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FPSC - COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for Rate Increase by Florida Public Utilities Company	DOCKET NO.: 140025-EI FILED: August 15, 2014

PREHEARING STATEMENT OF THE OFFICE OF PUBLIC COUNSEL

The Citizens of the State of Florida, through the Office of Public Counsel, pursuant to the Order Establishing Procedure in this docket, Order No. PSC-14-0194-PCO-EI, issued May 1, 2014, and hereby submit this Prehearing Statement.

APPEARANCES:

Patricia A. Christensen
Associate Public Counsel
Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street, Room 812
Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida

Erik L. Sayler
Associate Public Counsel
Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street, Room 812
Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida

1. WITNESSES:

The Citizens intend to call the following witnesses, who will address the issues indicated:

NAME	ISSUES
Donna Ramas	7-10, 17-23, 29, 30, 34-45, 48, 51-54, 56-65
J. Randall Woolridge	24-29

2. EXHIBITS:

Through Donna Ramas and J. Randall Woolridge, the Citizens intend to introduce the following exhibits, which can be identified on a composite basis for each witness:

Witness	Exhibit	Title
Donna Ramas	DMR-1	Qualifications of Donna Ramas
Donna Ramas	DMR-2	Schedules and Calculations
Schedules	Title	
A-1	Revenue Requirement	
B-1	Adjusted Rate Base	
B-2	Reduction to eCIS System in CWIP	
B-3	Reduction to Cash Balance in Working Capital	
C-1	Adjusted Net Operating Income	
C-2	Increase in Late Payment Fees – Remove Refund Impacts	
C-3	Remove Non-Recurring Severance Expense	
C-4	Remove Marianna Litigation Bonus Payout	
C-5	Incentive Performance Plan Sharing Adjustment	
C-6	Update Pension Expense to Current Projections	
C-7	General Liability Expense	
C-8	Advertising Expense Adj. – Sponsorships, Donations, Golf	
C-9	Advertising Expense Adj. – Public Relations Advertising	
C-10	Economic Development Expense	
C-11	Limit Increase in CUC Charges to Escalation Impacts	
C-12	Remove Charges from Specific CUC Departments	
C-13	Reduction to Payroll Tax Expense – Impact of Other Adjs.	
C-14	Property Tax Expense Adjustment	
C-15	Income Tax Expense – Impact of Other Adjustments	
C-16	Interest Synchronization Adjustment	
D	Cost of Capital	
Donna Ramas	DMR-3	OPC Alternate Recommendation - Schedules and Calculations
Schedules	Title	
1	Revenue Requirement	
2	Cost of Capital	
3	Revision to OPC Adj. NOI Under Alternative Recommendation	
4	Interest Synchronization Adjustment	
Donna Ramas	DMR-4	CUC 2014 Proxy Statement Excerpt
J. Randall Woolridge	JRW-1	Recommended Cost of Capital
J. Randall Woolridge	JRW-2	Interest Rates
J. Randall Woolridge	JRW-3	Public Utility Bond Yields
J. Randall Woolridge	JRW-4	Summary Financial Statistics for Proxy Groups
J. Randall Woolridge	JRW-5	Capital Structure Ratios and Debt Cost Rates
J. Randall Woolridge	JRW-6	The Relationship Between Estimated ROE and Market-to-Book Ratios
J. Randall Woolridge	JRW-7	Utility Capital Cost Indicators

J. Randall Woolridge	JRW-8	Industry Average Betas
J. Randall Woolridge	JRW-9	DCF Model
J. Randall Woolridge	JRW-10	DCF Study
J. Randall Woolridge	JRW-11	CAPM Study
J. Randall Woolridge	JRW-12	Utility Return Comparisons
J. Randall Woolridge	JRW-13	FPUC's Proposed Cost of Capital
J. Randall Woolridge	JRW-14	GDP and S&P 500 Growth Rates
J. Randall Woolridge	JRW-15	Comparable Companies Analysis
J. Randall Woolridge	JRW-16	Appendices
	Appendix A	Qualifications of Dr. J. Randall Woolridge
	Appendix B	The Research on Analysts' Long-Term EPS Growth Rate Forecasts
	Appendix C	Building Blocks Equity Risk Premium
	Appendix D	The Use of Historical Returns to Measure an Expected Equity Risk Premium

3. <u>STATEMENT OF BASIC POSITION:</u>

In April 2014, FPUC filed this rate case where it has asked for a $5.82 million increase in base rates. Since the completion of the last rate case in 2008, FPUC merged with Chesapeake Utilities Corporation (Chesapeake or CUC), a Delaware corporation, in 2009.[1] FPUC electric (FPUC) is a division of FPUC Florida, which also includes its regulated Florida gas divisions, and is a subsidiary of Chesapeake. OPC believes that since FPUC is now a subsidiary of Chesapeake and is seeking recovery of new costs, additional scrutiny is required.

Based on OPC's review of FPUC's filings and discovery, FPUC has overstated its need for a base rate increase by at least $3.82 million. Although FPUC claims that it requires a $5.82 million increase in rates to earn a fair rate of return and cover expenses, OPC's close scrutiny of FPUC's MFRs shows that FPUC only needs approximately $2.0 million to earn a fair rate of return and meet its operating expenses. While some rate increase is warranted, FPUC has overstated its needs in cost of capital, rate base, and operating expenses.

