BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of 2007 Electric Infrastructure Storm Hardening Plan filed pursuant to Rule 25-6.0342, F.A.C., submitted by Florida Public Utilities Company.	DOCKET NO. 070300-EI
In re: Petition for rate increase by Florida Public Utilities Company.	DOCKET NO. 070304-EI ORDER NO. PSC-08-0327-FOF-EI ISSUED: May 19, 2008

The following Commissioners participated in the disposition of this matter:

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FINAL ORDER ON REVIEW OF 2007 ELECTRIC INFRASTRUCTURE STORM HARDENING PLAN AND PETITION FOR RATE INCREASE

BY THE COMMISSION:

I. BACKGROUND

The hurricanes of 2004 and 2005 that made landfall in Florida resulted in extensive storm restoration costs and long-term electric service interruptions for millions of electric investor-owned utility (IOU) customers. On January 23, 2006, we conducted a workshop to discuss the damage to electric utility facilities resulting from the recent hurricanes and to explore ways of minimizing future storm damages and customer outages. State and local government officials, independent technical experts, and Florida's electric utilities participated in the workshop.

On February 27, 2006, we issued Order No. PSC-06-0144-PAA-EI (Pole Inspection Order), requiring the IOUs to begin implementing an eight-year inspection cycle of their wooden poles.[1] Thereafter, on April 25, 2006, we issued Order No. PSC-06-0351-PAA-EI (Ten Initiatives Order), requiring the investor-owned electric utilities to file plans and estimated implementation costs for ten ongoing storm preparedness initiatives (Ten Initiatives) on or before June 1, 2006.[2]

In addition to the Pole Inspection Order and the Ten Initiatives Order, we initiated rulemaking to address distribution construction standards that are more stringent than the minimum safety requirements of the National Electrical Safety Code (NESC) and the identification of areas and circumstances where distribution facilities should be required to be constructed underground.[3] Rule 25-6.0342, Florida Administrative Code (F.A.C.), was adopted as a result of those rulemaking efforts.[4] The rule requires each IOU to file an Electric Infrastructure Storm Hardening Plan (Plan) with us for our review and approval. The rule also requires the Plan to contain a description of construction standards, policies, practices, and procedures to enhance the reliability of overhead and underground electrical transmission and distribution facilities.

On May 31, 2006, Florida Public Utilities Company (FPUC or Company) filed its response to our Ten Initiatives Order, which provided details on how it planned to address each

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[1] Docket No. 060078-EI, In re: Proposal to require investor-owned electric utilities to implement ten-year wood pole inspection program.

[2] Docket No. 060198-EI, In re: Requirement for investor-owned electric utilities to file ongoing storm preparedness plans and implementation cost estimates.

[3] Order No. PSC-06-0556-NOR-EU, issued June 28, 2006, in Docket No. 060172-EU, In re: Proposed rules governing placement of new electric distribution facilities underground, and conversion of existing overhead distribution facilities to underground facilities, to address effects of extreme weather events, and Docket No. 060173-EU, In re: Proposed amendments to rules regarding overhead electric facilities to allow more stringent construction standards than required by National Electric Safety Code.

[4] Order Nos. PSC-07-0043-FOF-EU and PSC-07-0043A-FOF-EU.

of the ten storm preparedness initiatives and the estimated implementation costs associated with each. In the response, FPUC stated that the incremental cost of each initiative would have a substantial financial impact on the Company. FPUC proposed that the Commission provide the Company with rate relief to reduce the financial hardship. Docket No 060638-EI was opened to address FPUC's surcharge request. The Office of Public Counsel (OPC) intervened in the case, and we conducted customer service hearings in Marianna and Fernandina Beach to receive customer testimony and information on the surcharge request.

We were scheduled to address FPUC's request at our June 5, 2007, Agenda Conference, but deferred consideration of the matter pending further discussions between OPC and FPUC to resolve their differences over the amount and timing of the request. OPC and FPUC agreed that FPUC would request our approval to modify its vegetation management plan, and, if we approved the modification, FPUC would withdraw its request for a surcharge and seek cost recovery in its next rate case. FPUC filed its petition to modify its vegetation management plan on October 10, 2007.

During this time, Docket No. 070304-EI was established to address FPUC's petition for a permanent rate increase (Rate Case Docket). Also, Docket No. 070300-EI was established to consider whether FPUC's storm hardening plan was in compliance with our newly enacted storm hardening rule. FPUC's new storm hardening plan included the modification to its vegetation management plan and other storm preparedness initiatives, and FPUC's rate case included requests to recover the costs associated with the storm hardening plan and the Ten Initiatives. The two dockets were consolidated for hearing and FPUC subsequently withdrew its request to recover a surcharge.

In the Rate Case Docket, FPUC requested an increase in its retail rates and charges to generate $5,249,895 in additional gross annual revenues. The increase would allow FPUC to earn an overall rate of return of 8.07 percent or an 11.50 percent return on equity (range 10.50 percent to 12.50 percent). The Company based its request on a projected test year ending December 31, 2008. FPUC stated in its petition that the test year was the appropriate period to use because it is representative of the conditions to be faced by the Company, and the actual revenues, expenses, and investments to be realized under the new rates.

FPUC also requested an interim rate increase in its retail rates and charges to generate $790,784 in additional gross annual revenues. This increase would allow the Company to earn an overall rate of return of 7.80 percent or a 10.50 percent return on equity, which is the minimum of the currently authorized return on equity range of 10.50 percent to 12.50 percent. The Company based its interim request on a historical test year ended December 31, 2006. By Order No. PSC-07-0897-PCO-EI, issued November 5, 2007, we suspended FPUC's proposed permanent rate increase and authorized an interim rate increase of $790,784.[5]

[5] We last granted FPUC a $1,820,373 base rate increase by Order No. PSC-04-0369-AS-EI Order No. PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030438-EI, In re: Petition for rate increase by Florida Public Utilities Company. In that order, we found the Company's jurisdictional rate base to be $36,379,034 for the projected test year ended December 31, 2004. The allowed rate of return was 7.86 percent for the test year using an

Customer service hearings were held in Marianna, Florida, on December 5, 2007, and in Fernandina Beach, Florida, on December 6, 2007. The final hearing was held in Tallahassee, Florida, on February 27-29, 2008. The parties to this proceeding are the Office of Public Counsel, AT&T Florida, Embarq Florida, Inc., and the Florida Cable Telecommunications Association, Inc.

At the commencement of the hearing we approved several issues in the case that were stipulated by the parties. Those stipulations are attached to this Order as Attachment A and incorporated by reference herein. This Order memorializes our decision on the remaining issues regarding FPUC's Storm Hardening activities, FPUC's implementation of Rule 25-6.0342, F.A.C., the Ten Initiatives, and FPUC's requested permanent rate increase. We have jurisdiction over the subject matter of this case by the provisions of Chapter 366, F.S.

II. SUMMARY OF DECISION

We find FPUC's rate base to be $40,209,549. We find the average cost of capital to be 7.64 percent and the return on common equity to be 11.00 percent with a range of 10.00 percent to 12.00 percent. We grant FPUC an annual revenue increase of $3,856,897.

III. STORM HARDENING AND RULE 25-6.0342, F.A.C.

At a minimum, the Plan required by Rule 25-6.0342, F.A.C., must address the following:

(a) Compliance with the NESC.

(b) Extreme wind loading (EWL) standards for: (i) new construction, (ii) major planned work, including expansion, rebuild, or relocation of existing facilities, and (iii) critical infrastructure facilities and along major thoroughfares.

(c) Mitigation of damage due to flooding and storm surges.

(d) Placement of facilities to facilitate safe and efficient access for installation and maintenance.

(e) A deployment strategy including: (i) the facilities affected, (ii) technical design specifications, construction standards, and construction methodologies (iii) the communities and areas where the electric infrastructure improvements are to be made, (iv) the impact on joint use facilities on which third-party attachments exist, (v) an estimate of the costs and benefits to the utility of making the electric infrastructure improvements, and (vi) an estimate of the costs and benefits to third-party attachers affected by the electric infrastructure improvements.

11.50 percent return on equity. In addition, the Northeast (Fernandina Beach) and Northwest (Marianna) Electric Divisions were consolidated into a single Electric Division for ratemaking purposes.

(f) The inclusion of Attachment Standards and Procedures for Third-Party Attachers.

OPC and FPUC agreed that FPUC's Plan complied with all requirements of Rule 25-6.0342, F.A.C., except the requirements that FPUC provide a reasonable estimate of the costs and benefits to the utility of making the electric infrastructure improvements, and a reasonable estimate of the costs and benefits to third party attachers affected by the electric infrastructure improvements. OPC maintained that FPUC's cost-benefit analyses were insufficient. We find, as explained below, that FPUC did provide detailed cost estimates related to its storm hardening plan and its effect on third-party attachers, to the extent that information was available, and FPUC's Plan meets the desired objectives of enhancing reliability and reducing restoration costs and outage times as the Rule requires.

A. Costs and Benefits of Electric Infrastructure Improvements

FPUC's witness Cutshaw stated that FPUC attempted to address all aspects of the storm hardening and pole inspection requirements in its Plan, with the understanding that the objective of the Plan is to enhance reliability and reduce costs in a practical, prudent, and cost effective manner. He stated that FPUC has used expert estimates and bids to support its cost estimates. He noted that the Plan includes the cost of the storm hardening projects, but does not include an analysis of the benefits of the projects due to a lack of data available to support the assumptions. Witness Cutshaw explained that FPUC has not experienced a severe storm condition in its service territory in many years. Should one occur, additional data would then be available to support the cost benefit analysis for all its projects.

