

080366

REQUEST TO ESTABLISH DOCKET RECEIVED-FPSC  
(Please Type)

Date: 6-23-08 Docket No.: 08 JUN 23 AM 10:03

1. Division Name/Staff Name: ECR / SLEMKEWICZ COMMISSION CLERK

2. OPR: ECR

3. OCR: GCL, RCA

4. Suggested Docket Title: PETITION FOR RATE INCREASE BY FLORIDA PUBLIC UTILITIES COMPANY  
Legend: CMP, CON, CTR, ECP, GDL, OPC, RCA, SCR, SGA, SEC, OTH

5. Suggested Docket Mailing List (attach separate sheet if necessary)  
A. Provide NAMES OR ACRONYMS ONLY if a regulated company.  
B. Provide COMPLETE NAME AND ADDRESS for all others. (Match representatives to companies.)

1. Parties and their representatives (if any):

Table with 2 columns for party name and representative information.

2. Interested persons and their representatives (if any):

Table with 2 columns for interested persons and their representatives. Handwritten 'OPC' in the first row.

6. Check one: [X] Documentation is attached. [ ] Documentation will be provided with recommendation.

DOCUMENT NUMBER-DATE  
05349 JUN 23 8



P O Box 3395  
West Palm Beach, FL 33402-3395  
(561) 838-1725

June 10, 2008

The Honorable Matthew M. Carter II, Chairman  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Dear Chairman Carter:

After considerable review and analysis, Florida Public Utilities Company ("FPUC" or the "Company") now finds it necessary to file with the Florida Public Service Commission ("Commission") pursuant to Section 366.06 F.S. for an increase in our natural gas rates and charges in order that we may have the opportunity to earn a fair rate of return on our investment in utility plant and working capital. Earning a fair rate of return will enable us to continue our high quality of service and maintain financial integrity, which are in the best interest of our customers.

The Company has experienced and is expecting to experience continued increases in expenses and despite efforts to keep expenses down, many are beyond the control of the Company and we expect a significant declining rate of return in our natural gas operations. Our last Natural Gas Rate Case was Docket No. 040216-GU, authorized an increase in revenues, which went into effect in November 2004.

In accordance with Rule 25-7.140, F.A.C., Test Year Notification, we have selected the twelve-month period ending December 31, 2009 as the projected test year for our petition for a permanent increase in our rates and charges. We offer the following reasons for selecting this period:

1. The calendar year serves also as our fiscal year for accounting purposes.
2. The new rates developed in this rate case will be effective on or after January 1, 2009.
3. The Company believes the proposed 2009 test year will accurately reflect the economic conditions in which the Consolidated Natural Gas Division will be operating during the first twelve months the new rates will be in effect.

DOCUMENT NUMBER-DATE

PO BOX 3395 ▲ West Palm Beach, Florida 33402-3395 ▲ Phone: 561.832.0872 ▲ Web: [www.fpuc.com](http://www.fpuc.com) 05349 JUN 23 8

FPSC-COMMISSION CLERK

4. Our most recent overall rate of return for the twelve-month period ending December 31, 2007 was below our allowable ROR. The overall average rate of return for the twelve month period ending March 31, 2008 was 6.50%. The midpoint allowable rate of return was 8.14%. The overall rate of return for the twelve-month periods ending December 31, 2008 and 2009 will decline further below our allowable rate of returns based on our projections for 2008 and 2009.

As required in the above rule, we submit the following major factors, which necessitate a rate increase along with their estimated annual revenue requirement impact:

1. Historical events had a significant unfavorable impact to earnings since our last rate proceeding. The value of the pension plan assets significantly increased pension expense from the amount recovered in our rate proceeding in 2004. Current actuarial estimates show pension expense increasing by approximately \$850,000 in 2009 over the cost recovered in our 2004 rate proceeding and the estimated annual impact to the Consolidated Natural Gas Division is \$450,000.
2. Insurance costs continue to greatly increase. Management believes that medical costs will also increase approximately \$600,000 in 2009 over 2005. The Company made revisions to the medical plan to help minimize the effect on operating income. The estimated annual impact to the Consolidated Natural Gas Division in 2009 is \$300,000 over the amount recovered in our most recent rate proceeding.
3. Accounting and audit service expenses are expected to increase by an estimated \$400,000 annually in 2009 over 2005. This is due to additional work requirements of regulations on the external auditors including Sarbanes-Oxley Act as well as the effects of becoming an accelerated filer for SEC purposes. The estimated annual impact to the Consolidated Natural Gas Division is \$200,000 over the amounts recovered in our most recent rate proceeding.
4. Based on a review of the adequacy of storm reserves, the reserves are believed to be currently deficient. The reserves need to be brought to an adequate level over a period of ten years. The estimated annual impact to the Consolidated Natural Gas Division is unknown at this time.
5. Additional capital expenditures and maintenance increases are required to increase the reliability of our system. We do not have the estimated annual impact to the Consolidated Natural Gas Division at this time.
6. Environmental cleanup is continuing to impact our natural gas division, and cash requirements. The capital expenditures and related expenditures will impact our overall requirements.
7. Inflationary effect on new and replacement utility plant and on operating expenses over the 4-year period since our last rate case. The estimated annual impact to the Consolidated Natural Gas Division is unknown at this time.