FPUC's requested return on equity of 11.25% is extremely inflated and unsupported by

[1] "On October 28, 2009, CUC and Florida Public Utilities Company (FPUC) announced their corporate merger, whereby FPUC became a wholly owned subsidiary of CUC. On November 5, 2009, pursuant to Rule 25-9.044(1), Florida Administrative Code (F.A.C.), CUC notified us of its acquisition of FPUC." Order No. PSC-10-0029-PAA-GU, issued January 14, 2010, in Docket No. 090125-GU.

current market conditions. Under today's market conditions, using a 50% equity capital ratio, a 9.0% return on equity is reasonable and supported for this size and type of company. As Dr. Woolridge notes in his pre-filed testimony, transmission/distribution only electric companies like FPUC have lower authorized ROEs than electric companies with generation facilities in recognition of the lower risk of these transmission/distribution-only companies. In addition, authorized ROEs should be lower in recognition of a higher equity ratio which also reduces the Company's overall risk profile. Therefore, if FPUC's proposed capital structure of 58% equity is used, then the ROE should be 8.75%. Utilizing the 9.0% ROE, the overall fair rate of return is 5.56%. However, the overall rate of return would be 5.74%, using the 8.75% ROE.

A review of FPUC's requested rate base has revealed multiple areas that require adjustment, some directly related to the acquisition. An example of rate base costs that have increase significantly is in Construction Work in Progress (CWIP). When Chesapeake took over management of FPUC, they decided to adopt the FPUC customer service system with improvements, called eCIS plus. The eCIS plus program is being administered from the CUC level. Due to multi-year delays in implementation and project changes, the cost estimate for completion has continued to increase without adequate justification, significantly overstating the CWIP balance in rate base. Another example is the unwarranted increase in FPUC's requested working capital-cash which has increased by 625% compared to the last rate case.

In addition, Operation and Maintenance (O&M) expenses require adjustments. Due to the FPUC/Chesapeake merger, parent company costs flowing from out-of-state to Florida customers have dramatically increased administrative and general (A&G) type costs. Since the acquisition by Chesapeake, FPUC's O&M expenses have increased 31% and this increase is 15% more than the 2008 adjusted O&M expenses escalated. Additionally, some of these post-merger A&G costs are unnecessary for FPUC's customers and do not directly benefits the FPUC

electric division customers.

The following are examples of the costs which deserve additional scrutiny and subsequent adjustments. Chesapeake's corporate operations costs allocated to FPUC electric operations have increased from the historic test year to the projected test year by 21.5% in a two-year period. A $384,272 adjustment is warranted to limit these costs to the historic test year level plus inflation. In addition, FPUC has requested Corporate bonuses be allocated down from Chesapeake without providing any support that these bonus plans have goals and targets that benefit FPUC's customers. These costs should be eliminated, resulting in a $209,031 adjustment.

Moreover, three newly created CUC departments' have allocated costs that should be removed since these departments' activities appear to be non-electric utility related and do not directly benefit FPUC's electric customers. These departments include New Energy Development, Strategic Development, and the Senior Vice President (SVP) of Strategic Development Department, which have allocated a portion of their costs to FPUC's electric customers. Adjustments are necessary to remove these non-utility costs of $205,043 from the historic test year amounts for the New Energy Development and SVP of Strategic Development Departments. An additional, separate, adjustment is necessary to remove $111,296 for corporate allocations related to the new Strategic Development Department and its activities because the Company transferred these costs to FPUC direct expenses and renamed them "system planning." More than twenty additional adjustments have also been identified.

Based on the adjustments to cost of capital, rate base, and operation and maintenance expense discussed below an overall reduction to FPU's request of $3.82 million is warranted. Citizen's adjustments are discussed in detail below.

4. STATEMENT OF FACTUAL ISSUES AND POSITIONS:

Test Period and Forecasting

ISSUE 1: Is FPUC's projected test period of the 12 months ending September 30, 2015 appropriate?

OPC: FPUC has the burden of demonstrating that the test period it proposes is representative of going-forward operations and conditions. Until the Commission has received all the evidence in this case, a final determination of the appropriateness of FPUC's projected test year cannot be made.

ISSUE 2: Are FPUC's forecasts of Customers, kWh, and kW by rate class, for the projected test year appropriate? If not, what adjustments should be made?

OPC: Pending receipt and analysis of all discovery and evidence adduced at hearing, OPC cannot agree yet that FPUC has met its burden of showing that the forecasts of Customers, KWH, and KW are appropriate.

ISSUE 3: Are FPUC's forecasts of billing determinants by rate schedule for the projected test year appropriate? If not, what adjustments should be made?

OPC: Pending receipt and analysis of all discovery and evidence adduced at hearing, OPC cannot agree yet that FPUC has met its burden of showing that the forecasts of revenues are appropriate.

ISSUE 4: Are FPUC's estimated revenues from sales of electricity by rate class at present rates for the projected test year appropriate? If not, what adjustments should be made?

OPC: Pending receipt and analysis of all discovery and evidence adduced at hearing, OPC cannot agree yet that FPUC has met its burden of showing that the estimated revenues from sales of electricity by rate class at present rates are appropriate.

ISSUE 5: What are the appropriate inflation, customer growth, and other trend factors for use in forecasting the 2015 projected test year for FPUC?

OPC: Pending receipt and analysis of all discovery and evidence adduced at hearing, OPC has not determined yet that FPUC has met the burden of demonstrating that the inflation, customer growth, and other trend factors it has proposed are appropriate.

Quality of Service

ISSUE 6: Is the quality and reliability of electric service provided by FPUC adequate?

OPC: Pending receipt and analysis of all discovery and evidence adduced at the service and technical hearings, OPC has not determined yet that FPUC has met the burden of demonstrating that its quality and reliability of electric service is adequate.