Since the cost estimates were filed in June 2007, several have changed, and the revised estimates were included in FPUC's rebuttal testimony. Some of FPUC's storm hardening cost estimates have further been adjusted during the course of these proceedings by stipulation. The chart below is a summary of FPUC's estimation of the original costs and the appropriate modifications that FPUC believes will result from implementing the storm hardening rule and the Ten Initiatives in 2008.

Projects	Projection Costs Rate Filing MFR	Projection Costs With Stipulations and FPUC Adjustments
Wood Pole Inspections	$219,833	$219,833
*Vegetation Management	$352,260	$0
Joint Use Attach. Audit	$20,909	$20,909
Transmission Inspection	$18,540	$18,540
*Transmission Storm Hardening	$354,600	$20,000
GIS	$38,000	$38,000
*Post Storm Forensics	$27,000	$0

OH/UG Data	$0	$0
*Utility Coordination	$19,991	$0
Collaborative Research	$25,750	$870
Disaster Preparedness	$0	$0
Depreciation - GIS	$38,000	$38,000
Return on Capital	$12,297	$12,297
Extreme Wind Loading	$0	$0
Total	$1,093,180	$332,513

* Project Costs that have been Stipulated. ** Costs not included in the Rate Filing MFRs.

It is clear that the implementation of FPUC's Plan will result in additional costs to the Company, but we believe those costs are reasonable. FPUC's service area is divided into the Northwest and Northeast Florida Division with a total of approximately 28,000 customers. We estimate that the stipulated and adjusted costs to implement the Plan for 2008 are $332,513. This represents a cost per customer of approximately $12 a year.

The chart identifies eight projects that will require incremental cost increases in order to implement FPUC's Plan. Of these eight projects, four were stipulated by the parties, which resulted in smaller or no incremental cost increases to FPUC's ratepayers. The storm hardening projects in the chart above that have zero cost ($0) mean that FPUC can implement the storm hardening projects without increasing its existing authorized expense. For example, the chart shows that FPUC initially requested $352,260 for increased Vegetation Management. This requested storm hardening expense was in addition to FPUC's current annual budget of $527,507 for Vegetation Management. With our approval, FPUC has modified Vegetation Management in the Plan from a four-year tree trimming cycle to a three-year feeder and six-year lateral (three/six year) tree trimming cycle. By modifying its Vegetation Management plan to a three/six year tree trimming cycle, FPUC eliminated the need for additional crews and expenses for Vegetation Management. The chart also reflects our decision below to reduce FPUC's Collaborative Research budget.

FPUC believes that specific electric infrastructure improvements will have to be made in order to assess future storm hardening benefits, due to the lack of verifiable data necessary to prepare a cost-effectiveness analysis. Also, as storm hardening projects are performed for new distribution facilities, or for major planned expansions, rebuilding, or relocations of distribution and critical infrastructure and along major thoroughfares, the EWL Criteria contained in the 2007 NESC will be included in the construction specifications. FPUC has purchased the Pole Foreman software that complies with the 2007 NESC requirements and will be used in conjunction with pole inspections, construction specifications, and the addition of third party attachments, to ensure compliance. The Pole Foreman software will be used in the design of EWL projects to ensure compliance without unnecessarily overbuilding to meet the requirements. This will ensure compliance without excessive expenditures. Based upon previous storm damage and winds experienced during storms, it appears that the Grade B construction standards, which provide for effective wind protection in excess of 115 mph, have performed adequately. Completion of specific storm hardening projects as included in the Plan

will allow FPUC to conduct a more complete evaluation of current Grade B construction standards.

OPC argues that FPUC has not provided the cost-benefit analysis required by Commission Order No. PSC-06-0781-PAA-EI (Storm Preparedness Order).[6] OPC believes that the portion of FPUC's Plan that addresses the distribution pole inspection program, the request for an additional joint use position, the transmission inspection contract, and Public Utility Research Council (PURC) costs and travel, are not cost beneficial as proposed. OPC argues that FPUC has failed to provide reasonable estimates for these proposed costs, which are discussed in detail in Section V below. OPC states, however, that if OPC's recommended adjustments are made, then FPUC's plan would then be in compliance with the requirements of the Storm Hardening Rules.

We disagree with OPC's position on this matter. FPUC has not experienced a severe storm condition in its service territory in many years and therefore data to support cost estimates is simply not available. If a storm should occur additional data would be available to provide the cost benefit analysis for all initiatives. As we stated when we approved FPUC's initial plan to implement the Ten Initiatives Order, the Plans "are living documents, and subject to constant revision as new lessons are learned." The Plans will be reviewed and updated annually with lessons learned from storms and forensic data that is collected and analyzed. Also, we noted at page 2 of our Ten Initiatives Order, utility-specific information such as timelines for implementing the Ten Initiatives, program methodology, costs, and rate impacts, were substantially unknown at the time the initiatives were adopted.[7] We stated that we expected each utility to evaluate existing programs, expansion of existing programs, and, if necessary, entirely new programs to address the Ten Initiatives included in the Order. Since filing its Plan, FPUC has provided updates and modifications to the Plan that have reduced the costs of many of the projects in the Plan, as shown in the previous chart.

Conclusion

Throughout this proceeding FPUC has significantly reduced its estimated cost of compliance with Rule 25-6.0342, F.A.C. and the Ten Initiatives Order. The information available to FPUC at this time shows that the implementation of its Plan for 2008 will result in additional costs of $332,513. This represents an estimated Plan cost per customer of $12 a year. We find that with the data available at this time FPUC's Plan contains a reasonable estimate of the costs and benefits to the utility of making electric infrastructure improvements that meets the requirements of Rule 25-6.0342(4)(d), F.A.C.

[6] Order No. PSC-06-0781-PAA-EI, issued September 19, 2006, In Re: Requirement for Investor Owned Electric Utilities to file ongoing Storm Preparedness Plans and Implementation Cost Estimates.
[7] Order No. PSC-06-0351-PAA-EI, issued April 25, 2006, In Re: Notice of Proposed Agency Action Order Requiring Storm Implementation Plans.

B. FPUC's Plan and the Costs and benefits to Third Party Attachers

FPUC requested that each third-party attacher provide an estimate of costs and benefits expected by the party as a result of its proposed Plan. This is consistent with Rule 25-6.0342(4)(e), F.A.C., which requires, "[a]n estimate of the costs and benefits, obtained pursuant to subsection (6) below, to third-party attachers affected by the electric infrastructure improvements." Subsection (6) states that "each utility shall seek input from and attempt in good faith to accommodate concerns raised [by the attachers]."

We believe that a utility may be at a disadvantage in estimating the costs and benefits that each third-party attacher may experience as a result of the IOU's storm hardening plan. In fact, in this case FPUC received only one cost benefit estimate from third-party attachers. The record does indicate that FPUC made an attempt to gather this information from other third-party attachers. To date, Embarq is the only attacher to have completed a cost benefit estimate of the Plan.

It is important to note, however, that all parties have stipulated to the "Process to Engage Third-Party Attachers." See Attachment A. The Process to Engage Third-Party Attachers requires FPUC to provide all third-party attachers detailed information for upcoming storm hardening projects annually. This exchange of information allows third-party attachers to request additional information if necessary, to conduct a more thorough cost benefit analysis. Rule 25-6.0342(6), F.A.C., also provides for third-party attacher input to the electric utility plan and the utility's annual plan status report to us. The Process to Engage Third-Party Attachers provides a mechanism for FPUC to provide greater detail as the Storm Hardening Plan is implemented. Further, Rule 25-6.0342(7), F.A.C., provides that any dispute over a utility's storm hardening plan can be brought to us for resolution. We find that these mechanisms provide attachers sufficient opportunity to resolve future issues with utility storm hardening plans.

Conclusion

Based on the evidence in the record, we find that FPUC has met the requirements of Rule 25-6.0342(4)(e), F.A.C., to provide an estimate of costs and benefits for storm hardening improvements and reduced storm restoration outages for third-party attachers, and that sufficient information exchange and dispute resolution mechanisms are provided by the Process To Engage Third-Party Attachers and Rule 25-6.0342(7), F.A.C.

C. Overall Compliance with the Objectives of Rule 25-6.0342, F.A.C.

FPUC believes that its Plan should be approved with the agreed upon changes and the impact of the stipulation with third party attachers. We agree. FPUC's Plan includes pole inspections and the Ten Initiatives that we approved for FPUC in our Order No. PSC-06-0781-PAA-EI, issued September 19, 2006, In Re: Requirement for Investor Owned Electric Utilities to file ongoing Storm Preparedness Plans and Implementation Cost Estimates.. FPUC's Plan also adopts Grade B construction standards on new construction and major planned projects. FPUC

is using an EWL pilot project approach to determine the effectiveness of EWL on critical infrastructure facilities. All of FPUC's new transmission construction is designed using EWL criteria.

FPUC's Plan emphasizes learning from experience by gathering and evaluating storm forensic data to determine the benefits of particular approaches to hardening as they might be applied to new construction and major planned work, including expansion, rebuilding, and relocation of existing facilities. FPUC's Plan provides an adequate description of the communities and areas within its service area where electric infrastructure improvements will be made, including facilities identified by the Company as critical infrastructure and along major thoroughfares.

Conclusion

We find that FPUC's Plan meets the desired objectives of enhancing reliability and reducing restoration costs and outage times in a prudent, practical, and cost-effective manner to the affected parties, and we approve it. We expect FPUC to prudently manage its resources and assets for the benefit of its ratepayers. Rule 25-6.0342, F.A.C. requires each investor owned utility to file its updated Storm Hardening Plan every three years. Pursuant to this rule, FPUC shall file an updated Storm Hardening Plan by May 1, 2010.

