

6 A. The Company has very few cases in which overlashing has occurred within  
7 the service area and none have occurred recently. At this time, there will be no  
8 changes to the current contracts regarding this issue but will be considered  
9 during future negotiations. However, should this occur, the additional size of  
10 the cable will be considered in the pole loading calculations in order to ensure  
11 the pole is capable of meeting the additional loading requirements. If the  
12 overlashing causes an overloading condition on the pole, the contract language  
13 will address whether or not any direct cost will be the responsibility of the third  
14 party attacher.

15 **Q. Does this plan meet the desired objectives of enhancing reliability and**  
16 **reducing costs and outage time in a prudent, practical and cost effective**  
17 **manner?**

18 A. As described above, management experience indicates that the objectives  
19 of this plan will enhance reliability and reduce outage cost in a practical,  
20 prudent and cost effective manner. However, the prudence and cost  
21 effectiveness of the plans can not be measured by verifiable data at this time.

22 Based upon past experience, tornadoes, wind blown debris and tree contact have  
23 resulted in the majority of the storm related outages and many of the initiatives,

1 with the exception of vegetation management, will not address these specific  
2 issues. The other programs included in the Storm Hardening Plan will provide  
3 for improvement in aspects of storm and routine operations and will enhance the  
4 overall reliability and reduce outage times.

5 It should also be noted that the Company has not experienced severe storm  
6 conditions that are realistically possible based upon the location of the service  
7 territory. Should this occur additional data may be available to provide the cost  
8 benefit data for all the initiatives.

9 **Q. In what manner will the Company continue to evaluate the effectiveness of**  
10 **the Storm Hardening Plan.**

11 A. The Company will continue to comply, as possible, with all the data  
12 collection requested by the FPSC which will allow a more detailed analysis in  
13 the future. This data covers all aspects of the storm hardening initiatives which  
14 will allow more specific analysis on all initiatives.

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

16 A. Yes.

1 BY MR. HORTON:

2 Q All right. Do you have a summary of your testimony?

3 A Yes, I do.

4 Good morning, Commissioners. My direct testimony  
5 addresses the company's Storm Hardening Plan for the years 2007  
6 through 2009 as filed on July 3rd, 2007. Also included in the  
7 testimony are the proposed amendments for the Vegetation  
8 Management Plan as filed on October 10th, 2007.

9 The testimony summarizes the Storm Hardening Plan,  
10 which includes the Wood Pole Inspection Plan, the 10 Point  
11 Storm Preparedness Initiatives, compliance with the NESC  
12 overhead requirements, mitigation of damage due to storm surge  
13 and flooding, placement of new and replacement facilities,  
14 deployment strategy and joint use impacts. The testimony also  
15 outlines the steps the company has taken to address the  
16 financial impacts that the Storm Hardening Plan will have on  
17 the company.

18 During the initial stages of the development of the  
19 Storm Hardening Plan it was evident that the initiatives and  
20 the storm hardening projects would have a financial impact on  
21 the company. Initially the company filed a petition to allow  
22 cost recovery through a storm surcharge. However, on April the  
23 27th, 2007, in this docket the company filed a rate proceeding  
24 to address the incremental costs associated with the storm  
25 plan. This concludes my summary.

1 MR. HORTON: Mr. Cutshaw is available.

2 CHAIRMAN CARTER: Okay. Ms. Christensen -- well, any  
3 other -- Ms. Christensen, you're recognized.

4 MS. CHRISTENSEN: I have no cross for this witness on  
5 Issues 1 through 13, which I believe is what he's testifying  
6 regarding now.

7 MS. BROWN: That's correct, Mr. Chairman.  
8 Mr. Cutshaw will appear later on the rate case issues. This is  
9 primarily on the storm hardening issues, and staff has no  
10 questions either.

11 CHAIRMAN CARTER: Okay. So this is basically a cameo  
12 for right now.

13 THE WITNESS: Thank you very much.

14 MS. CHRISTENSEN: Something like that.

15 CHAIRMAN CARTER: Okay. Mr. Horton.

16 MR. HORTON: I have no redirect.

17 CHAIRMAN CARTER: Do you want to --

18 MR. HORTON: And I would, I would move Exhibit 91.

19 CHAIRMAN CARTER: Okay. Any objection from any of  
20 the parties on Exhibit 91?

21 MS. CHRISTENSEN: No. No.

22 MR. KONUCH: No objections.

23 CHAIRMAN CARTER: Hearing none, show it done.

24 (Exhibit 91 admitted into the record.)

25 Mr. Cutshaw, don't leave town. You're temporarily

1 excused.

2 THE WITNESS: Thank you, sir.

3 CHAIRMAN CARTER: Call your next witness.

4 MS. MASTERTON: Mr. Chairman?

5 CHAIRMAN CARTER: Yes, ma'am, Ms. Masterton.

6 MS. MASTERTON: Is this the appropriate time, now  
7 that the storm hardening issues have been completed, for Embarg  
8 to respectfully but regrettably, regretfully ask to be excused  
9 from the remainder of the hearing?

10 CHAIRMAN CARTER: Let me, let me see what staff says  
11 and the rest of the parties. You know, they might want you to  
12 stay around.

13 (Laughter.)

14 MS. MASTERTON: Okay.

15 CHAIRMAN CARTER: Stay. Do you really want to go?  
16 Any objection from any of the parties?

17 MS. CHRISTENSEN: No.

18 CHAIRMAN CARTER: Staff, your recommendation.

19 MS. BROWN: She can go.

20 (Laughter.)

21 CHAIRMAN CARTER: I'm not feeling the love here,  
22 Ms. Masterton.

23 MS. MASTERTON: Well, it's just that we didn't take a  
24 position on the remainder of the issues, so I believe that  
25 forecloses us from really participating in the remainder of the

1 hearing and, therefore, would like to be excused. And I  
2 appreciate it.

3 CHAIRMAN CARTER: Do you think we've tortured her  
4 enough, Commissioners? Okay. You're excused.

5 MS. MASTERTON: Thank you very much.

6 CHAIRMAN CARTER: Mr. Horton, call your next witness.

7 MR. HORTON: I'd like to call Mr. George Bachman,  
8 please, sir.

9 GEORGE BACHMAN

10 was called as a witness on behalf of Florida Public Utilities  
11 Company and, having been duly sworn, testified as follows:

12 DIRECT EXAMINATION

13 BY MR. HORTON:

14 Q Would you state your name and address for the record,  
15 please, sir.

16 A Sure. My name is George Bachman, and the address is  
17 401 South Dixie Highway, West Palm Beach, Florida.

18 Q And by whom are you employed?

19 A Florida Public Utilities Company.

20 Q Mr. Bachman, did you prepare and prefile direct  
21 testimony in this docket consisting of two pages?

22 A Yes, I did.

23 Q Thank you. Do you have any changes or corrections to  
24 make to the testimony at this time?

25 A No, I do not.

1 Q If I were to ask you the questions contained in your  
2 direct testimony, would your answers be the same today?

3 A Yes.

4 MR. HORTON: Mr. Chairman, I would ask that  
5 Mr. Bachman's prefiled direct testimony be inserted into the  
6 record as though read.

7 CHAIRMAN CARTER: The prefiled testimony will be  
8 admitted into the record as though read.

9 BY MR. HORTON:

10 Q Mr. Bachman, did you have an exhibit attached to that  
11 testimony?

12 A No, I didn't.

13 Q Were you responsible for the preparation of some of  
14 the MFRs as identified on composite, I believe that's composite  
15 4, composite Exhibit 4, minimum filing requirements?

16 A Yes.

17 Q Do you have any changes or additions to make to the  
18 minimum filing requirement exhibit?

19 A No.

20

21

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25

**DIRECT TESTIMONY  
OF  
GEORGE BACHMAN  
IN**

**FLORIDA PUBLIC UTILITIES COMPANY  
DOCKET NO. 070304-EI**

**IN RE: PETITION OF  
FLORIDA PUBLIC UTILITIES COMPANY  
FOR AN ELECTRIC RATE INCREASE**

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

3 A. Witness Bachman: My name is George Bachman. I am the CFO for Florida Public  
4 Utilities Company (FPU), which has business offices at 401 South Dixie, West  
5 Palm Beach, Florida 33401. I have been employed by FPU since 1985 and  
6 performed numerous accounting functions including General Accounting Manager  
7 and Controller until I was promoted to Chief Financial Officer and Treasurer in  
8 1999 with responsibilities for managing the overall fiduciary responsibility and to  
9 oversee the accounting and finance departments with all related functions. I have  
10 been a witness for numerous proceedings before the Florida Public Service  
11 Commission (FPSC). The most recent proceedings were for rate relief in Docket  
12 Numbers 030438-EI for electric and 040216-GU for natural gas.

13 **Q. What is the purpose of your testimony in this proceeding?**

14 A. Witness Bachman: I provided finance, pension and insurance information that  
15 support the proposed increase in revenue requirements for FPU. This information  
16 has been included in Schedules B, C, D and G.

17 **Q. Why is it appropriate to allow recovery for all expected pension and insurance**  
18 **expenses?**

19 A. Witness Bachman: Pension costs are similar to salaries and wages; it is a necessary  
20 cost to operate a utility function. We only provide prudent wages and benefits to our  
21 employees, and accordingly, all costs are appropriate for recovery including the  
22 pension costs. The pension plan assets have been prudently invested, and provide

1 for a return on the assets. All costs are necessary and should be allowed for  
2 recovery in our base rates.