Rate Base

ISSUE 7: Is FPUC's requested level of Plant in Service in the amount of $108,023,717 for the projected test year appropriate? If not, what is the appropriate amount?

OPC: Pending receipt and analysis of all discovery and evidence adduced at the hearing, OPC cannot agree yet that FPUC has met the burden of demonstrating that its plant in service is reasonable. Based on the information received to date, it appears that the appropriate amount of plant is $108,023,717. (Ramas)

ISSUE 8: Is FPUC's requested level of Accumulated Depreciation in the amount of $54,267,086 for the projected test year appropriate? If not, what is the appropriate amount?

OPC: No. Accumulated depreciation should be increased to correct an error in the reserve related to vehicle retirements. The appropriate amount of accumulated depreciation is $54,527,920, which reflects an increase to the reserve of $260,834. (Ramas)

ISSUE 9: Is FPUC's requested level of Construction Work in Progress in the amount of $4,625,996 for the projected test year appropriate? If not, what is the appropriate amount?

OPC: No. The Company has not adequately supported the reasonableness of its projected costs of $13.6 million for the eCIS plus project, $2,665,600 of which would be allocated to FPUC electric operations. In addition, the eCIS plus project has had multiple extensions of the projected in-service date that calls into question whether the project has been prudently and cost effectively managed. The CWIP balance for eCIS plus should be limited to FPUC electric operation's portion of the $8,519,385, (or $1,669,799) that has been supported by capital requisitions and internal project budgets. The total in-service project costs should also be fully investigated in the Company's next rate case proceeding including the amounts allocated to the various Florida regulated operations to ensure that ratepayers are not harmed by potential project mismanagement resulting in cost overruns. CWIP should be reduced by $715,848. (Ramas)

ISSUE 10: What is the appropriate projection methodology and balance of cash to be included in the 2015 working capital?

OPC: The cash balance included in working capital should be limited to $100,000. This allows for a 41.5% increase above the $70,678 included for cash in the prior rate case. The Company has not supported the significant increase in its requested

$512,312 cash level, nor has it demonstrated that its working cash needs have increased so significantly from the amount requested in the prior rate case. The acquisition by CUC should not cause such a large increase in the working cash needs of the FPUC electric operations. FPUC has not justified the 625% increase in the cash and working capital should be reduced by at least $412,312. Further adjustments may be appropriate pending the review of outstanding discovery and evidence adduced at hearing. (Ramas)

ISSUE 11: What is the appropriate balance of accounts receivable to be included in the 2015 working capital?

OPC: Pending receipt and analysis of all discovery and evidence adduced at hearing, OPC has not determined yet that the Company has met the burden to prove that its requested balance of accounts receivable included in working capital is reasonable and necessary.

ISSUE 12: Has FPUC estimated an appropriate balance in its accumulated provision for uncollectible accounts?

OPC: Pending receipt and analysis of all discovery and evidence adduced at hearing, OPC cannot agree yet that the Company has met the burden to prove that its requested balance of accumulated provision for uncollectible accounts included in working capital is reasonable and necessary.

ISSUE 13: What is the appropriate allocation methodology and amount for prepaid insurance to be included in working capital for electric operations?

OPC: Pending receipt and analysis of all discovery and evidence adduced at hearing, OPC has not yet determined that the Company has met the burden to prove that its requested balance of prepaid insurance included in working capital is reasonable and necessary.

ISSUE 14: What is the appropriate balance of unbilled revenue to be included in working capital?

OPC: Pending receipt and analysis of all discovery and evidence adduced at hearing, OPC has not yet determined that the Company has met the burden to prove that its requested balance of unbilled revenue included in working capital is reasonable and necessary.

ISSUE 15: What is the appropriate balance of temporary services to be included in working capital?

OPC: Pending receipt and analysis of all discovery and evidence adduced at hearing, OPC has not yet determined that the Company has met the burden to prove that its requested balance of temporary services included in working capital is reasonable and necessary.

ISSUE 16: Is FPUC's balance of Accrued Interest on Customer Deposits appropriate?

OPC: Pending receipt and analysis of all discovery and evidence adduced at hearing, OPC has not yet determined that the Company has met the burden to prove that its requested balance of Accrued Interest on Customer Deposits included in working capital is reasonable and necessary.

ISSUE 17: What is the appropriate balance of deferred debit rate case expense to be included in working capital?

OPC: None. The Commission's long-standing policy in electric rate cases is to exclude unamortized rate case expense from rate base because ratepayers and shareholders should share the cost of a rate case. FPUC has not demonstrated why this long-standing policy should not be followed. Rate base should be reduced by $346,028. (Ramas)

ISSUE 18: Is FPUC's request for a Self-Insurance Reserve appropriate? If not, what adjustment should be made?

OPC: No, the request to establish a self-insurance general liability reserve and the requested annual expense of $50,000 for large and $20,000 for small claims for a total of $70,000, annually, should be denied. The historical claim experience is well below this requested level and the company has only incurred one large claim over the last 5½ years. Given the potential reduction in regulatory scrutiny with charges to a self-insurance reserve, coupled with the Company's failure to establish that such a reserve approach is necessary, the Commission should reject FPUC's requested self-insurance reserve. The appropriate adjustments, which impact the requested injuries and damages expense, are addressed in Issue 45. (Ramas)

ISSUE 19: Is FPUC's request to establish a regulatory asset for the general liability claim of $250,000 appropriate?