IV. 10 POINT STORM PREPAREDNESS INITIATIVES

The Ten Initiatives outlined in our Ten Initiatives Order are:

1) A Three-year Vegetation Management Cycle for Distribution Circuits;
2) An Audit of Joint-Use Attachment Agreements;
3) A Six-year Transmission Structure Inspection Program;
4) Hardening of Existing Transmission Structures;
5) A Transmission and Distribution Geographic Information System;
6) Post-Storm Data Collection and Forensic Analysis;
7) Collection of Detailed Outage Data Differentiating Between the Reliability Performance of Overhead and Underground Systems;
8) Increased Utility Coordination with Local Governments;
9) Collaborative Research on Effects of Hurricane Winds and Storm Surge; and
10) A Natural Disaster Preparedness and Recovery Program.

A. Overall Compliance with the Ten Initiatives Order

We find that FPUC's Plan, approved in our Storm Preparedness Order, and as subsequently amended in this proceeding, complies with our Ten Initiatives Order. Our Storm Preparedness Order evaluated the adequacy of all the investor-owned electric utility plans for implementing the ten ongoing storm initiatives. We evaluated all of FPUC's Ten Initiatives as provided below.

Addressing Initiative One, we found that FPUC's Plan complied with the three-year trim cycle requirement. Initiative Two required an audit of joint use attachers' agreements. In its plan, FPUC proposed to audit all joint-use agreements including pole strength assessment for all FPUC-owned and third-party-owned poles. This audit will be performed in conjunction with FPUC's eight-year wood pole inspection cycle. We approved FPUC's Plan for auditing joint-use attachment agreements as consistent with the intent of the Ten Initiatives Order. Initiative Three required FPUC to develop and implement a six-year transmission structure inspection program. We found that FPUC's Plan complied with the requirement of this initiative. Initiative Four required the hardening of existing transmission structures. FPUC's Plan proposed to replace 180 wooden transmission poles on its system with concrete poles as necessary and economically practicable. To date, FPUC has not established a timeline for completing the pole replacements because the poles are currently sound, and transmission line upgrades that may require stronger poles have not been scheduled at this time. We found that FPUC's Plan complied with this Initiative.

Initiatives Five, Six, and Seven required a transmission and distribution geographic information system, post-storm data collection and forensic analysis, and collection of detailed outage data differentiating between the reliability performance of overhead and underground systems. We found that FPUC's Plan was adequate for carrying out initiatives Five, Six, and Seven. We also found that FPUC's Northwest Florida Division had a Geographic Information System (GIS) capable of collecting all of the necessary information, and additional procedures would be developed to enable the division to track all specific hurricane outages, identify the causes of the outages, and count the numbers of customer outages. FPUC's Northeast Florida Division had only limited GIS capabilities, but FPUC planed to upgrade the Northeast GIS to have the same capabilities as its Northwest Division. We found this plan acceptable.

Addressing Initiative Eight, Increased Coordination with Local Government, we found that FPUC's Plan was in compliance with this initiative. We stated that FPUC is in the unique position of serving two small compact service territories that enable it to maintain an ongoing close relationship with local governments as a regular business practice. We stated that due to limited resources, FPUC was not able to have employees at all government locations during storms, but could relocate staff from undamaged areas to assist in areas hit hardest.

In Initiative Nine, Collaborative Research on Effects of Hurricane Winds and Storm Surge, we found that FPUC's Plan was in compliance with this initiative. Each electric IOU filed plans supporting a non-profit, member supported organization to coordinate all research efforts directed at better understanding storm effects on utility infrastructure and developing of technologies that reduce storm restoration costs and outages to customers. We noted that the electric IOU plans for collaborative research do not establish a sufficiently detailed schedule for selecting collaborative research activities and establishing project levels, but each utility had made progress in establishing a plan that would increase collaborative research, establish continuing collaboration, identify objectives, promote cost sharing, and fund necessary work.

Initiative Ten addressed natural disaster preparedness and recovery programs. We found that FPUC has a formal disaster preparedness and recovery plan. The plan is reviewed and updated by FPUC on an annual basis. The plan contains pre-and post-emergency procedures and

safety procedures for natural disasters. We also noted that FPUC would develop a procedure for gathering forensic data per their response to Initiative Six. Thus, we found that FPUC had complied with this initiative.

The Ten Initiatives Order stated that:

> Utility specific information such as the timeline for implementing the initiative, program methodology, costs, and the rate impacts, are substantially unknown. Each utility is expected to evaluate existing programs, expansion of existing programs, and if necessary, develop entirely new programs to address the above ten initiatives. Accordingly, utilities may propose alternatives to the requirements
>
> . . . . Any alternatives must include a complete description of the alternative as well as the reason why the alternative is equivalent or better in terms of cost and avoiding future storm damages.

Ten Initiatives Order, p. 3.

The Order also provided that a utility could modify the initiatives if it provided justification for doing so.

In its Plan in this docket, FPUC asked to implement a 3/6 tree-trimming cycle because it was the most appropriate and cost-effective storm preparedness vegetation management plan for its system. OPC agreed with FPUC's request. At the hearing we approved FPUC's request to implement the 3/6 tree-trimming cycle modification.

OPC argues that the FPUC's Plan does not comply with the Ten Initiatives because the company has not complied with the cost benefit requirements of our Storm Preparedness Order. Specifically, OPC argues the portions of FPUC's Plan that address the distribution pole inspection program, the request for an additional joint use position, transmission inspection contract, and PURC costs and travel are not cost-effective. We disagree. With the modifications we have approved, our approval of FPUC's Plan under Rule 25-6.0342, F.A.C., and the adjustments we explain in detail below, we believe that FPUC's Plan complies with the Ten Initiatives Order.

Conclusion

Based on the record in this proceeding, we find that FPUC has complied with our Ten Initiatives Order.

V. COSTS FOR STORM HARDENING AND 10 POINT INITIATIVES

A. Distribution Pole Inspections – Account 593, Maintenance of Overhead Lines

According to our Ten Initiatives Order, each electric IOU shall implement an inspection program of its wooden transmission and distribution poles based on an eight-year inspection cycle. Ten Initiatives Order, p. 4. To comply with that requirement FPUC requested our

approval of an increase to Account 593, Maintenance of Overhead Lines, by $141,367 per year for distribution pole inspections to be conducted by an outside contractor.

According to FPUC's Plan, the inspection will consist of a visual inspection to determine if any defects are found that would require that the pole be replaced. If the pole is found acceptable on the visual inspection, the pole will be inspected using a sound and bore technique to determine the internal condition of the pole. If the pole is found acceptable in the sound and bore test, all non-chromated copper arsenate (CCA) poles and all CCA poles will be excavated and tested. If this test indicates the pole is suitable for continued use, the pole will be treated and backfilled. Should this test indicate that the pole is not suited for continued use, it will be rejected and the corrective action taken. The loading assessment (LoadCalc) will consider actual attachments on the pole. In performing this test, field measurements such as span lengths, attachments heights, wire size and other attachments (including third-party attachments) will be analyzed in order to determine if current FPUC specifications are met and if this application meets NESC requirements. Should this test indicate that the pole is not suited for continued use, the pole will be rejected and corrective action taken.

The wood pole inspections described above will require an outside contractor, who will inspect approximately 3,050 poles per year at a cost of approximately $46.35 per pole. Witness Cutshaw explained that FPUC solicited bids from three contractors, but two companies declined to bid on the project because they did not perform the excavation around the base of the pole. FPUC obtained pole inspection estimates from Osmose Utilities Services, Inc., a recognized expert in this field that performs numerous pole inspections for utilities throughout the nation. The contracted costs for pole inspections are based on the information and specifications included in FPUC's Plan for pole inspection. FPUC combined the External Treat ($29.88), Sound and Bore ($7.75), and LoadCalc ($7.26) and then increased the amount by 3.5 percent (adjusted for inflation), for a total of $46.35 per pole. The outside contractor's bid price for pole inspections was $141,367. In our Pole Inspection Order, we noted that Florida Power and Light's (FPL) sound and bore pole inspection costs between 1999 and 2004 averaged $45.20 per pole.

OPC's position is that FPUC has not fully supported its requested expense. According to OPC, the requested distribution inspection cost should be reduced by $8.46 per pole, an amount OPC claims is directly related to joint use pole attachments. This deduction results in a rounded cost per pole inspection of $38, or a reduction of $25,467. OPC asserts that FPUC has not even decided yet which inspection parameters it wants to pursue. OPC also stated that FPUC submitted only one rough estimate of what the cost might be and has not initiated a competitive bid process for a pole inspection contract. OPC contends that FPUC has not fully supported its requested expense because it did not obtain multiple estimates or bids to justify the costs. OPC witness Merchant recommended an adjustment to disallow 25 percent of the Company's projected expense resulting in an additional reduction of $28,975. This results in a per-pole inspection cost of $28.50, with an incremental distribution pole expense of $86,925 ($141,367 less $25,467 less $28,975), allocated 100 percent to electric operations.

We find that the record supports FPUC's request. FPUC's proposed inspection program is similar to other IOUs' inspection programs required by our Pole Inspection Order. FPUC's Plan states that both strength and LoadCalc will be performed on each pole to determine if the current condition of the pole meets the requirements in Table 261-1A of the NESC.