3 A. Witness Bachman: Insurance costs included in our expenses are a necessary and  
4 prudent expenditure and should be allowed and are appropriate for recovery in base  
5 rates. Insurance is a prudent cost to help a company manage risk associated with  
6 operating a business.

7 **Q. Does this conclude your written prepared testimony?**

8 A. Witness Bachman: Yes.

1 BY MR. HORTON:

2 Q Do you have a summary of your testimony that you  
3 could give at this time?

4 A I have a very brief summary.

5 Q Good.

6 A I'm the Chief Financial Officer for Florida Public  
7 Utilities, and as such I have the overall responsibility for  
8 the financial policies of the company, including the  
9 accounting, finance, treasury and risk management. For this  
10 proceeding I'm testifying in the areas of pension, insurance  
11 and finance, and I do have MFR exhibits relating to those  
12 areas. And as I stated, it was a brief summary and that  
13 concludes my summary.

14 MR. HORTON: Mr. Bachman is available for cross.

15 CHAIRMAN CARTER: Ms. Christensen, you're recognized.

16 MS. CHRISTENSEN: No questions for Mr. Bachman.

17 CHAIRMAN CARTER: Staff.

18 MS. BROWN: No questions.

19 CHAIRMAN CARTER: Commissioners, let me apologize to  
20 you. On Mr. Cutshaw I did, I omitted the opportunity for your  
21 questions. We can bring him back, he's still in the building,  
22 if the Commissioners have any questions. Although he'll be  
23 back again, and at that point in time if something, whatever  
24 you want to ask him, I think, is fair game. So we can do it  
25 that way. Okay.

1 Commissioners, any questions for Mr. Bachman?

2 Mr. Horton, you're recognized.

3 MR. HORTON: I have no redirect. I would request  
4 that Mr. Bachman be excused. He has no rebuttal testimony.

5 CHAIRMAN CARTER: No exhibits?

6 MR. HORTON: No exhibits.

7 CHAIRMAN CARTER: Okay. Show it done.

8 MR. HORTON: Thank very much.

9 THE WITNESS: Thanks.

10 CHAIRMAN CARTER: Call your next witness.

11 MR. HORTON: The next witnesses could be Mr. Mesite  
12 and Ms. Martin.

13 CHAIRMAN CARTER: Say again.

14 MR. HORTON: Mr. Mesite and Ms. Martin. They are a  
15 panel.

16 CHAIRMAN CARTER: Okay. Let's set up for the panel.

17 MR. HORTON: And while they're -- Mr. Chairman, while  
18 they're coming, what I would propose with, with the panel is  
19 that I will qualify them and ask them the questions. And then  
20 once they have both responded to my questions, I'll ask that  
21 the testimony be inserted. And as far as the summaries,  
22 they'll present them back to back at the conclusion of that so  
23 that we're not breaking it up. It'll make sense as we go.

24 CHAIRMAN CARTER: Okay. I'm looking forward to it.

25 CHERYL MARTIN

1 and

2 JAMES V. MESITE, JR.

3 were called as witnesses on behalf of Florida Public Utilities  
4 Company and, having been duly sworn, testified as follows:

5 DIRECT EXAMINATION

6 BY MR. HORTON:

7 Q Mr. Mesite, would you state your name and address for  
8 the record, please, sir?

9 A (By Mr. Mesite) My name is James V. Mesite, Jr.,  
10 401 South Dixie Highway, West Palm Beach, Florida.

11 Q Mr. Mesite, as part of a panel did you prepare and  
12 prefile direct testimony consisting of 13 pages in this  
13 proceeding?

14 A Yes, I did.

15 Q Do you have any changes or corrections to make to  
16 your portion of the testimony at this time, at this time?

17 A No. However, some of the stipulations may affect  
18 some of that information.

19 Q But with, with that, if I were to ask you the  
20 questions contained in your direct testimony today, would your  
21 answers be the same?

22 A Yes.

23 Q And did you prepare or assist in the preparation of  
24 exhibits to your testimony?

25 A Yes.

1           MR. HORTON: And that, that would be the exhibits  
2 which have, Mr. Chairman, which have been premarked as Exhibits  
3 5 through 7.

4 BY MR. HORTON:

5           Q     Do you have any changes or additions to make to that  
6 testimony or, excuse me, to the exhibits which you have  
7 attached to your testimony?

8           A     No.

9           Q     Mr. Mesite, were you also responsible for the  
10 preparation -- are you sponsoring MFRs which were filed by the  
11 company and which have been identified in the composite  
12 exhibit?

13          A     Yes, I have.

14          Q     Do you know if, if there are any revisions that need  
15 to be made to those MFRs?

16          A     Subject to the, what has been stipulated and the  
17 process that has gone on, there's no changes.

18          Q     Okay. Mr. Mesite, did you, did you revise some of  
19 the MFRs with respect to the result of the depreciation study  
20 that was approved recently?

21          A     Yes.

22          Q     And those have been filed with the Commission, have  
23 they not?

24          A     Yes, they have.

25          Q     Okay. Ms. Martin, would you state your name and

1 address for the record, please, ma'am.

2 A (By Ms. Martin) Cheryl Martin, Florida Public  
3 Utilities Company, 401 South Dixie Highway, West Palm Beach,  
4 Florida 33401.

5 Q And as part of this panel, did you prepare and  
6 prefile testimony consisting of 13 pages?

7 A Yes, I did.

8 Q Do you have any additions or corrections to make to  
9 the testimony which you prefiled?

10 A No, I don't.

11 Q Now, Ms. Martin, you are, you are adopting and you  
12 have filed a notice of adoption of the testimony of Mr. Mehrdad  
13 Khojasteh in this proceeding, have you not?

14 A Yes, I have.

15 Q And why are you adopting his testimony and exhibits?

16 A Mr. Khojasteh has left our company.

17 Q Okay. Do you have any additions or corrections to  
18 make to that part of the testimony?

19 A No, I do not.

20 Q And if I were to ask you those questions, they would  
21 be the same, the answers would be the same today?

22 A Yes, they would.

23 Q And did you also assist in the preparation and  
24 submission of the exhibits which are attached to your direct  
25 testimony?

1 A Yes, I did.

2 Q And do you have any additions or corrections to make  
3 to that, to those exhibits?

4 A No, I don't, outside of maybe anything that's been  
5 impacted by any stipulated issues.

6 Q And you're also adopting the exhibits to the extent  
7 they were prepared or supervised by Mr. Khojasteh, are you not?

8 A Yes, I am.

9 Q Okay. And you are also, you're also sponsoring  
10 minimum filing requirements that have been identified as your  
11 responsibility in the composite exhibit, are you not?

12 A Yes, I am.

13 Q Do you know of any additions or corrections to be  
14 made to those MFRs?

15 A No, I don't, again, outside of maybe something that  
16 we've stipulated.

17 MR. HORTON: Mr. Chairman, I'd request that the panel  
18 direct testimony be inserted into the record as though read.

19 CHAIRMAN CARTER: The direct testimony of the panel  
20 will be inserted into the record as though read.

21

22

23

24

25

**DIRECT TESTIMONY  
OF  
CHERYL MARTIN,  
MEHRDAD KHOJASTEH  
AND  
JIM MESITE**

**IN**

**FLORIDA PUBLIC UTILITIES COMPANY  
DOCKET NO. 070304-EI**

**IN RE: PETITION OF  
FLORIDA PUBLIC UTILITIES COMPANY  
FOR AN ELECTRIC RATE INCREASE**

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

3 A. Witness Martin: My name is Cheryl Martin. I am the Controller for Florida Public  
4 Utilities Company (FPU), which has business offices at 401 South Dixie, West  
5 Palm Beach, Florida 33401. I have been employed by FPU since 1985 and  
6 performed numerous accounting functions until I was promoted to Corporate  
7 Accounting Manager in 1995 with responsibilities for managing the Corporate  
8 Accounting Department including regulatory accounting (Fuel, PGA, conservation,  
9 rate cases, surveillance reports, reporting), tax accounting, external reports, and  
10 special projects. In January 2002 I was promoted to my current position of  
11 Controller where my responsibilities are the same as above with additional  
12 responsibilities in the purchasing and general accounting areas and Security and  
13 Exchange Commission (SEC) filings. I have been an expert witness for numerous  
14 proceedings before the Florida Public Service Commission (FPSC) including rate  
15 relief in Docket Numbers 881056-EI, 930400-EI and 030438-EI for electric and  
16 900151-GU, 940620-GU and 040216-GU for natural gas. I graduated from Florida  
17 State University in 1984 with a BS degree in Accounting. Also, I am a Certified  
18 Public Accountant in the state of Florida.

19 Witness Khojasteh: My name is Mehrdad Khojasteh. I am the Assistant Controller  
20 for FPU, a position I have held since August, 2006. In this position, I am the direct

1 supervisor of the Senior Tax Accountant, Senior Regulatory Accountant and Senior  
2 Project Accountant. I also assist the Controller with supervising the Corporate  
3 Accounting Department. Prior to this position, I was a Regulatory Accountant from  
4 November 1996 to March 1997, Tax Accountant from April 1997 to May 2003 and  
5 Corporate Accounting Supervisor from June 2004 to July 2006. I received a BS  
6 degree from Florida Atlantic University with a major in Accounting. I have been a  
7 witness for two proceedings before the Florida Public Service Commission (FPSC).  
8 These proceedings were for rate relief in Docket Numbers 030438-EI for electric  
9 and 040216-GU for natural gas.