OPC: No, the incident that gave rise to the request for a regulatory asset occurred in 2012, prior to the historic test year. Further, the incident raises concerns as to the appropriateness of recovery from ratepayers. Moreover, FPUC has not met its burden that a special regulatory asset should be established by showing it was reasonable and prudent, and not negligent, in its actions. The requested regulatory asset of $250,000 and related $50,000 annual amortization expense should be disallowed. If the Company has included the proposed regulatory asset as a component of working capital in rate base, it should be removed. The appropriate adjustments, which impact the requested injuries and damages expense, are addressed in Issue 45. (Ramas)

ISSUE 20: Should an adjustment to projected test year expenses be made to account for the impact of the Paid Time Off (PTO) policy during the historic test year? If yes, what adjustment should be made?

OPC: Yes. In 2013 FPUC changed its PTO policy to bring it in line with the company-wide PTO policy, which created a one-time reversal of the liability, which should be returned to customers. A regulatory liability of $141,687 should be established for the impact of the change in policy to return the amount to ratepayers who funded the liability. Test year expenses should be reduced by $28,337 to amortize the one-time gain over five years which resulted from the change in PTO policy. Working capital should also be reduced by $127,518 to reflect the unamortized regulatory liability to be returned to ratepayers ($141,687 less $14,169 in average test year accumulated amortization). (Ramas)

ISSUE 21: Is FPUC's requested regulatory asset for the tax rate change appropriate? If not, what adjustment should be made?

OPC: No. The proposed tax step-up regulatory asset and the amortization should be rejected. No reasonable basis exists to request a regulatory asset associated with the initial step-up for the ADIT balance from ratepayers more than four years after the tax step-up adjustment was required to be booked and more than four years after the acquisition by CUC took place. Any increase in the accumulated deferred income tax balance tax balance resulting from the acquisition or potential regulatory asset associated with the required increase in the ADIT balance as a result of the acquisition should have been timely addressed as part of the acquisition, which was not requested. This issue is plainly related to the acquisition and approval of any recovery would be retroactive and inappropriate. Working capital should be reduced by $346,515 to remove the proposed new regulatory asset from rate base and amortization expense should be reduced by $13,584. (Ramas)

ISSUE 22: Is FPUC's proposed level of working capital for the projected test year of $2,213,542 appropriate? If not, what is the appropriate amount?

OPC: No, based on OPC's recommended adjustments, working capital should be reduced by $1,232,373 to reflect a level of $981,169 for the test year. Further reductions may be appropriate pending the review of outstanding discovery and evidence adduced at hearing. (Ramas)

ISSUE 23: Is FPUC's requested rate base of $60,596,196 for the projected test year appropriate? If not, what is the appropriate amount?

OPC: No, based on the OPC recommended adjustments addresses in prior issues, rate base should be reduced by $2,209,055 to reflect a test year level of $58,387,115. Further adjustments may be appropriate pending the review of outstanding discovery and evidence adduced at hearing. (Ramas)

Cost of Capital

ISSUE 24: What is the appropriate cost rate for customer deposits for the projected test year?

OPC: Pending receipt and analysis of all discovery and evidence adduced at hearing, OPC cannot agree yet that the Company's requested customer deposit interest rate is reasonable and necessary. Based on information received to date the customer deposit interest rate of 2.42% appears to be appropriate.

ISSUE 25: What is the appropriate cost rate for short-term debt for the projected test year?

OPC: The Company's requested 3.70% short-term debt cost rate is well in excess of current market rates. The appropriate cost rate should be 1.65%, using the average of the current 1-month and 3-month LIBOR rates and the projected 2015 LIBOR rate, in conjunction with the 1.10% margin required on the Company's short-term credit facility. (Woolridge)

ISSUE 26: What is the appropriate cost rate for long-term debt for the projected test year?

OPC: The appropriate cost rate for long-term debt should be 4.90% for the parent company debt and 12.74% for the FPUC legacy debt. (Woolridge)

ISSUE 27: What is the appropriate capital structure for the projected test year?

OPC: FPUC no longer has its own capital structure, so FPUC proposes to utilize CUC's 58% equity capital structure. However, CUC's common equity ratio is significantly higher than the majority of other electric utilities, and supports Chesapeake's high level of unregulated businesses. Therefore, the Commission should use a 50% equity ratio which is similar to that used in the last rate case and does not penalize ratepayers with a higher equity rate merely because FPUC merged with CUC. However, if a higher equity ratio is used, then the authorized ROE should be reduced to reflect the lower risk capital structure. Further, the request to specifically assign the remaining higher cost legacy debt to FPUC should be denied as inappropriate for several reasons. First, several of FPUC's prior legacy debt issues were refinanced with lower cost debt and included in the CUC capital structure. Second, the capital structure finances both CUC's regulated and unregulated businesses and not any of the specific businesses of CUC. Therefore, the Commission should impose a 50% equity ratio and deny assigning all of the remaining legacy debt to FPUC. (Woolridge)

ISSUE 28: What is the appropriate return on equity (ROE) to use in establishing FPUC's revenue requirement?

OPC: An equity cost rate in the range of 8.75% to 9.00% is appropriate and consistent with the current economic environment. FPUC's requested ROE of 11.25% is excessive and out of line with today's market requirements. Further, FPUC is a transmission/distribution-only electric company, which has a lower risk profile than a fully-integrated electric company, and this lower risk should be reflected in the ROE. OPC's primary recommendation is a 9.0% ROE using a 50% equity ratio. However, if FPUC's requested equity ratio of 58% is used, then the appropriate ROE should be 8.75%. (Woolridge)

ISSUE 29: What is the appropriate weighted average cost of capital for FPUC including the proper components, amounts and cost rates associated with the capital structure for the projected test year?