8. Adjustments in annual depreciation expense will result from revised new depreciation rates effective with the finalization of our consolidated natural gas depreciation study to be filed in conjunction with this rate proceeding. The estimated annual impact to the Consolidated Natural Gas Division is unknown at this time.
9. The South Florida division is building a new operations center on land we currently own. This is necessary due to the deteriorated condition of the existing facility, and the need to provide additional space in the operations center for operations and engineering personnel currently located in the main office and on environmentally impacted facilities. Moving the operations and engineering personnel will provide additional efficiency for customer service personnel and will help us better serve our customers. The building is expected to be complete in early 2010. The estimated total cost of the building is expected to be approximately \$4.0 to \$5.0 million. The estimated annual impact to the Consolidated Natural Gas Division is unknown at this time.
10. The overall decline in the construction industry, impact to customer growth rates, and conservation measures taken by our customers as a result of the economic slow-down and increases to overall fuel costs has significantly impacted our results of operations and growth rates. This general economic slow-down is expected to continue throughout the next five years.

Since our last natural gas rate case, the following measures were implemented for the purpose of reducing revenue requirements:

1. Managing capital expenditures to stay in line with expected increases in customer growth and inflation. Reviewed capital expenditures to try and ensure the increase in net plant per customer amount was kept consistent.
2. Improved productivity in the construction crews by ensuring efficient equipment is available and actively monitoring actual and estimated cost to identify areas in which productivity can be improved.
3. Improved purchasing functions in order to reduce costs and achieve better inventory control.
4. Issuance of short-term debt with favorable interest rates to assist in the financing requirements of capital and operating expenditures.
5. To hold down rising medical insurance costs we have made changes in medical programs, premiums and deductibles over the years including 2006 and 2007.
6. The Company historically has been able to manage costs. Steps are taken to budget and find ways to keep costs down on a continual basis.
7. Modified our pension plan to help in managing benefit costs. We now offer a

matching 401K for new hires instead of a pension plan.

8. Additional emphasis on reviewing monthly budget variances to more quickly identify and correct areas in which variances occur. This allows work plans to be modified in order to ensure that budgets are maintained in the best manner possible.

FPUC will be filing MFR schedules consistent with current Commission minimum filing requirements and similar to those filed in our last rate case. We also will be requesting interim relief pursuant to Section 366.071, Florida Statutes, utilizing calendar year 2007 as the test period. Interim relief is necessary in order to allow the Company an opportunity to earn within its authorized range. Finally, the calendar year 2009 will be presented as the projected test year, calendar year 2008 will be presented as the projected prior year with actual data through April 2008 and the calendar year 2007 will be presented as the historic year and interim test year.

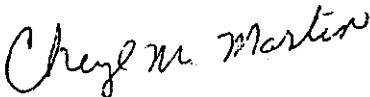
The Company has not undertaken this filing without a considerable amount of study. We have undertaken to provide quality service to our customers and to tightly control our expenses. Our rates are among the lowest in Florida; but we are experiencing increases which are beyond our control and we cannot continue to maintain a high quality of service and customer satisfaction at the current rates.

We plan to file the petition and the minimum filing requirements (MFRs) for rate relief on or before December 23, 2008 and will advise you if this date cannot be met.

Finally, pursuant to Rule 25-7.140, Florida Administrative Code, the Company is requesting that this petition be processed as a PAA, pursuant to Section 366.06(4), Florida Statutes.

If you need any additional information, please let me know.

Sincerely,



Cheryl M. Martin  
Controller

cc:  
Office of Public Counsel  
Norman Horton, Esq.  
George Bachman  
Don Kitner  
Barry Kennedy  
Marc Schneidermann  
Jack English  
Chuck Stein