10 Witness Mesite: My name is Jim Mesite. I am the Senior Project Accountant in the  
11 Corporate Accounting department at FPUC. On an ongoing basis, I am responsible  
12 for all preparation, filing, reconciliation and audit of documents as directed under  
13 PGA Docket No. NN0003-GU. Using various company systems and computer  
14 application, I prepare several periodic accounting analysis reports. In the past I was  
15 responsible for converting the Company's manual CPR records to a computerized  
16 system. I am responsible for the review and evaluation of fixed asset issues  
17 involving acquisitions, dispositions, retirements, capital versus expense, and chart  
18 of accounts. I am responsible for the filing of FPSC depreciation studies for the  
19 regulated electric and natural gas divisions. Additionally I am involved with various  
20 internal control and review projects as circumstances dictate. I joined FPUC in 1995  
21 as a Special Project Accountant and was promoted to my current position in March  
22 2002. I graduated from Northeastern University in 1976 with a BS degree in  
23 Business Administration, major in Accounting. I have been a witness in two rate  
24 relief proceedings before the FPSC: Docket Numbers 030438-EI for electric and  
25 040216-GU for natural gas.

26 **Q. What is the purpose of your testimony in this proceeding?**

27 A. Witness Khojasteh, Mesite, and Martin: We provide the accounting information  
28 that supports the proposed increase in revenue requirements for FPU. We are  
29 specifically responsible for the information provided in Schedules B, C and G.  
30 Supporting information to these schedules has also been provided by the division

1 general managers of each area, our Cost of Capital expert as well as the Financial  
2 Analyst in their testimony (see the testimony of Mark Cutshaw, George Bachman,  
3 Don Myers, Robert Camfield and Doreen Cox).

4 **Q. Why is FPU seeking a rate increase in its base rates at this time?**

5 A. Witness Martin: The Company has experienced and is expecting to experience  
6 continued increases in expenses, and despite efforts to keep expenses down, many  
7 are beyond the control of the Company. We expect a significant decline in our rate  
8 of return in our electric operations. The Company believes the proposed 2008 test  
9 year will accurately reflect the economic conditions in which the Consolidated  
10 Electric division will be operating during the first twelve months the new rates will  
11 be in effect, and this period is appropriate for rate setting purposes. We have had  
12 historical events that had a significant unfavorable impact to earnings since our last  
13 rate proceeding. We expect many costs to continue to increase; and for the most  
14 part, these costs are beyond our control. We anticipate continued increases in our  
15 insurance, audit fees, and pension costs. The recent storm hardening mandates have  
16 also placed a large financial burden on our Company, and relief is necessary for  
17 these expenditures. The inflationary impacts on new and replacement utility plant  
18 as well as operating expenses contributed to our declining rate of return. We have  
19 not been able to achieve our allowed rate of return in any calendar year since our  
20 last rate proceeding. We feel it is appropriate to seek a rate increase at this time to  
21 allow the Company the opportunity to earn a fair rate of return on our investment in  
22 utility plant and working capital. Earning a fair rate of return will enable us to  
23 continue our high quality of service and maintain financial integrity, which are in  
24 the best interest of our customers.

25 **Q. What is the revenue increase requested by FPU in this proceeding?**

26 A. Witness Martin: FPU is requesting a permanent increase in the electric rates and  
27 charges for its consolidated electric operations in the amount of \$5,249,895 in order  
28 to cover the deficiencies in revenues for the projected 2008 test year. In accordance  
29 with Rule 25-6.140, F.A.C., Test Year Notification, we have notified the FPSC that  
30 we have selected the twelve-month period ending December 31, 2008 as the

1 projected test year for our petition to increase our rates and charges. We are also  
2 requesting an interim increase in the electric rates and charges for its consolidated  
3 electric operations in the amount of \$790,784 based on the historic year 2006  
4 deficiency in revenues.

5 **Q. How did you derive the projected revenue requirement for the 2008 test year?**

6 A. Witness Martin: The derivation of the revenue requirement and projected revenue  
7 deficiency is summarized in Exhibit CMM-1, which is a re-creation of Schedule C-  
8 1. In summary, the 2008 revenue requirement is determined by multiplying the  
9 projected rate base by the required rate of return to arrive at the operating income  
10 required. This required operating income is then compared to the projected 2008  
11 operating income using our existing billing rates and charges and projected rate  
12 base and operating expenses. Any deficiency in operating income is then expanded  
13 using the revenue expansion factor to arrive at the additional revenue required to  
14 realize a fair rate of return on rate base. This required increase amounts to an  
15 additional \$5,249,895 in annual electric rates and charges. The required rate of  
16 return is 8.07% as is shown on schedule D-1a. The projected rate base is  
17 \$43,020,996 and is provided in Exhibit CMM-2, also provided as schedule B-1.

18 **Q. How did you derive the interim revenue requirement?**

19 A. Witness Martin: The derivation of the revenue requirement for interim rate relief is  
20 summarized in Exhibit CMM-3, which is a re-creation of Schedule G-1. In  
21 summary, the interim revenue requirement is determined by multiplying the historic  
22 2006 rate base by the required rate of return using the last authorized rate of return  
23 (low-point authorized common equity rate) to arrive at the operating income  
24 required. This required operating income is then compared to the actual 2006  
25 operating income. Any deficiency in operating income is then expanded using the  
26 revenue expansion factor to arrive at the additional revenue required on an interim  
27 basis until final rates can be reviewed and authorized. The required rate of return for  
28 interim purposes is shown on schedule G-19a. The interim rate base for the historic  
29 year 2006 is shown on Schedule G-2.

30 **Q. What was the method for determining the projected test year billing**  
31 **determinants?**

1 A. Witness Khojasteh: A projection of 2008 operating revenues is required to complete  
2 the various schedules mentioned above. Operating revenues for 2008 are projected  
3 using current rates multiplied by the projected 2008 weather-normalized billing  
4 determinants (number of customers and usage). We also included the impact of the  
5 recent and expected large fuel price increases and projected base revenue increases  
6 on our customer's consumption. Projected operating revenues for 2008 are shown  
7 on schedule C-5. See Mark Cutshaw's testimony and Schedule F-5 for additional  
8 information on billing determinant forecasts.

9 **Q. How did you project O&M expenses for the projected test year 2008?**

10 A. Witness Khojasteh: O&M expenses were projected using the adjusted 2006  
11 expenses multiplied by one of several trend factors. Expense items for which  
12 deviation from the trended amount is anticipated have been adjusted for specific  
13 cost estimates or other increases and decreases over and above the trended amounts.  
14 We use the national-level consumer price index for all urban consumers (CPI-U) as  
15 the basis of the inflation rate. The primary data sources are the CPI-U forecasts  
16 contained in the Congressional Budget Office (CBO) economic projections  
17 generated on January 24, 2007 (which are the most recent available forecast  
18 values), and the Bureau of Labor Statistics (BLS) historical CPI-U data ending May  
19 2007.

20 The CBO projections of inflation factors are: 2006 to 2007 = 101.92%; 2007 to  
21 2008 = 102.27%; 2006 to 2008 = 104.24%.

22 However, because the CBO forecast was generated in January, we updated their  
23 inflation forecast using actual data for the first five months of 2007. Using BLS  
24 data to calculate inflation over the first five months of 2006 versus the first five  
25 months of 2007, the actual annualized inflation factor for January through May  
26 2007 is 102.51%.

27 We used this actual value for the first five months of 2007, and then reverted to the  
28 CBO forecast for the remainder of the forecast time period. This is implemented as  
29 follows:

30 Equation 1: 2006 to 2007 inflation factor =  $1 + (5/12) * 2.51\% + (7/12) * 1.92\% =$   
31 102.17%

1 We used the CBO forecast of inflation over 2007 to 2008. However, because of the  
2 updating to the 2006 to 2007 factor described above, the 2006 to 2008 inflation  
3 factor increases to 104.48% (which equals 102.17% times 102.27%).

4 In summary, our inflation factors are as follows (rounded to the nearest 10th of a  
5 percent):

6 2006 to 2007: 102.2%

7 2007 to 2008: 102.3%

8 2006 to 2008: 104.5%

9 Schedule C-7 provides a list of the projection factors used. The most commonly  
10 used trend factors include Inflation, Payroll Growth, KWH Growth, Inflation &  
11 Customer Growth, and Payroll Growth & Customer Growth.

12 **Q. Can you explain the basis for some of the expenses outside of those based on  
13 historical data trended to the projected test year?**

14 A. Witness Mesite: Depreciation & amortization expenses for 2008 are projected to be  
15 \$3,418,847. Depreciation expense was adjusted for several general plant accounts  
16 to reflecting the allocation of depreciation to our propane operation at our  
17 Fernandina Beach location. The depreciation expenses are shown by plant sub-  
18 account on schedule B-9. The depreciation expense and reserves have not been  
19 adjusted for the effects of our current electric depreciation study, to be effective  
20 January 1, 2008, and the revenue requirement, rate base and depreciation expense  
21 will need to be adjusted for this change accordingly. Amortization expense is shown  
22 on schedule C-19 and includes recovery for future storm hardening capital  
23 improvements as contributions. More information on this follows later in this  
24 testimony and in the testimony provided by Mark Cutshaw and Don Myers.