As stated above, FPUC did solicit bids from three contractors for distribution pole inspections, but two of the companies contacted declined to bid on the project. The pole inspection estimates were obtained from Osmose Utilities Services, Inc., a recognized expert in this area. The bid price per pole submitted by Osmose Utilities Services, Inc. ($46.35 per pole) is consistent with actual pole inspection costs cited in the Pole Inspection Order for FPL at $45.20 per pole. Witness Cutshaw provided an estimate of what each component (external treat, sound and bore, and LoadCalc) would cost for each pole inspection. During cross-examination at the hearing, witness Cutshaw also stated that all three components of the inspection will occur whether or not any third-party attachers are included on the pole. If we disallow costs to perform LoadCalc because third-party attachments will be on some poles, we believe we would be penalizing FPUC for implementing part of its Plan.

Conclusion

The contracted costs for pole inspections are based on the information and specifications included in FPUC's Plan for pole inspection. FPUC will incur approximately $141,367 per year in distribution pole inspection costs from an outside contractor ($46.35 per pole x 3,050 poles). The bid price per pole submitted by Osmose Utilities Services, Inc. is consistent with actual pole inspection costs cited in the Pole Inspection Order for FPL. Even though FPUC obtained only an estimate, the comparison to FPL's cost is significantly similar, and therefore we find FPUC's cost estimate reasonable. We approve FPUC's request to increase Account 593, Maintenance of Overhead Lines, by $141,367 per year for distribution pole inspections by an outside contractor.

B. Employee and Travel Expenses to Conduct Joint Use Audits and Pole Inspections Account 593, Maintenance of Overhead Lines, and Account 588, Distribution Maps

FPUC has requested an increase in Account 593, Maintenance of Overhead Lines, and Account 588, Distribution Maps to hire an additional employee to coordinate pole inspections and joint use audits for both divisions. FPUC will also use this position to coordinate other storm hardening initiatives to ensure that documentation and reporting are completed and submitted accurately. The employee will also be responsible for some of the design of the facilities that will require upgrading. FPUC intends to collect all relevant information on the pole inspections on an annual basis for all FPUC-owned poles. This information will be maintained in a format by location, pole size, pole class, and test results, and FPUC will submit a summary report, as required by our Storm Preparedness Order, to the Division of Economic Regulation by March 1st of each year. FPUC asserts that it will work closely with third-party owners to share information on all poles in order to ensure work is completed in a timely manner. FPUC's Plan estimates that the annual cost to perform the wood pole inspections, including the $78,466 cost of hiring an additional employee, is $219,833.

OPC supports the use of FPUC's original requested salary for the joint use/pole inspection of $58,930, with benefits of $15,321 (26 percent overhead rate) for a total of $74,251, which is 100 percent allocated to the electric division. OPC contends, however, that the travel expense requested for the joint use audit and pole inspection position, now a combined position, should be eliminated.

FPUC requested $78,466 for salary and benefits for one new position, plus an additional $22,838 for travel, for a total cost of approximately $99,375. We find that the record supports FPUC's request for travel expense. According to FPUC, the pole inspection program will use contractors to perform very detailed inspections and loading analysis, which will be an entirely new program for FPUC. Witness Cutshaw testified that travel between the two divisions will be necessary to coordinate the pole inspection and joint use audits and the necessary documentation and reporting for both divisions. Witness Cutshaw does not agree with the position taken by OPC's witness Merchant that this position could be combined with the additional training/safety position FPUC has requested. Witness Cutshaw stated that the storm hardening position and the training/safety positions are totally separate job functions, and the amount of work required for each could not be performed by one employee. FPUC has allocated 21 percent of $99,375 (the total cost of the new position) or $20,909 for joint use audits.

Conclusion

We find that the record supports FPUC's proposal to hire an additional employee to coordinate pole inspections and joint use audits for both divisions. Witness Cutshaw pointed out that normal transportation costs are also included in this amount. FPUC has allocated 21 percent of the total cost of the new position ($99,375 - the costs for salary and benefits plus the costs of transportation and expenses) or $20,909 for joint use audits. We find that this allocation is reasonable. We approve an increase to Account 593, Maintenance of Overhead Lines, and Account 588, Distribution Maps, of $99,375 for an additional employee and related travel expenses to handle joint use audits and pole inspections.

C. Contractor Expense for Transmission Inspections - Account 566, Miscellaneous Transmission Expenses

FPUC has requested an increase in Account 566, Miscellaneous Transmission Expenses, to cover additional expenses of $18,540 for transmission inspections. In response to our Ten Initiatives Order, FPUC filed its six-year transmission structure inspection program as part of its Plan. Section 2.3 of FPUC's Plan states that transmission inspections will be completed on all transmission facilities and will include climbing patrols of all 138 KV and 69 KV transmission lines owned by FPUC. The inspections will ensure that all transmission towers and other transmission line supporting equipment, such as insulators, guying, grounding, conductor splicing, cross-braces, cross-arms, bolts, are structurally sound and firmly attached. FPUC will also inspect all transmission substations. According to FPUC's Plan, the total cost to perform a complete inspection cycle on all structures will be $110,000 ($18,000 annually). Each inspection will be fully documented in accordance with our guidelines and reported annually.

OPC pointed out that the Company's request was based on only one estimate from Pike Electric, Inc., dated November 7, 2006, and the estimate was effective until December 31, 2006. OPC witness Merchant noted that the Company could not definitively state how often the Company will inspect its system and did not provide the actual amounts that would be incurred each year. OPC argued that due to the Company's failure to obtain more than one estimate or bid for the transmission inspection, 25 percent of the Company's projected normalized expense should be disallowed for lack of support. Thus, $4,635 of the expense should be disallowed, leaving $13,905 allowable test year expense.

It is our view that FPUC has adequately supported its request for additional contractor expense. According to the rebuttal testimony of witness Cutshaw, FPUC solicited estimates from a contractor working for FPUC on a daily basis who was familiar with the system and the area to be inspected. Witness Cutshaw stated that FPUC believed the most effective way to get a realistic estimate was to use a contractor who was familiar with FPUC's system. According to witness Cutshaw, soliciting bids for transmission inspections is different than soliciting bids for more common goods and services. The cost estimate was more difficult, required a site visit, and costs may vary based on the work performed.

Conclusion

According to FPUC's Plan, the total cost to perform a complete inspection cycle on all structures will be $110,000 ($18,000 annually). Based upon the evidence in the record, we find that FPUC's request for contractor expense of $18,540 in Account 566, Miscellaneous Transmission Expenses, for transmission inspections is reasonable, and we approve it.

D. Travel and PURC Costs

Section 2.9 of FPUC's Plan states that FPUC is currently participating with the Public Utility Research Center (PURC) as well as other investor-owned, cooperative, and municipal electric utilities in research regarding hurricane winds and storm surges within the state. FPUC will continue to support this effort, but does not intend to conduct other types of research at this time. FPUC originally projected that the cost for Collaborative Research (PURC and travel) would be $25,750, but in rebuttal testimony witness Cutshaw explained that FPUC overstated the Collaborative Research projects in the MFRs by $22,880. Witness Cutshaw stated that FPUC's 2008 projected budget of $870 for Collaborative Research projects was based on its PURC budget. In addition to this amount, witness Cutshaw stated that $2,000 should be added to cover company labor, travel, expenses, and possible overruns or charges from contractors working on Collaborative Research projects.

OPC agreed that FPUC overstated its first estimate for PURC costs. As witness Cutshaw acknowledged in his deposition, he did not know whether the Collaborative Research project would continue for two years, three years, or twenty years. Given that it is unclear whether the travel associated with PURC will be recurring or not, OPC recommended disallowing the additional $2,000 annually for travel to PURC. OPC stated that $24,918 should be removed from expenses for travel and PURC costs.

We find that FPUC has overstated its expenses for Collaborative Research by $24,880. The record shows that while FPUC will continue to support the efforts of PURC, it does not intend to conduct other types of research at this time. The total amount budgeted for PURC in 2008 was $870. We do not believe that an additional $2,000 for travel is a necessary incremental cost to support the efforts for Collaborative Research.

Conclusion

As stated above, FPUC will continue to support the efforts of PURC research regarding hurricane winds and storm surge within the state, but does not intend to conduct other types of research at this time. The total amount budgeted for PURC in 2008 was $870. We find that FPUC can carry out its Collaborative Research program as part of its storm hardening plan by continuing to participate at PURC with this amount. Therefore, based upon the record in this proceeding, we approve additional costs for the Company's Collaborative Research projects of $870.

E. Overall Adjustments to Rate Base Associated with the Storm Hardening Rule and the Ten Initiatives

The overall adjustment to rate base associated with the Storm Hardening Rule and the Ten Initiatives, based on the stipulations we have approved and the adjustments we have made above, is an increase of $19,615.

F. Overall Adjustments to Operating Expenses Associated with the Storm Hardening Rule and the Ten Initiatives

The overall adjustment to operating expenses associated with the Storm Hardening Rule and the Ten Initiatives, based on the stipulations we have approved and the adjustments we have made above, is a decrease of $755,191, less income taxes of $284,179. The net decrease to operating expenses is $471,012.

VI. TEST PERIOD

Per the stipulations we approved in this case, the historical test year ended December 31, 2006, and the projected test year ending December 31, 2008, with appropriate adjustments, are the appropriate test years to be used in the rate case, and FPUC's forecasts of customers, KWH and KW by Rate Class for the projected 2008 test year are appropriate

VII. QUALITY OF SERVICE

Per the stipulation we approved in this case, expert and customer testimony, as well as FPUC's annual distribution report and our service reliability review, the quality of electric service provided by FPUC is adequate.

VIII. RATE BASE

A. Replacement Transformer Expense

FPUC included a transformer, which was ordered in 2006, in rate base for the projected test year. The Company anticipates the final cost of the transformer to be $790,000. FPUC witness Mesite testified that due to circumstances beyond the Company's control, the transformer was not delivered by December 2007. Witness Mesite stated that the original transformer ceased functioning late in 2006. He explained that it first required testing and other evaluation in order to determine the feasibility of having it rebuilt. Once the determination was made that it could not be rebuilt, FPUC arranged for the purchase of a new transformer. Witness Mesite explained that "[n]ew transformers are custom-built out of the country, and a final delivery timeline is typically uncertain until far along in the construction process."