OPC: OPC's primary recommendation for the capital structure utilizes a 50% equity ratio and a 9.0% ROE resulting in an overall rate of return of 5.56%. If the 58% equity ratio is utilized then an 8.75% ROE is appropriate resulting in an overall rate of return of 5.74%. Moreover, the request to specifically assign the remaining higher cost legacy debt to FPUC should be denied as inappropriate. (Woolridge, Ramas)

Net Operating Income

ISSUE 30: Has FPUC properly estimated an appropriate amount of Forfeited Discounts (late payment fees) in calculating the revenues for the projected test year?

OPC: No. Late payment revenues should be increased by $55,349 to remove the impact of late payment revenue refunds made by the Company that were required due to FPUC's failure to ensure that customer mail was being forwarded from a lockbox. The historic test year late payment fee revenues were understated due to refund of late fees related to the lockbox problem. Further, the test year level was inconsistent with the prior years and the amount incurred in 2014 to date. The recommended late payment revenue of $437,280 is consistent with prior year balances and the most recently amounts incurred. (Ramas)

ISSUE 31: Has FPUC made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Cost Recovery Clause?

OPC: Pending receipt and analysis of all discovery and evidence adduced at hearing, OPC cannot agree yet that FPUC has met the burden to show that it has made the appropriate test year adjustments to remove all clause related revenues and expenses.

ISSUE 32: What is the appropriate projected test year miscellaneous service revenue for FPUC?

OPC: Pending receipt and analysis of all discovery and evidence adduced at hearing, OPC cannot agree yet that FPUC has met the burden to show that it has made the appropriate test year adjustments to reflect the proper amount of miscellaneous service revenues.

ISSUE 33: Has FPUC made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Energy Conservation Cost Recovery Clause?

OPC: Pending receipt and analysis of all discovery and evidence adduced at hearing, OPC cannot agree yet that FPUC has met the burden to show that it has made the appropriate test year adjustments to remove all clause related revenues and expenses.

ISSUE 34: Is FPUC's projected level of Total Operating Revenues of $17,363,433 for the projected test year appropriate? If not, what is the appropriate amount?

OPC: No. The appropriate amount of test year revenues is $17,418,782. (Ramas)

ISSUE 35: Should an adjustment to projected test year expenses be made for severance payments paid to past employees during the historic test year? If so, what adjustment should be made?

OPC: Yes, test year expenses should be reduced by $127,628 to remove non-recurring severance costs charged to the FPUC electric division. These severance costs will not be incurred by FPUC in the projected test year. (Ramas)

ISSUE 36: Should an adjustment to projected test year expenses be made for Marianna litigation bonuses paid to past employees? If so, what adjustment should be made?

OPC: Yes, test year expenses should be reduced by $25,462 for the one-time, special Marianna bonuses that are non-recurring and not reflective of costs that will be incurred in the projected test year. Moreover, ratepayers should not be asked to fund the special bonuses that the Company decided to pay to employees who assisted on the Marianna litigation and referendum. (Ramas)

ISSUE 37: Is FPUC's projected test year payroll expense for stock-based compensation appropriate? If not, what adjustments should be made?

OPC: No, the goals of the executive stock-based compensation are focused on CUC's shareholders, are based on both CUC's regulated and unregulated businesses, and are not focused on benefitting FPUC's electric ratepayers. Expenses should be reduced by $97,287 to remove the executive stock-based compensation expense from the projected test year. (Ramas)

ISSUE 38: Is FPUC's projected test year payroll expense for corporate bonuses allocated to FPUC's electric operations appropriate? If not, what adjustments should be made?

OPC: No, FPUC has provided no information demonstrating that the CUC corporate bonus plans allocated to the Florida electric operations are focused on goals and targets that would benefit the Florida electric ratepayers. If the Commission accepts OPC's recommendation that CUC allocated costs to FPUC electric operations should be limited to the historic test year level plus escalation, then test

year expenses should be reduced by $209,031 to remove these unsupported CUC Corporate Bonuses. If the Commission does not adopt OPC's recommended adjustment to limit the CUC allocated costs to historic test year levels plus escalation, then projected test year expenses should be reduced by $173,491 to specifically remove the corporate bonuses included by the FPUC in the projected test year. (Ramas)

ISSUE 39: Is FPUC's projected test year payroll expense for the Incentive Performance Plan appropriate? If not, what adjustments should be made?

OPC: No. From September 2011 to September 2013, the amount of IPP benefits allocated to the electric division more than doubled, and during the same timeframe base wages were also increased. FPUC provided details on the IPP goals and targets in a confidential response. The Company has not supported that all of the IPP costs for Florida electric operations are focused on goals and targets that benefit the Florida electric ratepayers. Shareholders should fund 45% of the test year IPP payroll instead of FPUC's electric ratepayers, reducing expenses by $183,193. This would still include $223,902 for IPP costs to be funded by ratepayers, which exceeds the full expense level for the year ended September 30, 2012 of $211,562. (Ramas)

ISSUE 40: Is FPUC's proposed Salary Expense for the projected test year appropriate? If not, what adjustment should be made?

OPC: No, as addressed in Issues 35-39, salary expense should be reduced $642,601. (Ramas)

ISSUE 41: Is FPUC's proposed Pension and Benefits Expense for the projected test year appropriate? If not, what adjustment should be made?