25 Witness Khojasteh: Current and deferred income taxes for 2008 are projected using  
26 the projected taxable operating income less interest expenses less deductions  
27 multiplied by the current state and federal tax rates. These calculations are shown  
28 on schedules C-22 and C-23. The 2008-projected investment tax credit is  
29 calculated from the ITC amortization schedule for the electric utility divisions. ITC  
30 amortization amounts are credits taken from the 1962 through 1988 periods and are

1 currently amortized based on the average depreciation rates. Annual ITC balances  
2 and amortization details appear in schedule B-23.

3 Direct O & M adjustments and Specific projections were made to certain accounts  
4 outside of trending historical data. We have noted these items on Schedule C-7 and  
5 a brief explanation on the schedule itself.

6 Maintenance expense levels are appropriate as projected in our test year; however  
7 the specific projects and amounts in specific maintenance accounts may vary from  
8 year to year. We try and maintain a consistent level of maintenance expenses  
9 annually, and spread required work over a period of time to keep our systems  
10 reliable, safe and properly maintained. With this approach and by spreading out  
11 projects over time we do not unduly burden the customers or the Company.

12 **Q. What was the basis for the storm reserve and expense included in the projected**  
13 **test year?**

14 A. Witness Martin: The Company has projected an increase to their storm accrual  
15 expense to reflect additional storm reserve needed to mitigate the impact of future  
16 hurricane damages. Since our storm damage reserve is not adequate to cover the  
17 risk of future storm damages, we have increased our storm accrual to approximately  
18 \$17,000 per month, for a total storm reserve of \$3,338,800 over an eight year time  
19 period. We estimated the required reserve to be 5% of the current value of the  
20 transmission and distribution plant. Understandably, this is a conservative estimate  
21 and does not take into account the replacement cost. We are not able to obtain  
22 reasonable insurance for storms on this property, and feel that 5% is the minimum  
23 value that should be used for an adequate reserve.

24 **Q. What is the basis for the regulatory expense included in the projected test**  
25 **year?**

26 Witness Martin: We have projected rate case expense based on specific forecasts  
27 including the cost to use consultants to assist us in preparation of a rate case, in the  
28 expenses for recovery over a four year period. We are not staffed at a level to allow  
29 for preparation of rate proceedings, and do not have the expertise in all areas to help  
30 facilitate the preparation of a proceeding, therefore we had to hire the expertise and

1 extra assistance to complete this process. In addition to expenses directly associated  
2 with preparation of a rate proceeding, we also incurred additional costs in the area  
3 of internal audit. We originally were planning to do some of the work internally on  
4 internal audit, but due to the rate proceeding we had to expand the scope of our  
5 outside consultants while we focused on the rate proceeding work internally. We  
6 also are projecting an amortization period of four years and have incorporated this  
7 into our expense projections. This period is consistent with the time period since  
8 our last electric rate proceeding and is an appropriate period for recovery for this  
9 rate proceeding. See Schedule C-10 for more details on these expenses.

10 **Q. Why is the uncollectible expense appropriate for the test year?**

11 A. Witness Khojasteh: Increasing fuel costs over historic levels has significantly  
12 increased our uncollectible expense for the test year, and years going forward. We  
13 took the estimated impact of the fuel revenue, and made additional allowances for  
14 these bad debts. They are reasonable as a percentage of sales, and are prudent for  
15 recovery in base rates.

16 **Q. Have you included the costs associated with the recent mandated storm  
17 hardening requirements?**

18 A. Witness Khojasteh: The Company has also included the costs associated with the  
19 storm hardening mandates required by the Florida Public Service Commission. We  
20 had previously filed for a storm hardening surcharge to pay for these costs and  
21 deferral of the program until storm rate recovery was received; however, since other  
22 factors have necessitated a rate proceeding we have incorporated the costs  
23 associated with these programs for rate recovery in this proceeding. Additional  
24 support and testimony detailing the storm hardening costs and requirements can be  
25 found in Docket No. 060638-EI and Docket No. 070300-EI which has been  
26 consolidated in this docket.

27 **Q. What is nature of the special storm hardening amortization included in the  
28 amortization expense?**

29 A. Witness Mesite: We have identified significant capital improvements that will be  
30 required to strengthen our transmission system for storm hardening over the next  
31 twenty years. We included the cost of this future storm hardening capital project for

1 special recovery through amortization over the period of twenty years. This  
2 program is similar to our natural gas program for bare steel replacement, in that we  
3 are collecting the costs through base rates, and amortizing the contributions for the  
4 special capital improvements. This directly benefits the customers through  
5 increased reliability, and delays the need for future rate increases that would  
6 typically result from these capital expenditures. See testimony from Mark Cutshaw  
7 and Don Meyers on the projects that will be included in this special storm  
8 hardening capital improvement program.

9 **Q. Please explain the increase to outside audit fees beyond trends for the**  
10 **projected test year?**

11 A. Witness Khojasteh: Recent rules relating to Sarbanes Oxley and 404 requirements  
12 have caused significant increases to our external and internal audit fees over the last  
13 several years. We are also close to becoming an accelerated filer and anticipate we  
14 will achieve this status in 2008. This status will further increase our audit costs as  
15 we will have to comply with additional rules. We have included the additional audit  
16 costs related to current Sarbanes Oxley requirements as well as those that will be  
17 required as it relates to accelerated filers in our 2008 projected test year.

18 **Q. What is the support for pension costs included in the projected test year?**

19 A. Witness Khojasteh: We received estimates from our actuary on our pension costs  
20 for 2008. These costs have been included in the projected test year as a direct  
21 estimate. The Company continues to look for ways to keep these costs at reasonable  
22 levels and has recently implemented a 401K plan for all new hires; however, due to  
23 economic conditions of the market and items outside of our Company's control, the  
24 pension costs have increased significantly over the last several years. This cost is a  
25 prudent benefit to our employees and this expenditure is prudent for recovery from  
26 our customers as a payroll related cost necessary to provide customers with  
27 adequate service to operate our company effectively. The regulatory impact to OCI  
28 from the implementation of FASB 158 has been deferred as a regulatory asset-  
29 retirement plans. This regulatory asset will be deferred until it is recognized as  
30 current pension expense. It is appropriate for both this asset and the pension liability  
31 be included in working capital. An alternative treatment would be to amortize this

1 deferred account over five years, and allow current recovery of this cost deferral in  
2 our current rate proceeding. We are seeking approval for appropriate treatment and  
3 recovery of implementation of FASB 158 relating to our retirement plans within  
4 this rate proceeding. We have also received information from our CFO, George  
5 Bachman on pensions for projections included in this rate proceeding. He is also a  
6 witness in this proceeding.

7 **Q. Please explain the O & M adjustment for the salary survey?**

8 A. Witness Khojasteh: The Company is also implementing a salary adjustment related  
9 to a recent salary survey completed for our Company and our employees. Several  
10 positions were found to be significantly under compensated, and required a salary  
11 adjustment over and above our typical salary adjustments. Our Human Resource  
12 department undertook an extensive salary survey during 2006 and 2007, and  
13 utilized data within the utility industry, and similar sized and located generic  
14 companies, to develop this survey. The last salary survey the Company conducted  
15 was in 2002. We have estimated the impact of this survey and included these salary  
16 adjustments above and beyond the normal trended expenditures anticipated for  
17 2007 and 2008.

18 **Q. Explain the company adjustments made to expenses for the historic and  
19 projected test years?**

20 A. Witness Khojasteh: The fuel and conservation expenses and revenues have been  
21 eliminated from both the historic year and projected years. These items are handled  
22 in separate dockets outside of a base rate proceeding and are appropriate for review  
23 and approval within those separate proceedings. We have also eliminated the  
24 impacts of prior period tax adjustments from net operating income. The effective  
25 tax rate has been included as income tax expense in years presented along with an  
26 amortization of the ARAM for our regulatory deferred tax liability. Finally,  
27 nonregulated depreciation expense has been removed for the plant in service shared  
28 by our nonregulated operations. See schedule C-2 for a summary of these  
29 adjustments.

30 **Q. What were some of the material items outside of normal capital expenditures  
31 included in projected rate base for the test year 2008?**

1 A. Witness Mesite: We have previously discussed the special storm hardening capital  
2 projects. The offsetting contributions received and the first year of this amortization  
3 has been included in our rate base and expenses for the projected test year 2008.

4 The Company has included the full recovery in rate base for a transformer that was  
5 ordered in 2006. Circumstances outside of our control could contribute to this item  
6 not being delivered by December 2007; however, it is appropriate for the purposes  
7 of rate setting that the full 13 month average remain in 2008 average rate base and  
8 be allowed for recovery. This item is significant to our operations and delays if any  
9 will be beyond our control. If full recovery is not allowed, this will accelerate the  
10 requirement for a future rate case, and thus increase the overall cost to the  
11 customers as rate case costs are significant.