Witness Mesite contended that the full 13-month average should be included because the transformer is not a discretionary addition to plant. It is an ordinary and necessary replacement of a major component of the distribution system, and the transformer will be in service for a number of years into the future. He noted that FPUC was renting a temporary replacement transformer while it was waiting for the new transformer to be installed. The temporary replacement transformer was rented at a cost in excess of the annual depreciation expense of the new transformer.

At the hearing, FPUC witness Cutshaw asserted that the new substation transformer was to be installed during February 2008. He explained that the installation and testing should be completed by the end of February, and the rental transformer would then be removed from service. He added that once the new transformer was operating properly, additional work would be required to physically remove the rental transformer from the substation and make preparations to transport it back to the vendor. He expected that this procedure would be completed by the end of March 2008. Witness Cutshaw argued that rental expense of $6,420 should be included in the test year, representing three months of service for the temporary transformer. He agreed that the Company did not remove the rental expense for the remainder of the test year, after the new equipment was to be installed. The monthly rental cost is $2,140.

OPC witness Merchant argued that "FPUC's approach to the recovery of the transformer costs has the effect of considering the plant on a year-end basis as opposed to a required 13-month average basis consistent with its test year." In her opinion the Company did not justify why the transformer should receive full recovery, although she did agree that the transformer is necessary. She contended that allowing this one item to be brought into rate base without other matching items that might reduce the revenue requirement calculation violates the test year concept:

> [t]he test year matching concept provides that the average rate base is matched with average cost of capital, revenues, expenses, and customer billing factors. If you mismatch one of the individual components, the risk increases that the resulting rates will be skewed and unreasonable.

Witness Merchant noted that the plant is projected to be placed in service in February 2008, with an estimated cost of $790,000. She added that the full year of depreciation expense and accumulated depreciation requested are $23,700 and $11,850, respectively, while the 13-month average plant and accumulated depreciation are $668,462 and $8,356, with depreciation expense of $19,750. She explained that her recommended adjustments to plant and accumulated depreciation are decreases of $121,538 and $3,494, respectively, and a corresponding decrease to depreciation expense of $3,950, which represents a partial year. She also recommended that it is appropriate to remove $28,582, based on the annual rental expense of $25,680, plus the Company's projected escalation factor of 1.1130 for 2007 and 2008.

As an alternative, witness Merchant suggested that we could apply an expense reduction of $24,302 instead of $28,582, to recognize two months of the rental expense at a cost of $2,140 per month (or $4,280 total for the year) for the 2008 test year. In its brief, OPC updated the amount to remove $22,162 of nonrecurring rental costs for 2008 [($2,382 x 12 months) minus ($2,142 x 3 months)].

OPC also updated the plant amount to reflect the most recent in-service date, as provided by FPUC witness Cutshaw. OPC provided revised 13-month average plant and accumulated depreciation amounts of $546,923 and ($6,837), respectively, and the depreciation expense of $17,775. As a result, OPC recommended adjustments to decrease plant and accumulated depreciation of $243,077 and $5,013, respectively, and a corresponding decrease to depreciation expense of $5,925.

Most of the facts in this issue are uncontroverted. There is no dispute regarding dollar amounts, or whether there will be a transformer in service in early 2008. Nor do the parties dispute that, for a portion of the test year, there is rental expense for a temporary transformer, although they differed on whether any portion of the expense should be included in the test year. Through the proceeding, including the hearing, FPUC asked for both inclusion of the full 13-month plant in service amount, with associated accumulated depreciation and depreciation expense, as well as a partial year of rental expense for the temporary transformer. OPC, on the other hand, wanted to allow only a partial year of plant, accumulated depreciation and depreciation expense, with no rental expense. In their briefs, the Company and OPC have come closer together in position. It appears that FPUC is no longer asking for the rental expense, while OPC is willing to allow a partial year of rental expense and a partial year of plant in service, with associated accumulated depreciation and depreciation expense.

Although FPUC witness Mesite advised that the amount of rental expense would exceed the amount of depreciation for each month, he failed to take into consideration the impact of the rate of return, which is shown in the Company-provided revenue impact. Using a return on investment of 8.07 percent as used in the MFRs, that amount would be $62,797 per year. We note that the deprecation rate was reduced as a result of the Company's depreciation study, from

3.0 percent, to 2.9 percent, although the amount is immaterial.[8] Thus, instead of $23,700 annually, it would be $22,910. Using these figures, the overall impact using the rate of return in the MFRs would be $7,142 per month [($62,797+$22,910)/12]. The difference for three months of recovery of the permanent transformer as compared to three months of rental expense would be an additional $15,006 [($7,142 - $2,140) x 3].

We agree with OPC that, in some circumstances, a company should not arbitrarily choose items to adjust for full inclusion in the test year. However, in this case, the transformer is an integral part of the electric distribution system; so much so that a rental transformer had to be obtained to take the place of the old one until a new one could be built. As a result, rental expense that will not be incurred in the future is included in the O&M expense. We calculated that the transformer represents about one-tenth of the amount of plant in service in account 362, station equipment [$790,000/$7,069,889]. The record shows that the transformer is a major item with significant impact.

Although allowing a full 13-month average recovery of the transformer increases the impact on rates, we believe it is more representative of the future than the inclusion of a rental transformer that will be gone before the rates even go into effect, as FPUC pointed out. Accordingly, we find it is appropriate in this instance to allow recovery of the transformer as if it were in service December 31, 2007.

As to the rental expense, FPUC witness Cutshaw advised that rental expense had not been removed for the remainder of the test year, when the temporary transformer would no longer be needed. As discussed above, the full inclusion of the permanent transformer provides more compensation than the use of a partial year of rent, so we believe it is inappropriate to include any rental expense. Thus, we find that a full year of rental expense shall be removed from the test year. FPUC's position in its brief appears to be in agreement with this approach.

We do not agree with the amount of rental expense used by OPC witness Merchant. She applied a projection factor of 1.113 to the amount of rental expense. This is actually a payroll factor. Witness Merchant provided no explanation for the use of a payroll factor on rental expense. Further, the Company provided the amount of $2,140 per month as the rental amount for 2008. We find that this is the amount to use in calculating any deduction of rental expense. The deduction for rental expense shall be $25,680 ($2,140 x 12).

Conclusion

Based upon the record in this proceeding, we find that the Company shall include the full 13-month average amount of the transformer and associated accumulated depreciation and depreciation expense in the test year for rate making purposes, subject to any adjustments necessary to reflect our decision in Docket No. 070382-EI. Test year expenses for 2008 shall be

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[8] Order No. PSC-08-0094-PAA-EI, p.9, issued February 14, 2008, in Docket No. 070382-EI, In re: 2007 depreciation study by Florida Public Utilities Company.

reduced by $25,680 to remove the cost of the temporary rental of a transformer that will no longer be incurred as a result of this plant replacement.

B. Plant in Service

We have examined Plant in Service records of the Company for 2008 to determine the proper projected test year amount. We have made several adjustments, including those stipulated to by FPUC and by OPC. The effect of the adjustments is to increase Plant in Service by $22,241 to $79,663,822 for 2008. The appropriate level of total Plant in Service is $81,459,754, which includes $1,853,396 for Common Plant.

C. Accumulated Depreciation

We find that the 13-month average 2008 accumulated depreciation reserve should be increased by $58,292 to reflect the results of the FPUC 2007 depreciation study in Docket No. 070382-EI.

While OPC and FPUC are in agreement that an adjustment should be made, the amount remains at issue. FPUC stated in its brief that the 13-month average reserve balance as adjusted using the existing rates should be $35,504,625. The Company also stated that the amount was revised to correct the 2008 beginning balance brought forward from 2007 on Schedule B-9 (2008). Thus, the Company advised that the 13-month average balance using the newly approved rates is $35,564,736. FPUC concluded that the difference between the two amounts is an increase of $60,111. Although OPC took a position in its brief, no dollar amount was provided.

We agree with the Company's calculation with one exception. FPUC's composite exhibit shows that the depreciation rate used to calculate the depreciation for Account 396, Power Operated Equipment, was 6.3 percent. That rate was changed to 4.8 percent in the Company's most recent depreciation study.[9] The difference in accumulated depreciation for that account is $1,819. Thus, we find that the amount of accumulated depreciation shall be $58,292 [$60,111 – $1,819].

D. Accumulated Depreciation for Plant in Service

We have examined accumulated depreciation records of the Company for 2008 to determine the proper projected test year amount. We have made several adjustments, including those stipulated to by FPUC and by OPC. We also made an additional adjustment to decrease accumulated depreciation by $162,633 to correct an error the Company made in its original MFR filing. The error occurred when FPUC did not carry forward the correct accumulated depreciation reserve balances for certain general plant accounts from year end 2007 to the beginning of the 2008 projected test year. The effect of the adjustments is to decrease accumulated depreciation by $102,481 to $37,078,382 for 2008, including Common Plant.

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[9] Order No. PSC-08-0094-PAA-EI, p.9, issued February 14, 2008, in Docket No. 070382-EI, In re: 2007 depreciation study by Florida Public Utilities Company.

E. Projection of Cash Balance to be Included in Working Capital

The Company's MFRs indicated a 13-month average in working capital for the 2008 projected test year of $70,678. Provided below in Table 1 are the Company's 2006 through 2008 average cash balances and allocations to electric operations.