OPC: No, pension expense should be based on the most recent actuarial projections by the Company's actuarial firms which includes the actuarial assumptions already selected for the current plan year and reflects the full impacts of actual pension plan funding made in recent years. The use of an historical 4-year average projection for pension expense should be denied as it does not take into account the current projection and actual funding status. Pension expense should be reduced by $151,914 to reflect the current actuarial assumptions, funding levels and amortization of the pension regulatory asset amortization. (Ramas)

ISSUE 42: Is FPUC's proposed Other Post Employment Benefits Expense for the projected test year appropriate? If not, what adjustment should be made?

OPC: Pending receipt and analysis of all discovery and evidence adduced at hearing, OPC cannot agree yet that FPUC has met the burden to show that its requested expense for other post-employment benefits is reasonable to include in test year expenses.

ISSUE 43: Is FPUC's proposed advertising expense for the projected test year appropriate?

If not, what adjustment should be made?

OPC: No. Several adjustments to remove inappropriate costs that should not be passed on to FPUC's customers are necessary: 1) $57,561 associated with sponsorships, donations, golf tournaments and golf-related costs; 2) $67,134 for public relations campaign costs and image building advertising costs; and 3) $23,465 for Shrimp Festival costs (historically recorded as advertising expense but identified by the Company as being economic development expense). After the total $148,160 adjustment is removed, remaining advertising expense should be $59,488. (Ramas)

<u>ISSUE 44</u>: Is FPUC's proposed reserve target level and annual storm damage accrual of $121,620 for the projected test year appropriate? If not, what is the appropriate amount?

OPC: FPUC has the burden to show that its requested target level and annual storm accrual are appropriate. Additionally, consistent with the current treatment approved for FPUC by the Commission, if the Company in any given year while the prospective rates are in effect does not spend the Commission approved amount of economic development expense included in rates, the difference should be credited to the storm reserve on an annual basis. (Ramas)

<u>ISSUE 45</u>: Is FPUC's proposed Injuries and Damage Expense for the projected test year appropriate? If not, what adjustment should be made?

OPC: No. The Company's requested $120,000 adjustment to increase injuries and damages expense is excessive and should be reduced by $65,711 to $54,289. Adjustments should be made to remove the proposed $50,000 amortization for the $250,000 deductible for the 2012 large claim and to remove the Company's requested $70,000 for funding of a self-insurance reserve for future large and small claims, totaling $120,000. However, a normalized claims expense based on the most recent 5½ years of actual claims experience of $54,289 is appropriate. The issue should be revisited in FPUC's next rate case and a period longer than 5½ years be reviewed and considered in establishing a normalized expense level to include in rates.

<u>ISSUE 46</u>: Is FPUC's proposed rate case expense for the 2015 projected test year appropriate? If not, what adjustment should be made?

OPC: Pending receipt and analysis of all discovery and evidence adduced at hearing, OPC cannot agree yet that the Company has met the burden to show that its requested rate case expense is reasonable. A final determination of the appropriate amount should be based on the supporting documentation provided by the Company and other evidence included in the official record of the case.

<u>ISSUE 47</u>: What is the appropriate period for the amortization of rate case expense?

OPC: Rate case expense should be amortized over the requested 5-year period.

ISSUE 48: Is FPUC's proposed Economic Development Expense for the projected test year appropriate?

OPC: No. The requested $50,000 is substantially higher than what FPUC has expended, on average, since the last rate case. Removing the shrimp festival costs, which historically were classified as advertising expenses, the five-year total spent on Economic Development was $134,955, an average of $26,991 per year. Economic development expense for FPUC electric operations should be limited to $27,000 per year and the Commission should continue the current requirement that economic development costs included in FPUC's electric rates that are not expended on qualifying activities in a given year should be applied to the storm reserve. Test year expenses should be reduced by $23,000 to limit the allowance to $27,000 annually. (Ramas)

ISSUE 49: Is FPUC's proposed Bad Debt Expense for the projected test year appropriate? If not, what adjustment should be made?

OPC: Pending receipt and analysis of all discovery and evidence adduced at hearing, OPC cannot agree yet that FPUC has met the burden to show that its requested bad debt expense is reasonable and supported by evidence in the record.

ISSUE 50: Are the cost allocations from FPUC's Common to FPUC's electric division for shared resources reasonable? If not, what adjustments are appropriate?

OPC: No. The Company should be required to share joint expenses related to economic development between its FPUC operating divisions (electric, natural gas, and non-regulated) when the Company name and logo are used, which does not differentiate or distinguish the FPUC brand from the individual services provided. This is especially essential given the new natural gas division now operating in the Fernandina Beach service territory.

ISSUE 51: Are the cost allocations made by FPUC's corporate parent, Chesapeake Utilities, to FPUC's electric division for shared resources reasonable? If not, what adjustments are appropriate?

OPC: No, FPUC's requested amounts associated with charges from CUC's corporate departments included in the projected test year expenses are excessive and have been projected by the Company to increase 21% in the 2-year period between the historic and projected test year. CUC projected its corporate expenses based on CUC internal budgets, which are historically higher than actual. Actual CUC charges allocated to FPUC's electric operations for 2012 to 2014 to date were 4.0% to 8.5% below budget. Further, projected test year O&M expenses in the filing are $1,592,152 (15%) higher than the benchmark (of which 84% are from A&G expenses). Projected test year allocations should be limited to the historic test year amount plus escalation consistent with FPUC's direct expenses

methodology, resulting in a $384,272 reduction to projected expenses charged from the CUC corporate operations to FPUC A&G expense accounts. Additionally, expenses should also be reduced $29,763 to remove the non-recurring consulting charges for two former FPUC executives included in the historic test amounts.