12 **Q. What items have been included in Working Capital and Rate Base that**  
13 **requires additional information in addition to that presented in the MFR**  
14 **filing?**

15 A. Witness Mesite: We have included the net over and under recovery of fuel and  
16 conservation costs in working capital. Previously, only the over recoveries have  
17 been included. This is an unfair burden on the company and penalizes the  
18 Company. The fuel is reviewed as well as the over and under recoveries in a  
19 special fuel hearing each year. Only those prudently incurred fuel expenses and  
20 appropriate fuel rates are approved. It is unfair to penalize the Company for items  
21 outside of their control if an over recovery results from these approved fuel rates.  
22 Factors such as sales levels, purchased fuel levels, and fuel costs different from  
23 expectations can all contribute to an over recovery; but are not in the direct control  
24 of the Company. These same circumstances may apply to conservation whereby the  
25 timing of revenues and expenses may deviate from projections. Therefore, the  
26 Company should not be penalized by only including over recoveries and not under  
27 recoveries in working capital. Although the projected test year includes an under  
28 recovery for fuel, this should be allowed in working capital so as to not unfairly  
29 penalize the Company. We are seeking approval going forward for fair treatment of  
30 including both the under and over recovery related to fuel and conservation in

1 Working Capital. As an alternative, we feel that to eliminate both over recoveries  
2 and under recoveries from working capital would be acceptable and fair since these  
3 items are handled outside of a base rate proceeding.

4 Also, we have included all of the deferred rate case costs in working capital.  
5 Previously, the Commission has disallowed one-half of this deferral in working  
6 capital; however, this unfairly penalizes the Company. We only incur reasonable  
7 and prudent expenditures for the rate case. The Company does not have the staff or  
8 expertise to complete a rate proceeding without additional assistance from outside  
9 resources. The customers have benefited from the Company not keeping staff at a  
10 level that would allow for preparing a rate proceeding without these rate case  
11 deferred costs, and accordingly, the Company should not be penalized for these  
12 prudent actions. The entire deferred balance should be allowed in working capital.  
13 Finally, we have included all cash in working capital. The Company has a prudent  
14 cash management system, and accordingly, it is appropriate to allow all cash in  
15 working capital that is allocated to our electric divisions.

16 **Q. Explain the company adjustments made to rate base for the historic year and**  
17 **projected years?**

18 A. Witness Mesite: Adjustments were made to remove the utility plant and reserve of  
19 our nonregulated operations shared with our electric division. The adjustments are  
20 summarized on Schedules B-2.

21 **Q. How does the company allocate costs for corporate charges across the different**  
22 **utility services?**

23 A. Witness Martin: The Company allocates costs for corporate charges across the  
24 different utility services on a consistent basis. The allocation method varies by  
25 account, but we use allocation factors based on number of customers, base revenue  
26 recovered, plant in service, and time studies to allocate the various charges as  
27 appropriate. At the local level, when there are multiple utilities, the company  
28 applies these same methods but at the divisional level. The allocations from the  
29 local office in Fernandina Beach, and the corporate office, include appropriate  
30 adjustments to the remaining divisions and utilities as appropriate. We have

1 indicated the effects of some allocations as adjustment to the historic year and  
2 projected years, and have the details supporting all allocation adjustments at the  
3 office for review.

4 **Q. Please explain the methodology for the turnaround of the deferred taxes**  
5 **associated with the average rate assumption method?**

6 A. Witness Khojasteh: The Company is requesting permission to change the method of  
7 amortizing the deferred taxes associated with the average rate assumption method  
8 (ARAM) on depreciation related items, and allow for a straight line amortization  
9 over the average remaining life of the property. This method is consistent with the  
10 method used and approved for the Regulatory asset related to Flow-through  
11 deferred taxes on property. The current methodology of the average rate assumption  
12 method is quite cumbersome, and is not easily implemented and maintained. Since  
13 we are not required to keep book depreciation by vintage year since we use a  
14 composite method of depreciation for book purposes, the results from using the  
15 ARAM are not based on specific information, but rather estimates of the  
16 depreciation by vintage year. The results of these estimates sometimes produces  
17 distortions of what the intent of this method was suppose to produce. Using a  
18 straight line method is easier, and spreads out the impact of these rate changes over  
19 a reasonable time period. The impact to customers is more even over each year, and  
20 is easier to determine on an annual basis without harm to customers. We are  
21 requesting permission to change this methodology for use in amortizing this  
22 regulatory liability associated with deferred income taxes. The impact to the  
23 customers is not materially different with these two methodologies, yet the  
24 proposed method produces a more even turnaround of these deferred taxes and is  
25 easier to maintain. We have included the amortization of the ARAM portion of the  
26 FASB 109 deferred taxes in our income taxes for the projected test year.

27 **Q. Does this conclude your written prepared testimony?**

28 A. Witness Khojasteh, Mesite, and Martin: Yes

1 BY MR. HORTON:

2 Q Mr. Mesite, do you have a summary to present at this  
3 time?

4 A (By Mr. Mesite) Yes, I do.

5 Good morning. In my portion of the testimony I  
6 address rate base, working capital and depreciation. I am  
7 responsible for the documents used to determine rate base,  
8 including working capital and plant. These amounts were  
9 derived primarily from information presented in the 13-month  
10 average balance sheet and plant schedules contained in the MFR.  
11 I was responsible for preparing the balance sheet and plan  
12 schedules. I also calculated the depreciation and amortization  
13 expenses contained in the net operating income section of the  
14 MFR.

15 The plant was calculated to include the unallocated  
16 share of corporate common plant and to exclude any portion  
17 allocated to the nonregulated propane operation in Northeast  
18 Florida. The same methodology was used in the calculation of  
19 depreciation expense. The electric utility depreciation  
20 presented in the MFR will be adjusted to reflect the modified  
21 depreciation rates that were determined in the recently  
22 completed depreciation study. These depreciation study rates  
23 were effective beginning January 1, 2008.

24 Included in the, in the 2008 plan is the full  
25 13-month average for the purchase of a replacement 40 MVA

1 transformer anticipated to cost \$790,000. The original  
2 transformer failed in 2006. Rebuilding was not economically  
3 feasible, so a new replacement transformer was ordered.

4 Transformers of this size are built to order, and we expect to  
5 receive the new transformer in the near future prior to the  
6 final order being issued in this rate case.

7 We feel that recovery of the full 13-month average is  
8 justified since this is a necessary replacement item. It is  
9 expected to be in service prior to the inception of the new  
10 rates and the high cost should justify special treatment.

11 We are raising issues surrounding the inequities  
12 involved in working capital treatment of overrecoveries and  
13 underrecoveries as they apply to fuel and conservation costs.  
14 Over- or underrecoveries are the direct result of fluctuations  
15 in the cost of fuel and fluctuations in the many dynamic  
16 factors affecting consumption. None of these conditions are  
17 under the control of the company. Why then should the company  
18 and the ratepayer not be allowed equal treatment as a result of  
19 these fluctuations?

20 We suggest either one of the following two options:  
21 First, over- and underrecovery should both be allowed in  
22 working capital; or, as a better alternative, since the fuel  
23 cost and fuel revenues are already handled in a separate docket  
24 apart from the rate base setting process, over- and  
25 underrecovery should also be removed from the rate base setting

1 process and omitted from working capital. Thank you.

2 Q And, Ms. Martin, do you have a summary?

3 A (By Ms. Martin) Yes, I do.

4 In my position as Controller I was responsible for  
5 the overall coordination and review of the filing. In my  
6 testimony and exhibits I address the need for the rate relief  
7 for our company and I explained some of the adjustments that  
8 are included in this case. I'm also adopting, as I've  
9 mentioned, the testimony of Mehrdad Khojasteh since he's no  
10 longer with our company.

11 The company has put a great deal of effort into the  
12 preparation of this MFR filing and also along with all the  
13 interrogatory and document requests. We feel we've properly  
14 supported our projections and have only included the items that  
15 are necessary and valid for recovery.

16 Some of the most discussed issues in this case relate  
17 to the storm hardening expenses. We developed and filed a plan  
18 which addresses all those initiatives and the Commission rules,  
19 and we've included as part of this request recovery of the  
20 expenses associated with those approved initiatives.

21 From the beginning of the storm hardening workshops  
22 we expressed our concerns over the cost to the company to  
23 comply with those initiatives and our need for rate relief and  
24 we also filed for a limited proceeding to recover those costs.  
25 With our pending rate proceeding overlapping that request and

1 discussions with the OPC and PSC staff, we determined it would  
2 be more appropriate to combine that request with our current  
3 rate proceeding.

4           In this proceeding we've included salary adjustments  
5 for employees as it's important to pay fair wages to all of our  
6 employees. We undertook an extensive salary survey in 2006 and  
7 seven to look at our compensation schedule as it relates to  
8 other industry levels and competitors, and we found some of our  
9 positions to be significantly undercompensated. We've included  
10 an adjustment for the impact to 2008 that we expect as a result  
11 of these newly approved salary ranges. Maintaining a stable  
12 workforce saves money in the long run and is most beneficial to  
13 our customers.

14           The costs to prepare a rate proceeding are quite  
15 significant. The company does not maintain a staffing level on  
16 an annual basis that would allow for us to undertake that type  
17 of endeavor without additional assistance from consultants,  
18 from temporary help, and even significant overtime of several  
19 company employees. We had to incur those costs and they were  
20 all prudently incurred. We've efficiently and effectively  
21 managed the resources and those costs required for this  
22 project, and all are appropriate for recovery through  
23 amortization. I'm sponsoring exhibits and MFRs which would  
24 support our request. Thank you.

