



January 31, 2014

**BY HAND DELIVERY**

The Honorable Art Graham  
Chairman  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

Re: Test Year Notification Pursuant to Rule 25-6.140, Florida Administrative Code

Dear Chairman Graham:

Florida Public Utilities Company (“FPUC”) operates as an electric utility in Florida, as well as a natural gas utility, subject to regulations by the Commission under Chapter 366, Florida Statutes. FPUC’s electric utility operations are comprised of two discrete divisions – one serving in and around Marianna, Florida (Northwest Division) and the other serving Fernandina Beach, Florida (Northeast Division) (jointly, “Consolidated Electric Division” or “Company”). FPUC’s Consolidated Electric Division is also unique in that, currently, it does not own any generation and, therefore, relies entirely upon power purchases to serve its 31,087 customers. The Company efficiently meets its obligation to serve, providing the highest quality of service, safely and reliably. However, in recent years, the Company has identified challenges, which if not addressed, will jeopardize its ability to provide the quality of service consistent with its customers’ expectations.

In particular, the slow economic recovery has had a significant impact on the areas of the State served by FPUC, as well as the Company itself. The costs of providing service have continued to increase over the seven-year interim since the Company’s last rate case, while growth in customer count, load, and revenues have remained at a virtual plateau. In response, the Company has taken several proactive steps to manage costs, including consolidation of many employee functions, many of which have been undertaken since the Company’s acquisition by Chesapeake Utilities Corporation in 2010. In spite of these efforts, however, the Company’s costs continue to rise and further efforts to hold costs steady would likely be detrimental to the Company’s service quality and reliability performance. In addition, the Company has made improvements to the infrastructure in its operating areas, and has significantly improved the reliability of service in those areas. As such, the Company finds it necessary to seek an adjustment to its base rates and other charges in order that the Company may continue to provide its customers with safe and reliable service they deserve. The Company, therefore, submits this Test Year Notification letter, along with the following required information.



*A. Test Year Selection*

In accordance with Rule 25-6.140, Florida Administrative Code, the Company has selected the twelve-month period ending September 30, 2015, as the projected test year for purposes of the Company's request for a permanent base rate increase. The Company's request will seek an effective date for new rates of October 1, 2014. The Company believes that the requested test year is appropriate in that it will (1) best reflect the economic conditions impacting Company during the first 12-month period that the new rates will be in effect, and (2) provide the most accurate picture of revenues (which are projected to continue to decline) as compared with the Company's cost to serve during the initial period new rates would be placed into effect.

*B. Major Factors Necessitating Base Rate Increase*

The following factors are the key drivers necessitating the Company's request for a base rate increase:

1. The overarching factor is that the Company's O&M expenses have increased, while its revenues have remained stagnant. This is due, in some part, to the fact that the Company's service areas, particularly that of the Northwest Division, are more rural. These areas have generally lagged behind other areas of the State in showing any indication of economic rebound. Thus, while the Company has continued to incur increasing costs to provide reliable and safe service, there has been little or no corresponding growth in load or customer count.
2. The Company has also made significant investments since the last rate proceeding, in excess of \$5,000,000, in facilities to enhance the service reliability of both Divisions. The capital improvement projects included replacement of aging/unreliable underground conductors, replaced/upgraded internal components at a distribution substation, replaced/upgraded transmission circuit breakers at two substations, reconfigured/upgraded substation buss at one substation, replaced a number of wooden distribution poles, relocated inaccessible distribution lines to roadways, replaced insulators along a coastal highway, replaced/upgraded distribution regulators/reclosers, replaced a substation LTC transformer (2014), replaced 34 wood transmission poles with concrete (2014).

FPUC anticipates further future investment in its distribution infrastructure in order to comply with reliability criteria, further harden the system to storms (particularly in its coastal service areas) and improve system safety.

*C. Efforts and Actions Taken to Avoid a Base Rate Increase*

The Company has undertaken every effort to avoid seeking a base rate increase, as outlined below:

1. The Company employs best management and accounting practices in order to track and evaluate costs and expenditures. The Company utilizes an O&M budget review process that enables it to maintain expenses at a reasonable level, as well as a planning process that ensures capital expenditures are implemented in an efficient and cost-effective manner.
2. Since its acquisition by Chesapeake Utilities, numerous cost savings measures have been implemented, including modifications to benefits plans for employees and retirees and consolidation of some functions, reducing the number of operational employees.
3. Also, the Company has been able to take advantage of the stronger financial posture of Chesapeake Utilities Corporation in order to refinance debt at lower interest rates, as well as to obtain less expensive capital.
4. Finally, over the past several years, the Company has faced challenges with regard to increased fuel costs. While these costs do not directly impact base rates, these costs are flowed through to the Company's customers via the Fuel Clause. The Company has worked diligently with its current power providers to address these costs, which has resulted in the successful negotiation of an amendment to the power contract for the Company's Northwest Division that produces significant savings for the Company's customers.

*D. Interim Rates*

The Company will also be requesting interim rate relief in accordance with Section 366.071, Florida Statutes, using the period October 1, 2012 through September 30, 2013, as the test period. The Company will be seeking interim relief in order to allow the Company the opportunity to earn within its authorized range while its request for permanent rate relief is processed. The period October 1, 2012, through September 30, 2013, will serve as the Company's interim test year, as well as its historic test year period for purposes of its Petition.

Conclusion

To conclude, FPUC is not requesting that the Commission process the Company's petition for a rate increase using the proposed agency action process authorized in Section 366.06(4), F.S., because the Company's annual sales to end-use customers, on a consolidated basis, exceed the 500 gigawatt-hour threshold specified in that statutory provision. The Company anticipates filing its Petition as soon as practicable after the expiration of the notification period, but in any instance not before April 1, 2014. If the Company is unable to file on or before April 15, 2014, the Company will so notify the Commission in writing prior to that date, including an explanation as to the reasons for the delayed filing and an indication of the revised target date.

The Company has only undertaken this request upon thoughtful deliberation and considerable study. While the Company has made significant efforts to control its expenses, it will be unable to maintain high quality service to its customers at its current base rates. A base rate increase is necessary in order to ensure that the Company maintains a reliable and safe electric system, which ultimately inures to the benefit of the Company's customers.

Sincerely,

*s/ Cheryl Martin*

Cheryl Martin, Director/Regulatory Affairs  
Florida Public Utilities Company

cc: // Honorable Lisa P. Edgar, Commissioner  
Honorable Ronald A. Brisé, Commissioner  
Honorable Eduardo E. Balbis, Commissioner  
Honorable Julie Imanuel Brown, Commissioner  
Braulio Baez, Executive Director  
Curt Kiser, General Counsel  
Marshall Willis, Director/Accounting and Finance  
Jim Dean, Director/Economics  
Commission Clerk (Stauffer)  
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Beth Keating (Gunster Law Firm)