In addition, the costs charged from CUC to FPUC electric operations associated with the New Energy Development Department, the Strategic Development Department, and the SVP of Strategic Development Department should be removed as non-utility because they are not related to the function of nor do they benefit FPUC electric operations. Test year expenses charged from CUC corporate should be reduced by $205,043 to remove non-utility historical charges for the New Energy Development and the SVP of Strategic Development Departments. The adjustment for the Strategic Development Department is addressed further in Issue 52.

However, if the Commission does not limit corporate charges to historic test year levels plus escalation as recommended by OPC, additional adjustments are needed. First, an adjustment is needed to remove $100,000 in additional strategic development and CUC growth related costs which are non-utility charges related to outside services for general corporate matters from the CUC Other Overhead Costs charged to FPUC electric. Second, an adjustment to remove the $8,020 in non-utility costs associated with the CUC Utilicis Natural Gas Billing System Department should be made. (Ramas)

ISSUE 52: Are the direct charges from FPUC's corporate parent, Chesapeake Utilities, to FPUC's electric division for services and resources reasonable? If not, what adjustments are appropriate?

OPC: No. Test year expenses should be reduced by $111,296 to remove Strategic Development Department costs which were moved by the Company out of the Corporate O&M cost category to the non-corporate distribution expense category in the MFRs. The Company transferred these costs to FPUC as direct expenses and renamed them as "system planning" even though the activities for the department remained the same. The costs should be removed as non-utility because they are not related to the function of nor do they benefit FPUC electric operations. See OPC's position on Issue 51.

ISSUE 53: Is FPUC's requested amount for the Winter Event in the projected test year appropriate? If not, what adjustment should be made?

OPC: No, test year expenses should be reduced by $17,968. Having employee appreciation and informative events at such costly venues such as yachts, amusement parks, and golf/beach resorts is not a necessary cost in providing service to the Company's customers and there are more economic ways and locations in which employee appreciation and informative events can be held. (Ramas)

ISSUE 54: Is FPUC's requested amount of $4,231,489 for distribution O&M Expense for the projected test year appropriate? If not, what is the appropriate amount?

OPC: As addressed in Issues 51, 52, 56, and 57 distribution O&M expenses should be reduced by $168,967. First, expenses should be reduced by $111,296 to remove the non-utility CUC Strategic Development Department costs reclassified as system planning costs in the MFRs. Second, tree trimming costs should be reduced by $50,500 to remove the excessive and unsupported two-month normalization adjustment. Third, expenses should be reduced by $7,171 to remove 2/3 of the projected joint use audit expenses to be shared with other pole users. (Ramas)

ISSUE 55: Is FPUC's requested amount of $130,291 for transmission O&M Expense for the projected test year appropriate? If not, what is the appropriate amount?

OPC: Pending receipt and analysis of all discovery and evidence adduced at hearing, OPC cannot agree yet that FPUC has met the burden to show that its requested transmission O&M expenses for the projected test year are reasonable and appropriate.

ISSUE 56: Is FPUC's requested tree trimming expense in the projected test year appropriate? If not, what adjustment should be made?

OPC: No. FPUC's normalization adjustment of $50,500 should be removed from the projected test year. FPUC has not demonstrated that the amount recorded during the historic test year was abnormal and not reflective of normal tree trimming cost levels. Nor has it demonstrated that its methodology of normalizing costs based on only two months of expenditures is reasonable or reflective of a typical annual cost level. OPC's recommended tree trimming expense of $871,687 exceeds the historic three-year average cost level and also includes the escalation of the actual historic test year cost level based on the combined inflation and customer growth trend factor. (Ramas)

ISSUE 57: Is FPUC's requested joint audit expense in the projected test year appropriate? If not, what adjustment should be made?

OPC: No, FPUC and its vendor anticipate that costs will be divided between the cable company, telephone company, and FPUC. Thus, the full cost of the audit should not be passed on to FPUC's ratepayers. Under this expected sharing of costs, FPUC would be responsible for $17,927 ($53,781 / 3), or $3,585 per year amortized over a 5-year period ($17,927 / 5 years). Joint audit expenses should be reduced by $7,171 (the $10,756 included in the filing less the $3,585) to reflect the sharing of costs with the joint users. (Ramas)

ISSUE 58: Is FPUC's requested level of O&M Expense in the amount of $12,160,672 for the projected test year appropriate? If not, what is the appropriate amount?

OPC: No, based on OPC's recommended adjustments in previous issues, O&M expenses should be reduced by $1,865,736 to reflect a test year level of $10,294,936. (Ramas)

ISSUE 59: What is the appropriate amount of depreciation expense for the projected test year?

OPC: The appropriate amount of depreciation expense should be $3,705,077. FPUC has the burden to show that its requested depreciation expense is reasonable and appropriate for setting rates.

ISSUE 60: Is FPUC's requested level of Taxes Other Than Income of $992,182 for the projected test year appropriate? If not, what adjustment should be made?

OPC: No, Taxes Other Than Income should be reduced by $99,231 to $892,951. This includes a reduction to property taxes of $57,515 and payroll tax expense of $41,716.

FPUC has failed to support why its projected property taxes will increase by 14.85% in a two-year period. Over the four-year period 2010 through 2013, property tax basis only increased 7.1% while property tax expense only increased by 7.9%. Between 2010 through 2013, the average annual percentage change in property tax expense was only 2.61%. Escalating the actual historic test year property tax expense of $601,193 by the average annual increase factor of 2.61% for a two-year period to the projected test year would result in projected property tax expense of $632,968. Thus, the projected test year property tax expense of $690,483 should be reduced by $57,515 to $632,968.