25           MR. HORTON: Mr. Mesite and Ms. Martin are available

1 for cross.

2 CHAIRMAN CARTER: Ms. Christensen, you're recognized.

3 MS. CHRISTENSEN: Thank you.

4 CROSS EXAMINATION

5 BY MS. CHRISTENSEN:

6 Q I think since this is a panel I have some questions  
7 for Mr. Mesite and then I'll have some questions for  
8 Ms. Martin. If one of the questions can best be answered by  
9 the other person, then feel free. But I think these are  
10 directed mainly at things that were provided in your testimony.

11 Mr. Mesite, I want to refer you to the company's  
12 request to receive the full 13-month average recovery for the  
13 transformer. Now what is the current projected in-service date  
14 for this new transformer?

15 A (By Mr. Mesite) Currently, based on the information  
16 that we have, we're looking at probably mid-March, mid to late  
17 March. It's -- that's the best information I have at the  
18 moment.

19 Q Okay. And would you agree that the final delivery  
20 timeline is uncertain until you get far enough along in the  
21 construction process of the transformer to know for certain  
22 when that will be delivered?

23 A Probably Mr. Cutshaw would be better qualified to  
24 answer that, that side of it. He's, he's the person that's  
25 been in touch with the contractor.

1 Q Mr. Mesite, if you know, do -- what percentage of the  
2 transformer is complete at this time?

3 A I don't know that. No.

4 Q Do you know why the company's position changed from a  
5 delivery date of February now to mid to late March?

6 A It's my understanding that that's the contractor  
7 that's building this. I believe it's being built in the  
8 Southern Hemisphere. I'm sorry. I don't -- they're just  
9 running behind.

10 Q Okay. Would Mr. Cutshaw have some additional  
11 information on that?

12 A Oh, absolutely. Yes.

13 Q Okay. Has, Mr. Mesite, has the company projected an  
14 extraordinary level of growth in customers for the 2008  
15 projected test year?

16 A I wasn't involved in that side of it. I couldn't  
17 answer that question.

18 Q Ms. Martin, if you know.

19 A (By Ms. Martin) We are not -- we're projecting a  
20 realistic projection for customer growth. I don't believe it's  
21 extraordinary.

22 Q Okay. Subject to check, would you agree that you've  
23 projected approximately a 1.2 percent growth for customers?  
24 Does that sound about right?

25 A That sounds about right. Yes.

1 Q Now, Mr. Mesite, would you agree that the company has  
2 incurred an extraordinary amount of plant improvements during  
3 the test year above the levels that the company normally  
4 incurs?

5 A (By Mr. Mesite) I wouldn't say so, but --  
6 specifically I wouldn't call it extraordinary. No. I don't  
7 understand where --

8 Q Well, subject to check, reviewing the MFRs, Schedule  
9 B-8, would you agree that the total plant increases per year  
10 have ranged from, somewhere from 4 million to 5 million per  
11 year?

12 A I would say four to five would be okay.

13 Q Okay. And so for the total electric plant additions  
14 in 2008 of around 4.1 million, that wouldn't be considered an  
15 unusual amount for your company; correct?

16 A Unusual?

17 Q Yeah. That would, that would not be an extraordinary  
18 amount.

19 A It would not be extraordinary, no.

20 Q Okay. Now wouldn't you agree that if the company  
21 were to establish rates using a 13-month average rate base with  
22 a year-end level of customers and billing determinants, that  
23 this would present a mismatch in the test year?

24 A I'm sorry. You'll have to run that by me again.

25 Q Assuming that if the Commission were to establish

1 rates using a 13-month average rate base with the year-end  
2 level of customers and billing determinants, would you agree  
3 that that would create a mismatch in the test year?

4 A What would create a mismatch?

5 Q The use of a 13-month average rate base with year-end  
6 customers and billing determinants.

7 A I'm sorry. I'm missing your point.

8 Q Well, let me ask you another question.

9 Would you agree that rate, setting rates using  
10 average, 13-month averages versus a year-end would create  
11 inconsistent measurements in calculating -- in the  
12 calculations?

13 A Are we talking plant?

14 Q Well, you could be talking plant, billing  
15 determinants, numbers of customers, if you don't use 13-month  
16 average plants, rate base items along with the 13-month  
17 customer average.

18 A There's all kinds of theories that you could, you  
19 could apply to the setting of rates as far as what they apply  
20 to, what would give a more accurate interpretation of what the  
21 future would, would hold.

22 We have to understand that the rates that you set  
23 today should be, whatever you come up with for a rate should  
24 work for something more than the next year or two, and to look  
25 at the short-sighted side of it may not be the best way to go.

1 We're looking for something that will work into the future for  
2 a good period of time.

3 Q Okay. I have --

4 A It isn't like plant is a cyclical with highs and low.  
5 Plant is always increasing. So whatever we have today will,  
6 it'll be higher tomorrow. I don't know what your question  
7 means, but, yes, the 13-month average is what we're using.

8 Q Okay. All right. Fair enough. Let me direct some  
9 of my questions to Ms. Martin. And, Mr. Mesite, if you have  
10 any additional information, please feel free to help.

11 Ms. Martin, I would like to refer you to Issue 77,  
12 FPUC's request for a corporate accounting position.

13 A (By Ms. Martin) Okay.

14 Q Now you filed the corporate accounting position  
15 for -- or have you filled, excuse me, the corporate accounting  
16 position for the Compliance Accountant as of yet?

17 A We have not filled it, but we have made an offer to  
18 someone for that position.

19 Q Okay. Now originally you anticipated filling the  
20 Compliance Accountant position in January of 2008; is that  
21 correct?

22 A That is correct.

23 Q Okay. And you said that you've currently made an  
24 offer to somebody. Do you know when you would expect to have  
25 that offer accepted or rejected, I guess?

1           A     Yes. I fully anticipate that we will either have an  
2 acceptance of that position sometime in the month of March 2008  
3 or we will either fill that void with a possible temporary  
4 staff employed by April 1st, 2008.

5           Q     Okay. If the offer were rejected, do you anticipate  
6 readvertising for that position?

7           A     What I anticipate is that if that offer is rejected,  
8 we would hire a temporary staff employee to help fill that void  
9 of the work duties that would be associated with that position.

10          Q     Would that temporary employee be receiving the same  
11 salary and benefits that you've asked to have allocated to the  
12 Compliance Accountant?

13          A     I would believe that would be a reasonable amount of  
14 compensation since you would be looking for the same type of  
15 individual that would have the skill set necessary for that  
16 position. So, yes, that would be an appropriate salary.

17          Q     Okay. And that would be an internal, that would be  
18 an internal move that you would be talking about if you had to  
19 do a temporary person?

20          A     Oh, no. We would hire an employee. A lot of times  
21 what we do is if we're not able to hire a position direct, we  
22 will hire a temporary employee from one of various agencies.  
23 They send us skilled resumes and we try to look for somebody we  
24 think we could keep as a possible permanent employee. And we  
25 take them on as a temporary and then it gives us a time to

1 judge their ability and also fill the void of any workload that  
2 would be necessary for that position.

3 Q Okay. Now regarding the requested adjustment for  
4 this position, would you agree that it would be necessary to  
5 remove the 11 percent overhead that was originally included in  
6 the adjustment that was related to vacations and such?

7 A Yes. I would agree that an adjustment would be  
8 necessary for that.

9 Q Okay. Now referring to Issue 89, which I believe is  
10 the travel expense related to this Compliance Accountant  
11 position, what is the level of travel expense that you have  
12 requested for the Compliance Accountant position?

13 A The level of travel and miscellaneous expenses that  
14 we've added on top of the salary and benefits for this on an  
15 annual basis would be \$20,000.

16 Q Okay.

17 A That's total company, not just the electric allocated  
18 portion.

19 Q Okay. And the allocated portion for the electric  
20 division is an incremental expense of \$5,200; is that correct?

21 A That would be correct.

22 Q Okay. And according to the over and above  
23 adjustment, the schedule, the travel expense was just for one  
24 person, for the corporate Compliance Accountant?

25 A It was for one person. That is correct.

1 Q Okay. I have an exhibit that I would like to hand --  
2 I would ask to be able to hand out this exhibit to ask the  
3 witness some questions regarding it.

4 Ms. Martin, are you familiar with this document?

5 A Yes, I am.

6 Q Okay. And is this a document that you provided to  
7 Office of Public Counsel in response to some deposition  
8 requests?

9 A Through my direction, yes.

10 Q Okay. Now referring to -- okay. Referring to Page 9  
11 of 13.

12 A Correct.

13 Q All right. And that was a memorandum that was sent  
14 from you to Mr. Mehrdad (sic.) regarding the travel, the travel  
15 dollars. And in this description you said your, your position  
16 for the support for the \$20,000 was that the auditor would be  
17 doing quite a bit of travel. Am I reading that correctly?

18 A You are reading it correctly. We did also provide  
19 through interrogatory and document requests a more detailed  
20 breakdown of the travel that would be required and what costs  
21 would be associated with that \$20,000. Yes.

22 Q Okay. Now referring to Page 10 of 13, which I think  
23 is some additional questions that you have regarding that, can  
24 you read the last two sentences of, of that, I guess,  
25 description of the Compliance Accountant position in the last

1 paragraph starting with, yeah, "The total cost."