Table 1 – FPUC's Average Cash Balances and Allocations			
Year	**Average Cash Balance (a)**	**Projected Cash Balances Working Capital (b)**	**Allocation Factor (c)**
2006 Historical Year	$850,000	$247,509	29% Gross Profit
2007 Projected Year	678,000	210,108	31% Gross Profit
2008 Projected Year	227,993	70,678	31% Gross Profit

OPC witness Larkin testified that the Company maintains an unusually large balance of cash in its bank account. The average balances are shown in Table 1 for 2006 through 2008. He contended that the Company has not shown the need for such substantial cash balances. He asserted that the Company did not provide documentation, such as a study or analysis, to show why such large cash balances were necessary. He stated that OPC asked the Company to provide documentation, but none was provided. Witness Larkin argued that since the ratepayer is providing the up front cash and the Company vendors are providing terms, only a limited amount of cash is needed. In his opinion, the Company should include only $10,000 in its Working Capital Allowance. He stated that the $10,000 is a token amount, or a balance the Company may need to keep in the bank. Witness Larkin stated that in the Company's last rate case, the cash balance was a settled amount, and in the prior case it was $10,000. Witness Larkin stated, "[t]he Commission, in the past, has reduced FPUC's request for cash balances in working capital requirements to a level which is more reasonable given the fact that working capital is designed only to provide the return on those funds necessary for the day to day operations of the utility."

In his rebuttal testimony, FPUC's witness Mesite stated that the 13-month average cash balance of $70,678 is the appropriate balance for the Company's working capital requirement. In his opinion, the Company maintains the appropriate cash balances to meets its needs and they do not represent substantial amounts as witness Larkin claimed. He claimed that a $10,000 cash balance is not viable for the Company's day-to-day operations. "A cash balance must cover several factors including payment of current accounts payable, employee net payroll, and various corporate, withheld payroll, and collected taxes." Witness Mesite claimed that the cash balance should include consideration for outstanding checks and non-recurring immediate cash needs. According to witness Mesite, the Company has appropriate procedures and processes in place to maintain an efficient cash balance. FPUC witness Martin testified that the Company carries a balance of cash that is appropriate to meet its immediate cash needs and fluctuating daily cash requirements. She also stated that the Company's projections are based on historical cash balances.

Conclusion:

It is our opinion that FPUC's ratepayers could be harmed if the Company could not meet its day to day operations. We agree that the Company did not provide adequate documentation to address the large average cash balances and allocations shown in Table 1. We do not agree, however, with OPC's recommendation that the Company should be allowed only $10,000 in Working Capital Allowance. The record supports the 13-month average as the appropriate projection methodology to be used in calculating the 2008 working capital requirement. We find that the requested amount of $70,678 is the appropriate cash to be included in 2008 working capital.

F. Accounts Receivable

FPUC witness Mesite stated that during the initial preparation of the rate base schedules in its MFRs, the Company placed all categories of accounts receivable in a single line item, "accounts receivable". He explained that the Company updated the accounts detail by classification as a result of a deposition with OPC. According to witness Mesite, the Company's initial filing for the 2007 and 2008 customer receivables were based on an estimation of the forthcoming increases in the purchased power costs and the anticipated increase in base rates from this proceeding. He stated that to arrive at the updated 13-month average customer accounts receivable of $4,906,472 for 2008, the Company's calculation included actual and estimated bill changes from December 2006 through 2008 from purchased power filings, a midcourse correction filing, interim rate relief, customer growth, and the anticipated rate increase. The increases were applied on a month-by-month basis for 2007 and 2008. Witness Mesite asserted that the Company's computations mathematically adjusted customer accounts receivable by the same percentage change that it anticipated for operating revenues resulting from increases in fuel costs and the rate case. FPUC calculated its 2008 Accounts Receivable to be $5,015,473.

According to witness Mesite, Account 1430.1 - Accounts Receivable-Employees should be included in working capital. He claimed that this account represents amounts due to the Company from retirees and employees for employment related transactions. He stated that the transactions may include an individual's share of Company-paid medical, health, and disability insurance; Company-required uniforms and equipment; garnishment of wages required by governmental authorities; and prepaid expense advances to employees for business trips. The reimbursement of these amounts to the Company is from direct repayment by employees or by payroll deduction.

Witness Mesite also claimed that Account 1430.2-Accounts Receivable-Electric Other should be included in Working Capital. He stated, "the account represents reimbursable costs incurred by the Company for damages to the Company's electric facilities by others, or for other special services performed on FPUC's electric facilities at the request of customers, municipalities, or other entities." Also, the items included may be for damages by contractors or homeowners to distribution facilities, damages caused by traffic accidents, or temporary relocation of electric facilities as directed by the municipalities in the Company's electric service territory.

OPC pointed out that the Company included in the accounts receivables' balance receivables that are not related to the delivery of electric service. The accounts included are: Account 1420.21 - Customer Accounts Receivable-Billed; Account 1420.22 - Accounts Receivable–Jobbing; Account 1430.1 - Accounts Receivable-Employees; and Account 1430.2 - Accounts Receivable-Miscellaneous. Witness Larkin contended that the Company included for both divisions $206,380 of receivables that relate to the stated Accounts. According to Witness Larkin those are below the line revenues and expenses and should be removed from rate base. He asserted that the ratepayer should not be required to pay a rate of return on receivable balances associated with non-regulated activities like jobbing or third party damages.

According to witness Larkin, the Company used the 13-month average of receivables as of December 31, 2006, as the first month in its calculation for the 13-month average for 2007, as shown on Schedule B-3, line 18, page 1 of 6. This amount was escalated by approximately 24 percent, and then that balance was used for each of the 12 months in 2007. The December 31, 2007, receivables were used as the first month in the calculations of the 13-month average for the 2008 receivables, and the balance was used for each of the 12 months in 2008. This resulted in an overall escalation factor of approximately 46.4 percent being applied to the 13-month average accounts receivable from 2006 to 2008 and including the $206,380 of nonregulated receivables. The total escalated amount is $302,140 ($206,380 x 1.464 = $302,140).

Witness Larkin contended that the methodology the Company used to project Customer Accounts Receivables for the projected test year was not reasonable. He stated the Company escalated the 2006 balance by approximately 46.4 percent, and this is not the methodology FPUC used to project sales growth. He also contended that the accounts receivable balance is related to revenues. Since the Company's level of accounts receivables as a percentage of revenues has been in a decline, OPC argued that the use of the most recent historical test year would be the most reasonable way to project the 2008 accounts receivable balance. According to witness Larkin, the 2008 projected revenue 12 months ended August 2007 percentage of accounts receivable to revenue was 6.42 percent, which he applied to the Company's 2008 projected revenue of $62,488,964. (Schedule C-5, 2008) This resulted in the projected accounts receivable 13-month average balance of $4,011,791. The Company's 2008 projected accounts receivable balance is $5,042,458, which includes other accounts receivable of $302,140, less the calculated 2008 projected accounts receivable balance of $4,011,791. This reflects a $1,030,667 reduction.

Witness Mesite argued that OPC's position was based upon averaging customer accounts receivable balances for the past ten years. He contended that such an analysis was inappropriate, since over the historical period FPUC's fuel costs were well below market rates, and current receivables would be understated by using historical data. He also contended that employee accounts receivables and other accounts receivables are regulated accounts, whereas OPC witness Larkin argued that they are nonregulated accounts.

Conclusion

It has been our policy for many years to exclude from rate base non-utility operations such as merchandising and jobbing (expenses and revenues).[10] Also, in the Company's last rate case, the Accounts Receivable account was calculated based upon receivables to revenue, and the non-utility portion of Account 1430.1 – Accounts Receivable-Other and Account 1430.2 - Accounts Receivable-Other Miscellaneous were removed. Finally, in this case we have accepted the stipulated amount of $4,011,791 in calculating the provision for the uncollectible account. Therefore, based on the record in this proceeding and our established policy, we find that the appropriate balance of accounts receivable to be used in Working Capital is $4,011,791. Also, the 2008 balance of accounts receivable shall be reduced by $1,030,667.

G. Unbilled Revenue

In its 2008 Working Capital Allowance, as shown in the MFRs, Schedule B-3, Page 2 of 6, the Company projected $548,394 for unbilled revenue.

According to OPC witness Larkin, in FPUC's response to OPC's First Set of Interrogatories, Interrogatory No. 9, FPUC increased the historical 13-month average of unbilled revenue by 3.4 percent to project year ending 2007, and by 3.5 percent to project the 13-month average for 2008. Witness Larkin's analysis revealed that the Company increased its unbilled revenue by 3.4 percent for 2007, but for 2008, increased the 13-month average by approximately 23.5 percent. Witness Larkin assumed this was a calculation error. He asserted that his adjustment to the 13-month average was to show the 3.5 percent increase which the Company used to escalate unbilled revenue for the 13-month average for 2008.

In his rebuttal testimony, witness Mesite stated that in the Company's response to OPC Interrogatory No. 9, the narrative explaining the calculation of the 2008 13-month average was incomplete. He stated that to project the 2008 unbilled revenue, the 2007 amount was increased by an additional 20 percent, which is an update to the initial 3.5 percent, to represent an anticipated increase in base revenue as the result of this rate proceeding. He further asserted that the 20 percent was in addition to the 3.5 percent projection that produced the appropriate 23.5 percent increase for 2008 that witness Larkin identified in his testimony.

During cross-examination at the hearing, witness Larkin was asked if he agreed that there would be an increase to unbilled revenue as a result of an increase in base rates. He stated :

> There would be an increase in unbilled revenue, but it is difficult to tell what that increase would be because it is a factor of the number of days which remain unbilled at the end of the year, or the number of kilowatt hours that were not billed.