Additionally, OPC's recommended adjustments to remove non-recurring severance payments, Marianna litigation bonuses, Corporate bonuses and sharing of the IPP costs, impact payroll tax expense. Applying the FICA tax rate to the various salary related adjustments, results in a $41,716 reduction to projected test year payroll tax expense. (Ramas)

ISSUE 61: Should an adjustment be made to Income Tax expense for the projected test year?

OPC: Yes. Based on OPC's recommended adjustments to rate base, capital structure, and operating income, (including the interest synchronization impact), income tax expense should be increased by $797,850. Further adjustments may be appropriate pending the review of outstanding discovery and evidence adduced at hearing. (Ramas)

ISSUE 62: Is FPUC's requested level of Total Operating Expenses in the amount of $16,595,318 for the projected test year appropriate? If not, what is the appropriate amount?

OPC: No. Based on the impact of OPC's recommended adjustments, total operating expenses should be reduced by $1,180,701. Further adjustments may be appropriate pending the review of outstanding discovery and evidence adduced at hearing. (Ramas)

<u>ISSUE 63</u>: Is FPUC's projected Net Operating Income in the amount of $768,115 for the projected test year appropriate? If not, what is the appropriate amount?

OPC: No, the projected NOI based on current rates should be $2,004,164. Further adjustments may be appropriate pending the review of outstanding discovery and evidence adduced at hearing. (Ramas)

<u>Revenue Requirements</u>

<u>ISSUE 64</u>: What is the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for FPUC?

OPC: The appropriate revenue expansion factor and NOI multiplier should be 1.6335. (Ramas)

<u>ISSUE 65</u>: Is FPUC's requested annual operating revenue increase of $5,852,171 for the projected test year appropriate? If not, what is the appropriate amount?

OPC: No. The appropriate annual increase in base rate revenues should be $2,001,113. Based on the proposed increase in service charge and other revenues of $30,962, the total increase in Service Charge and Other Revenues and in base rate revenues should be $2,032,075. (Ramas)

<u>Cost of Service and Rate Design</u>

<u>ISSUE 66</u>: What is the appropriate cost of service methodology to be used in designing FPUC's rates?

OPC: No position.

<u>ISSUE 67</u>: If a revenue increase is granted, how should the increase be allocated to rate classes?

OPC: No position.

<u>ISSUE 68</u>: What are the appropriate customer charges?

OPC: No position.

<u>ISSUE 69</u>: What are the appropriate demand charges?

OPC: No position.

ISSUE 70: What are the appropriate energy charges?

OPC: No position.

ISSUE 71: What are the appropriate standby rates?

OPC: No position.

ISSUE 72: What are the appropriate service charges?

OPC: No position.

ISSUE 73: What are the appropriate charges for temporary service?

OPC: No position.

ISSUE 74: Is FPUC's restructuring of the energy charges for the residential rate class into a two-tier inclining block structure appropriate?

OPC: No position.

ISSUE 75: Should FPUC's current outdoor lighting (OL-2) and street lighting (SL-3) rate classes be combined into a single Lighting Service (LS) rate class? If so, what are the appropriate lighting rates for the LS rate class? If not, what are the appropriate lighting rates for the OL-2 and SL-3 rate classes?

OPC: No position.

ISSUE 76: Should FPUC's current SL1-2 and OL (mercury vapor) rate classes be combined into a single OSL rate class? If so, what are the appropriate lighting rates for the OSL rate class? If not, what are the appropriate lighting rates for the SL1-2 and OL rate classes?

OPC: No position.

ISSUE 77: Should FPUC's Transitional Rate for non-profit sports fields be eliminated?

OPC: No position.

ISSUE78: Should FPUC's proposed Economic Development Rider Program (EDRP) tariff be approved?

OPC: No position.

ISSUE 79: What is the appropriate effective date for FPUC's new rates and charges?

OPC: No position.

Other Issues

ISSUE 80: Should FPUC be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?

OPC: Yes.

ISSUE 81: Should this docket be closed?

OPC: Yes.

5. STIPULATED ISSUES:

None at this time.

6. PENDING MOTIONS:

None.

7. STATEMENT OF PARTY'S PENDING REQUESTS OR CLAIMS FOR CONFIDENTIALITY:

None.

8. OBJECTIONS TO QUALIFICATION OF WITNESSES AS AN EXPERT:

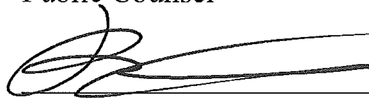
None.

9. STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE:

There are no requirements of the Order Establishing Procedure with which the Office of Public Counsel cannot comply.

Dated this 15th day of August, 2014

J.R. Kelly
Public Counsel



Patricia A. Christensen
Associate Public Counsel

Erik L. Sayler
Associate Public Counsel

Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street, Room 812
Tallahassee, FL 32399-1400
(850) 488-9330

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and foregoing **PREHEARING STATEMENT OF THE OFFICE OF PUBLIC COUNSEL** has been furnished by electronic mail and/or U.S. Mail on this 15th day of August, 2014, to the following:

Florida Public Utilities Company
Ms. Cheryl M. Martin
1641 Worthington Road, Suite 220
West Palm Beach, FL 33409-6703

Beth Keating
Lila A. Jaber, Esquire
Charles A. Guyton, Esquire
Gunster, Yoakley & Stewart, P.A.
215 South Monroe, Suite 618
Tallahassee, FL 32301

Keino Young
Martha Barrera
Suzanne Brownless
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Patricia A. Christensen
Associate Public Counsel