2 A "The total cost of hotel, transportation, meals and  
3 other travel-related costs make up this estimate. For example,  
4 a trip for two people at our Marianna division conducting a  
5 material and supplies inventory would involve a four-night stay  
6 at a hotel for \$800, meals for five days for approximately  
7 \$400, transportation, \$400 to \$1,000, and other miscellaneous  
8 travel-related costs of \$100."

9 Q Okay. And I think also in here you mention in the  
10 first paragraph, the last two sentences, that "While we do not  
11 specifically track this cost, but the estimated cost for each  
12 of the five years would be between \$1,000 and \$2,000 per year  
13 per audit depending on location. Our historical actual  
14 estimate for the two electric divisions would be between \$2,000  
15 and \$4,000 per year for the past five years." Is that a  
16 correct reading of --

17 A Yes.

18 Q -- your description?

19 A Yes, it is.

20 Q Okay. Now is it correct that the audit costs  
21 mentioned in this response for the past five years have been  
22 charged to the electric divisions?

23 A You'll have to clarify that. Which audit costs?

24 Q The ones that are mentioned here that are between two  
25 to \$4,000 per year for the past five years, are those

1 referring --

2 A Yes.

3 Q Okay. Now further down in this response it indicates  
4 that the company has estimated that it would take an additional  
5 four to six audit trips per year for the Compliance Accountant.

6 A Correct.

7 Q And would it be correct that the estimated travel  
8 expense that was calculated by taking the -- was calculated by  
9 taking the \$4,000 maximum cost per audit times five trips to  
10 get the \$20,000 estimate?

11 A The \$20,000 involves both travel and miscellaneous  
12 costs such as additional supplies that might be needed,  
13 additional -- we didn't provide a specific breakdown of all of  
14 the costs that would encompass the \$20,000, but just this was  
15 the travel portion of those costs.

16 Q Okay. Is that based on the information included at  
17 the bottom, the estimates that were used, the example that was  
18 used for the two persons traveling?

19 A The additional costs would be -- we currently do some  
20 auditing and there are two staff members that do some of that  
21 auditing. The additional costs would relate to the compliance  
22 position and the additional trips that they would be required  
23 to take.

24 Q Okay. Now let me refer you to Issue 78. Have you  
25 filled the new Analyst Coordinator position in Customer

1 Relations that the company requested to work on the  
2 Sarbanes-Oxley and internal control requirements?

3 A We have not filled the position. However, since  
4 January 2008 that department does have a temporary employee or  
5 they're incurring additional dollars, expense dollars to do  
6 some of the work, but they have not hired that position as of  
7 yet. But they are incurring additional expense dollars  
8 effective January 2008 for that department over the historic  
9 2006 level.

10 Q Okay. Was that information for the temporary  
11 employee provided to us as a supplemental response to  
12 discovery?

13 A I don't believe that we would have had that  
14 information when you had -- with the appropriate document  
15 requests at the time. I believe that would have been before  
16 that time.

17 Q And you had not supplemented that information  
18 subsequent to that?

19 A I'm not sure. I don't believe so.

20 Q Okay. Now the position, is it -- am I correct that  
21 the position for the Analyst Coordinator in Customer Relations  
22 was not advertised until December 27th, 2007?

23 A You are correct.

24 Q Okay. Now would you agree that if this position is  
25 allowed, that an adjustment is necessary to remove the excess

1 11 percent overhead originally included for the position  
2 dollars?

3 A Yes, I would.

4 Q Okay. Now you said you have somebody temporarily  
5 that's doing some of the position descriptions. When do you  
6 expect to fill the position that's been advertised?

7 A I, again, I believe we would have that filled by  
8 early 2008.

9 Q Okay. Now are you waiting until after the new rates  
10 go into effect to fill that position?

11 A Oh, absolutely not. That wouldn't have any bearing  
12 on whether we fill this position or not.

13 Q Okay. Now you said that if you do fill the position,  
14 you expect it, what, mid-spring, April, May?

15 A My best estimate at this time would be April 2008.  
16 We've advertised, we're actively seeking through the  
17 advertisement, but it would take some time, and I would think  
18 April 2008 would be the best estimate at this time.

19 Q Have you, have you done any interviews or taken any  
20 applications at this point?

21 A I'm not aware if there have been any interviews. I  
22 don't believe so. But we do have an additional person in that  
23 department right now that is absorbing some work.

24 Q Okay. Let me turn your attention to Issue 88  
25 regarding the Corporate Services Administrator, which is the

1 clerical position. Has the clerical position for the Corporate  
2 Services Administrator to assist in maintaining compliance been  
3 filled yet?

4 A No, it has not.

5 Q Okay. And has that position been advertised?

6 A I'm not sure on that one. I would have to look back.  
7 I'm not positive.

8 Q Okay. And would it be correct that the clerical  
9 functions are currently being done by other personnel in the  
10 Safety Department?

11 A No, I don't believe they're all being done. I  
12 believe part of the need for this position is to do some of  
13 that. If some of the work is being done, it's being done on an  
14 overtime basis by managerial personnel.

15 Q But they're responsible for getting that work done?

16 A Yes, they are.

17 Q Okay. Since the clerical position has not yet been  
18 filled, would it be correct that a full year's salary will not  
19 be expended in the test year for that position?

20 A In -- a full year's salary, I expect, will be  
21 expended in the first full year that the final base rates are  
22 in effect. So there will be a matching as far as when we  
23 receive rate recovery -- the first 12 months that we get a  
24 final rate recovery will match the period of time that a full  
25 annual amount of the expense is expected to be incurred.

1 Q But let me make -- understand if I'm correct.

2 A Okay.

3 Q Your test year is projected 2008 test year; correct?

4 A That's correct.

5 Q And this person will not be in as a full-time  
6 employee the whole year of 2008.

7 A No, they won't be in for the whole 2008. Although if  
8 you're looking at a typical year of what we'll expect and when  
9 the rates will be in effect, there will be a full year of  
10 expenses in that period of time when we receive one, one year's  
11 worth of final base rate recovery.

12 MS. CHRISTENSEN: No further questions of these  
13 witnesses.

14 CHAIRMAN CARTER: Okay. Commissioners?

15 You're recognized, Commissioner Skop.

16 COMMISSIONER SKOP: Thank you, Chairman Carter.

17 Just a quick question on just trying to put that into  
18 perspective. It seemed that the line of questioning with  
19 respect to putting a half-year's salary into the test year  
20 based on the fact that the position would not be filled until  
21 the middle of the year, which is a good point. A question to  
22 staff with respect to the test year in question versus when,  
23 assuming for the sake of discussion, the positions were filled  
24 and the salary was at its expected level outside of the test  
25 year, what is the tradeoff between the test year and the

1 expense of the rate case that would be necessary if the utility  
2 were to seek recovery for the full cost of those positions?  
3 Has anyone looked at this?

4 MS. BROWN: Commissioner, can we table that question  
5 for a minute until I get the staff person available?

6 And I would point out also that we will be providing  
7 a recommendation on these issues to the Commission for decision  
8 at an Agenda Conference coming down the road. But let me send  
9 someone to get Mr. Slemkewicz here and we'll try to answer your  
10 question.

11 COMMISSIONER SKOP: Mr. Chair, that's fine. I mean,  
12 I just was wondering whether, again, looking at those  
13 tradeoffs, and I'm sure that will be covered in the staff  
14 recommendation that comes as a result of this proceeding. So  
15 I'm fine with that. I don't need to hold up the proceeding on  
16 that.

17 MS. BROWN: Okay.

18 COMMISSIONER SKOP: Thank you.

19 MS. BROWN: All right. Thank you.

20 CHAIRMAN CARTER: Thank you. Commissioner  
21 Argenziano.

22 COMMISSIONER ARGENZIANO: Thank you, Mr. Chair.

23 I have some questions regarding the salary increases,  
24 which I understand in order to be competitive. The state loses  
25 employees all the time because we're not competitive in our

1 state employees' salaries. So I understand the reasoning. And  
2 I understand when I've learned about the company that the  
3 customers have pretty much been happy, rates have been low, and  
4 I appreciate that very, very much.

5 My concern is -- and I understand some of this is  
6 confidential, which makes it difficult for me. My concern is  
7 when we talk about executive salaries because there's been a  
8 trend in the country that executive salaries seem to just shoot  
9 up. And I'm not saying it's for this company, I don't know  
10 because it's confidential, but my concern is the executive  
11 salaries. What percentage are they going up and how much?

12 MS. MARTIN: In our company we have three executive  
13 officers and their increase is projected to go up 11 percent  
14 for 2008 over the historical year.

15 COMMISSIONER ARGENZIANO: And the -- your average  
16 worker, your salary increases for your average worker, what  
17 percent are they going up?

18 MS. MARTIN: I would say on average it would probably  
19 be around 5.5 percent. Some would be more. And, again, it  
20 would depend on the result of the salary survey, which we did  
21 provide those as well.

22 COMMISSIONER ARGENZIANO: I guess I have concerns  
23 with that. And not knowing the numbers, it really disturbs me.  
24 I don't know if OPC has looked into that at all, Mr. Chairman.  
25 But at a time when everything is at an all-time high and we're

1 looking at some companies who the executives or CEOs are making  
2 unbelievable amounts of money, it's a concern when we talk  
3 about passing it on to the consumer. So maybe OPC can answer  
4 that. It looks like Mr. Commissioner Skop --

5 MS. CHRISTENSEN: Commissioner, I can just briefly  
6 say that is an issue in this case and we will certainly be  
7 addressing it in our briefs. We feel we have sufficient record  
8 evidence to present our position to the Commissioners on the  
9 executive salaries and the salary surveys and other requested  
10 salary increases. Ms. Merchant also addresses that and she  
11 will be testifying later today.