[10] Order No. 5471, issued June 30, 1972, in Docket No. 71342-EU, In re: Petition of Gulf Power Company for authority to increase its rates and charges so as to give said utility an opportunity to earn a fair return on the value of its property used and useful in serving the public; pp 9-10.

Conclusion

Upon consideration, we find that the adjustment to increase unbilled revenue for the 2008 projected test year shall be the 3.5 percent escalation factor for inflation and growth. The Company inappropriately assumed that it could include an anticipated 20 percent or more increase in base revenue as a result of this rate proceeding in Working Capital Allowance. The appropriate balance of unbilled revenue to be included in Working Capital shall be $459,586. Also, the 2008 balance of unbilled revenue shall be reduced by $88,808.

H. Temporary Services

FPUC proposed an adjustment to temporary services for $200 per overhead service and $170 per underground service, as well as additional charges for required excess facilities. Witness Cutshaw explained that the currently approved tariff includes $150 per overhead service and $110 per underground service, which has resulted in an under collection of revenues for temporary service installation. Witness Cutshaw stated that the Company reviewed the service charges to determine the appropriate cost and revenue requirement. He stated that labor costs, transportation costs, and overheads were applied to typical tasks associated with each service charge. The service charge for connecting a temporary service was increased to $52.00 from the existing amount of $44.00.

OPC witness Larkin mentioned that the Company included an amount called "Temporary Services," which corresponds to the FERC Uniform System of Accounts (USOA) No. 185, "Temporary Facilities." The definition of temporary facilities in the USOA is as follows:

> 185 - Temporary Facilities (Major Only)
>
> This account shall include amounts shown by work orders for plant installed for temporary use in utility service for periods less than one year. Such work orders shall be charged with the cost of temporary facilities and credited with payments received from customers and net salvage realized on removal of the temporary facilities. Any net credit or debit resulting shall be cleared to account 451, Miscellaneous Service Revenues.

Witness Larkin contended that the Company is not collecting the appropriate amount of revenue for temporary services to offset the cost of providing the service. In a response to OPC's Interrogatory Number 11, FPUC stated the following:

> The installation and removal costs of temporary services are charged to account 1850.1. As customers are billed for the temporary services, revenues are charged against 1850.1. Additionally, at December of each year, the previous year's December 31 balance in the account is written-off to miscellaneous service revenue, Account 4000.451.

According to Witness Larkin, ratepayers will subsidize the service, and be required to provide a return on services provided at below cost, once the debit is written off on December 31. To

make sure the ratepayers are not subsidizing the cost, witness Larkin recommended removing the temporary service debit balance from rate base and increasing miscellaneous service revenue by the amount written off. This would be a reduction to working capital of $26,961, and a $27,150 increase to miscellaneous service revenue at December 31, 2007 from Schedule B-3 (2007), page 1 of 6.

Conclusion

We agree with OPC's suggestion to reduce working capital for the 2008 projected test year temporary services by $26,961, but we do not agree with the suggestion to increase miscellaneous service charges by $27,150. Currently, the Company is not collecting enough revenue to cover the cost of providing these services under the current approved tariff. The Company has proposed an adjustment to increase the cost of providing these services on a going-forward basis. We do not believe that increasing the cost for temporary services from $44 to $52 should lead to a corresponding increase to the Miscellaneous Services Revenue Account to offset the stated zero balance.

FPL had a similar issue in a previous rate case proceeding for the cost of electric power used for construction.[11] It was proposed that a portion of the cost be removed from rate base since FPL received a return on the service. We determined that the electric power was provided pursuant to tariffs and rate schedules required by the Commission, and we found that no adjustment was warranted.[12] Here we find that the appropriate balance for temporary services should be zero. The 2008 temporary services account shall be reduced by $26,961, and the miscellaneous services revenue account shall not be increased by $27,150.

I. Working Capital treatment of Fuel and Conservation Costs

According to FPUC witness Mesite, the Company included both over and under recovery of fuel and conservation costs in Working Capital. He argued that it is unfair and penalizes the Company to only include over recoveries in Working Capital and not under recoveries. Witness Mesite further stated:

> The fuel is reviewed as well as the over and under recoveries in a special fuel hearing each year. Only those prudently incurred fuel expenses and appropriate fuel rates are approved. It is unfair to penalize the company for items outside of their control if an over recovery results from these approved fuel rates.

Witness Mesite stated that the Company is seeking approval on a going-forward basis to include both under and over recoveries in Working Capital. The Company's alternative to the Commission's practice of including over recovery instead of under recovery of fuel is to eliminate both from Working Capital since they are handled outside of base rate proceedings.

[11] Order No. 10306, issued September 23, 1981, in Docket No. 810002-EU (CR), In re: Petition of Florida Power and Light Company for authority to increase its rates and charges.
[12] Order No. 10306, at page 20.

OPC witness Larkin stated that the Commission's policy properly reflects how and who should pay the carrying costs on over and under recoveries of fuel and conservation costs. He explained:

> [F]irst, the revenues and expenses related to fuel and conservation are eliminated from the operating income statement in the base rate case filing because these revenues and expenses are recovered by the Company through a separate mechanism included in the customer bills. These costs are not recovered through base rates, and, therefore, they should be eliminated from the income statement so that the costs and revenues associated with fuel and conservation costs are not included and recovered in base rates.

Witness Larkin explained that the under recovery of fuel and conservation costs are assets to the Company. When the balances are included in working capital, then the Company will earn the overall rate of return on the increased rate base, and the Company receives its rate of return through the fuel adjustment and conservation adjustment clauses.

According to witness Larkin the alternative suggested by witness Mesite, the elimination of both over and under recoveries from working capital, is not correct. When the Company collects more in fuel costs and conservation costs through its cost recovery mechanism than it actually incurred in expense on the income statement, then the ratepayers are due a refund. The Company has use of the funds and an interest calculation is made on the over recoveries and added to the refund to the ratepayers through the cost recovery mechanism. Witness Larkin argued that if the liability (over recovery) is not included in Working Capital as a reduction, then the ratepayer is paying his own interest to himself, because the Working Capital would be higher by the amount of funds that the Company has in its possession for use for Working Capital purposes. Furthermore, the inclusion of the over recovery in the Working Capital calculation assures that stockholders pay the interest, and that interest is charged below the line and not recovered from ratepayers.

Conclusion

The Commission's practice has been to exclude fuel under recoveries, which are assets, from Working Capital, and to include over recoveries, which are liabilities. [13] The rationale for including over recoveries as a reduction to Working Capital is to provide the Company with an incentive to make its projections for the cost recovery clause as accurate as possible and avoid large over recoveries. In the Company's last rate proceeding, its fuel under recovery was removed from the Working Capital Allowance. Similarly here, we find, for the reasons discussed above, that the under recovery in the amount of $1,143,377 shall be removed from the Working Capital Allowance.

[13] See, Order No. 12663, issued November 7, 1983, in Docket No. 830012-EU, In re: Petition of Tampa Electric Company for an increase in rates and charges and approval of a fair and reasonable rate of return, pp. 14-15. and Order No. PSC-93-0165-FOF-EI, issued March 29, 1993, In re: Application for a rate increase by Tampa Electric Company, p.38.

J. Interest on Customer Deposits

FPUC witness Mesite testified that the Company projected the accrued interest-customer deposits in the MFRs using the appropriate methodology. He stated that the 2008 projected test year 13-month average in the amount of $66,955 was based on customer growth.

OPC witness Larkin argued that the Company's projection methodology reflected too low of an interest accrued balance. Witness Larkin compared the Company's 13-month average ending December 31, 2008 to the actual 13-month average at September 30, 2007. The 13-month average at September 30, 2007 was $71,025. This is a 8.6 percent increase over FPUC's 13-month average at December 30, 2008. Witness Larkin escalated the 13-month average balance in the amount of $71,025 by an additional 8.6 percent to obtain OPC's recommended December 31, 2008 balance of $77,133.

Conclusion:

FPUC's MFRs were filed August 30, 2007, and we believe that the Company had enough time to include in it projections calculation the actual months of interest accrued on customer deposits. As shown in the MFRs, the 13-month average for 2007 and 2008 were projected based upon 2006's actual 13-month average and 2007's projected 13-month average times customer growth. In the MFRs, Schedule C-44, Projection Factors, page 95, the Company used customer growth of 2.4 percent for the period of 2006-2008. As shown in the MFRs, on page 17, line 71, the 2007 projected 13-month interest accrued was $66,161. This amount was used to calculate the 2008 projection. We find that the record supports an increase of $10,178 to the current filing of $66,955, and we approve the appropriate interest accrued balance of $77,133.

K. Deferred Rate Case Expense

FPUC witness Mesite testified that the entire 2008 rate case expense should be allowed in Working Capital. He noted that in FPUC's previous rate case, we had disallowed one-half of the deferral in Working Capital, and in his opinion, the action unfairly penalizes the Company and denies a return on its expenditures. Witness Mesite stated that the Company does not have the staff or expertise to complete a rate case proceeding without assistance from outside sources. In her rebuttal testimony, FPUC witness Martin testified that the Company has incurred only costs that were reasonable, prudent and necessary to prepare the rate case. She agreed with witness Mesite that including only one-half of the unamortized expenditures in Working Capital would unfairly penalize the Company.