12 COMMISSIONER ARGENZIANO: Okay. Thank you.

13 CHAIRMAN CARTER: Okay. Commissioner Skop.

14 Mr. Horton, one second.

15 MR. HORTON: One clarification, Mr. Chairman. I  
16 think there was a confidential exhibit attached to Ms. Martin's  
17 rebuttal testimony. And I have copies here which I had  
18 intended to use when she was on rebuttal, but I'd be happy  
19 to -- I think that's what you may have been referring to,  
20 Commissioner. I'd be happy to pass those out at this time.

21 CHAIRMAN CARTER: Let's hold for a moment. Let's  
22 hold for a moment.

23 Commissioner Skop, you're recognized.

24 COMMISSIONER SKOP: Thank you, Chairman Carter. To  
25 Commissioner Argenziano's point and I think the point that was

1 just made, I requested staff to provide a non-redacted version  
2 of the confidential exhibit so we can look and assess the  
3 salaries and the percentage increases to just get a lay of the  
4 land of what's really going on. So thank you.

5 CHAIRMAN CARTER: Commissioners, the reason I told  
6 Mr. Horton to hold up is that if you want to wait until  
7 Ms. Christensen is on that issue, we can deal with it at that  
8 point in time.

9 Ms. Christensen, I'm not speaking for you, but do you  
10 think that probably would be the most appropriate time to do it  
11 or what's your recommendation?

12 MS. CHRISTENSEN: Commissioner, I've concluded my  
13 questions for the direct testimony of these witnesses. Our  
14 witness Ms. Merchant will be up on the stand later, and she  
15 does direct, she does testify regarding the salary, salary  
16 survey and executive salaries, and that may be the appropriate  
17 time, if the Commissioners have questions regarding our  
18 position and what that is, to ask during that period of time.

19 CHAIRMAN CARTER: And you do have access to these --

20 MS. CHRISTENSEN: Yes. We have reviewed all of the,  
21 that information. I believe we've also received copies of the  
22 confidential information. And as I said, I believe those may  
23 have been already made part of the record. So our intention is  
24 certainly to thoroughly address that in our posthearing brief.  
25 And we think that the, the record speaks for itself. But if

1 any specific questions come up, Ms. Merchant certainly is, has  
2 looked at the information and should be able to answer  
3 questions regarding that as well.

4 CHAIRMAN CARTER: Commissioners, do you want to wait  
5 until that time or do you want to do it now or what's your  
6 pleasure?

7 COMMISSIONER ARGENZIANO: It doesn't matter as long  
8 as I get it sometime.

9 MR. HORTON: Mr. Chairman, Ms. Martin does address  
10 that in her rebuttal, and she will be back on the stand in her  
11 rebuttal sponsoring these exhibits.

12 CHAIRMAN CARTER: Okay. And also, as Ms. Christensen  
13 said, Ms. Merchant will be dealing with that, and it probably  
14 may help to just kind of flow with that issue when we get to  
15 that point.

16 Staff, do you have any questions?

17 MS. BROWN: We have no questions. I do have some  
18 procedural questions about two exhibits. One is Exhibit  
19 Number 8 for FPUC. I'm not sure that that was marked for  
20 identification. And I'm also interested in whether OPC wants  
21 to mark their response to OPC POD-2 for identification. That  
22 wasn't done either.

23 MS. CHRISTENSEN: That's correct. I would ask to  
24 have our exhibit marked for identification as Exhibit 92 and at  
25 the appropriate time ask that that be moved into the record.

1 CHAIRMAN CARTER: Exhibit 92, which would be the  
2 handout that you passed out.

3 MS. CHRISTENSEN: Correct. And I think we have a  
4 short title on the front page, not a very short title but what  
5 could serve as a short title.

6 CHAIRMAN CARTER: You want to use FPUC Support for  
7 Corporate Accounting?

8 MS. CHRISTENSEN: Over and Above Adjustments.

9 CHAIRMAN CARTER: Over and Above Adjustments.

10 MS. CHRISTENSEN: Yes.

11 CHAIRMAN CARTER: Give me a chance to write this one  
12 down. And so that would be Exhibit 92, Commissioners.

13 (Exhibit 92 marked for identification.)

14 Also, Ms. Brown, you had another matter?

15 MS. BROWN: Yes. I was wondering about Exhibit 8,  
16 which is Appendix 1.

17 MR. HORTON: Actually that Comprehensive Exhibit  
18 List, it's a typo. Mr., Mr. Camfield and Ms. Cox actually  
19 should be shown as the witnesses.

20 MS. BROWN: Okay. All right. Thank you for  
21 clarifying that. We'll fix that when, with the next witnesses.

22 CHAIRMAN CARTER: Okay. Just one second,  
23 Commissioners. We'll use this Exhibit 92 to put it -- okay.  
24 Before I go to staff, Commissioners, I'd ask if they have any  
25 questions. Are there any additional questions from any of the

1 Commissioners of these witnesses?

2 Ms. Brown, you're recognized.

3 MS. BROWN: I think it's time to move the exhibits  
4 into the record.

5 MR. HORTON: Wait a minute.

6 CHAIRMAN CARTER: Okay. One second here.

7 MS. BROWN: Oh, do you have redirect?

8 MR. HORTON: Just one second to look at my notes  
9 here.

10 CHAIRMAN CARTER: Okay. Take a second and look at  
11 your notes.

12 MR. HORTON: No. I don't have any, any redirect, and  
13 I would, would move the exhibits.

14 CHAIRMAN CARTER: Okay. One second. Okay. Then the  
15 exhibit that we're talking about is the one that's been marked  
16 as Exhibit -- well, you go first, Mr. Horton.

17 MR. HORTON: I believe that would be Exhibits 5 and  
18 6.

19 CHAIRMAN CARTER: Exhibit 5 and 6. Let's --

20 MS. BROWN: And 7.

21 MR. HORTON: And 7. I'm sorry. And 7.

22 CHAIRMAN CARTER: The exhibits, Commissioners, on  
23 your list should be, have been marked for identification  
24 Exhibits 5, 6 and 7. Any objection?

25 MS. CHRISTENSEN: No.

1 (Exhibits 5, 6 and 7 admitted into the record.)

2 MS. BROWN: Mr. Chairman, I need to ask a question  
3 about 4, FPUC's composite MFR exhibit.

4 CHAIRMAN CARTER: You're recognized.

5 MR. HORTON: My intent, I'm sorry, my intent with  
6 Exhibit 4 would be to move that once all parts of it have been  
7 sponsored since those are the MFRs.

8 MS. BROWN: All right.

9 CHAIRMAN CARTER: Okay.

10 MS. BROWN: We'll hold off.

11 CHAIRMAN CARTER: Move on.

12 Ms. Christensen, that will be Exhibit 92.

13 MS. CHRISTENSEN: Yes. At this time I would ask that  
14 Exhibit, OPC's Exhibit 92, the Support for the Corporate  
15 Accounting Over and Above Adjustments, be moved into the  
16 record.

17 CHAIRMAN CARTER: Any objections? Hearing none, show  
18 it done.

19 (Exhibit 92 admitted into the record.)

20 Commissioners, I wanted to give, I think, our court  
21 reporter, we've had her on for like two hours, and give her a  
22 break to kind of maybe tag out with one of her colleagues or  
23 so.

24 But let me just ask this before we take our break for  
25 the court reporter, did we cover, Ms. Brown, did we cover

1 everything on these two witnesses here on this panel?

2 MS. BROWN: Yes, I think so.

3 CHAIRMAN CARTER: And for the parties, did we cover  
4 all the witnesses for these two witnesses that are on the  
5 panel, all the questions for this panel?

6 Okay. Then, Commissioners, we're looking at, I  
7 guess -- as I look on my left and my right I see a different  
8 time. So let's just do it this way. We'll come back at  
9 11:36 -- let's make it 11:40. I've got 11:26 on my watch, so  
10 let's make it 11:40 on my watch. So we are in recess.

11 (Recess taken.)

12 (Transcript continues in sequence with Volume 2.)

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1 STATE OF FLORIDA        )  
                              :  
2 COUNTY OF LEON         )                    CERTIFICATE OF REPORTER

3

4                    I, LINDA BOLES, RPR, CRR, Official Commission  
Reporter, do hereby certify that the foregoing proceeding was  
5 heard at the time and place herein stated.

6                    IT IS FURTHER CERTIFIED that I stenographically  
reported the said proceedings; that the same has been  
7 transcribed under my direct supervision; and that this  
transcript constitutes a true transcription of my notes of said  
8 proceedings.

9                    I FURTHER CERTIFY that I am not a relative, employee,  
attorney or counsel of any of the parties, nor am I a relative  
10 or employee of any of the parties' attorneys or counsel  
connected with the action, nor am I financially interested in  
11 the action.

12                    DATED THIS 28<sup>th</sup> day of February, 2008.

13

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LINDA BOLES, RPR, CRR  
FPSC Official Commission Reporter  
(850) 413-6734

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