OPC witness Larkin stated that the Company's total projected test year rate case expense from June 2007 through March 2008 should be $622,000. An additional $106,000 was added to the balance for the prior rate case expense as of January 1, 2008. The total rate case expense is $728,000, and the Company calculated the 2008 projected 13-month average balance to be $608,236. Witness Larkin proposed removing $100,000 from the Company's requested $622,000 of rate case expense, leaving a balance of $522,000. We considered this reduction below in Section X-R. To arrive at a rate case expense of $606,800, witness Larkin added the unamortized balance of the prior rate case in the amount of $84,800 to the remaining $522,000

balance. Witness Larkin then applied the Commission's accepted practice of allowing only one-half of rate case expense as a working capital allowance to arrive at $303,400. This calculation reduced the Company's requested 13-month average balance of rate case expense of $608,236 by $304,836, leaving a balance of $303,400.

Witness Larkin asserted that FPUC is not being penalized by the allowance of only one-half of the rate case expense in working capital:

> If the Commission were to reflect 100% of the 2008 deferred rate case expense in working capital, the Company would earn a return on that balance for the entire four-year amortization period. Ratepayers will be paying down the balance each month. On average one-half the balance would be outstanding. The Commission's policy is not a penalty, but fair treatment of both parties.

Conclusion

The Company provided the necessary documentation outlining the calculations of the 2008 projected test year 13-month average of $608,236. As discussed below, $100,000 shall be removed because we have disallowed certain rate case work performed for and by the Company. The disallowance of the $100,000 rate case expenses reduces the 13-month average for the 2008 projected test year to $606,800. Our practice in prior rate cases, including FPUC's, is to allow one-half of the rate case expense in Working Capital. Therefore, the Company's 2008 projected 13-month average of $608,236 shall be reduced by $304,836. Based on the above, we find that the appropriate balance of deferred debit rate case expense to be included in Working Capital is $303,400.

L. Storm Damage Reserve

FPUC witness Mesite asserted that the 13-month average storm reserve for the 2008 test year should be $1,809,677. He stated that the Company projected charges totaling $50,000 for storm damage cost for September 2007. Witness Mesite used September as the midpoint of the hurricane season. He calculated that a 19-year average annual storm damage cost would be $36,700 ($697,472/19 years = $36,709). He also allowed for inflation and service area growth over the 19-year period. Based on these calculations, he asserted that the $50,000 estimation for annual storm damage costs was proper.

OPC witness Larkin contended that the 13-month average calculation for storm damage reserve balance should be increased by $8,871. He asserted that the Company miscalculated the 13-month average. According to witness Larkin, the Company reflected a $50,000 reduction in the reserve in September 2007, and, therefore, the Company started the calculation with the wrong balance at December 31, 2007. He asserted that the 13-month average increased after the correction of the errors. The balance increased because the errors were larger than the accrual. Based on his analysis, witness Larkin recommended an increase in the storm reserve balance of $8,871.

Conclusion

The appropriateness of the storm reserve balance of $1,809,677 was based on the calculation of the 2007 projected 13-month average, which included the September 2007 reduction of $50,000. In estimating its costs for the storm reserve, the Company projected a $50,000 storm damage cost for September 2007, and on a going forward basis for a 19-year period. Upon cross examination at the hearing, witness Mesite stated that there were no storms to hit FPUC's system and no actual charges made to the reserve in 2007. The correction of these errors did increase the 13-month average. We find that the 13-month average storm reserve balance shall be increased by $8,871.

In our decision in Section X-P below we have determined that FPUC's annual storm damage accrual shall not be increased from $121,620 to $203,880. This results in an $82,260 reduction to the annual accrual for 2008. This adjustment also requires a reduction to the amount of the 2008 storm damage reserve. Therefore, the storm damage reserve shall be reduced by $41,130, which is the 13-month average of the annual accrual. The net effect of these two adjustments is a reduction of $32,259 ($41,130 - $8,817).

M. Total Rate Base

FPUC asserted that the 2008 projected rate base in the amount of $43,020,996 is appropriate. OPC witness Larkin asserted that the appropriate 13-month average balance of rate base should be $39,692,164, or a decrease of $3,328,833. The rate base amount is a fall-out of other issues and adjustments within this rate proceeding.

We find that, after all approved adjustments have been made, the appropriate amount of rate base for the projected test year is $40,209,549. (See Schedule 1)

13-Month Average 2008 Rate Base			
	FPUC	**OPC**[14]	**Approved**
Utility Plant-In-Service	$81,437,513	$81,218,386	$81,459,754
Accumulated Depreciation	(37,180,863)	(37,177,591)	(37,078,382)
Net Plant-In-Service	44,256,650	44,040,795	44,381,372
CWIP	75,000	0	75,000
Net Utility Plant	44,331,650	44,040,795	44,456,372
Working Capital	(1,310,654)	(4,348,631)	(4,246,823)
Total Rate Base	$43,020,996	$39,692,164	$40,209,549

IX. COST OF CAPITAL

A. Return on Common Equity

As explained in detail below, we find that the appropriate return on common equity for the projected test year is 11.00 percent with a range of plus or minus 100 basis points.

[14] The calculation of OPC's position is based on the amounts contained in OPC's Brief.

Two witnesses filed testimony in this proceeding regarding the appropriate return on common equity (ROE) for FPUC. FPUC witness Camfield recommended an ROE of 11.50 percent. This is the Company's currently-allowed ROE authorized in Order No. PSC-04-0369-AS-EI. OPC witness Woolridge recommended a return of 9.15 percent.

The statutory principles for determining the appropriate rate of return for a regulated utility are set forth by the U.S. Supreme Court in its Hope and Bluefield decisions.[15] These decisions define the fair and reasonable standards for determining rate of return for regulated enterprises. Namely, these decisions hold that the authorized return for a public utility should be commensurate with returns on investments in other companies of comparable risk, sufficient to maintain the financial integrity of the company, and sufficient to maintain its ability to attract capital on reasonable terms.

While the logic of the legal and economic concepts of a fair rate of return are fairly straightforward, the actual implementation of these concepts is more complex. Unlike the cost rate on debt that is fixed and known due to its contractual terms, the cost of equity is a forward-looking concept and must be estimated. Financial models have been developed to estimate the investor required return on equity for a company. Market-based approaches such as the Discounted Cash Flow (DCF) model, Capital Asset Pricing Model (CAPM), and ex ante Risk Premium (RP) model are generally recognized as being consistent with the market-based standards of a fair rate of return enunciated in the Hope and Bluefield decisions.

In the determination of his recommended return, FPUC witness Camfield employed four equity cost methodologies. Witness Camfield used the DCF model, the CAPM, an ex post RP model, and an assessment of realized historical returns approach. Witness Camfield applied the DCF model to two indices of companies he identified as comparable in risk to FPUC. The DCF estimates of the cost of equity were 9.48 percent for the index of electric companies and 9.93 percent for the index of natural gas companies. He also applied the CAPM to the same two proxy groups. The indicated average CAPM return for both the electric and natural gas indices was 11.3 percent. Witness Camfield also conducted an ex post RP study based on earned returns from the 1950's through the 2000's. This approach indicated a return of 12.5 percent for mid-sized electric utilities and 12.3 percent for gas utilities. In his final approach, witness Camfield reviewed the historical realized returns for mid-sized electric utilities and natural gas utilities. Based on this analysis, he believes investors can expect to realize future rates of return of between 10.1 percent and 12.5 percent. Assigning equal weight to each of the four methods, witness Camfield arrived at his recommended return of 11.50 percent.

In the determination of his recommended return, OPC witness Woolridge relied on the DCF and CAPM approaches. Witness Woolridge applied the DCF model to the same indices of electric and natural gas utilities identified by witness Camfield as comparable in risk to FPUC. The DCF estimates of the cost of equity were 9.15 percent for the index of electric companies and 8.74 percent for the index of natural gas companies. Witness Woolridge also performed a

[15] Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 591 (1944) and Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia, 262 U.S. 679 (1923).

CAPM study. The results of this approach were an indicated return of 8.41 percent for the electric index and 8.64 percent for the natural gas index. Because he believes the DCF model provides a better measure of equity cost rates for public utilities and because he believes FPUC's riskiness is at the high end of the range of the two proxy groups, he recommended the ROE at the high end of his range of 9.15 percent.

Although both witnesses used essentially the same models (DCF and CAPM) and applied these models to exactly the same two proxy groups, the results differed because of differences in the inputs each witness used to populate the models. Additional differences resulted from witness Camfield's inclusion of an adjustment for flotation costs, his adjustment to the indicated returns of the RP approach for small size risk premia, and his reliance on two approaches that are based on historical earned returns.

The two witnesses' DCF results are very similar. The difference between witness Camfield's DCF result for the electric proxy group and witness Woolridge's DCF result for the same group is explained entirely by the inclusion of an adjustment for flotation costs.

The primary difference between the results of the witnesses' respective CAPM studies boils down to the appropriate market rate of return used in the analysis. Witness Camfield assumed a market return of 13.0 percent, while witness Woolridge used an implicit market return of approximately 9.25 percent. Witness Camfield relied on historical earned returns for the period 1970 through 2005 to justify his use of a 13.0 percent market return. Witness Woolridge used the results of a series of equity risk premium studies and equity risk premium surveys of CFOs, financial forecasters, and academics to determine an average equity risk premium which he added to the current risk-free rate (current yield on 30-year Treasury Bonds) to estimate the market return of 9.25 percent assumed in his analysis.

Witness Woolridge testified that it was unrealistic to expect a market return of 13.0 percent given current market conditions. Because this key input to his CAPM analysis exceeded the true market return expected under current market conditions, witness Woolridge testified that witness Camfield's CAPM estimate overstated the cost of equity for FPUC. In addition, witness Camfield used a yield on 10-year Treasury Bonds of 4.73 percent as a proxy for the risk-free rate. Witness Woolridge testified that the current yield on 10-year Treasury Bonds was 4.14 percent. By operation of math, carrying this lower risk-free rate through witness Camfield's CAPM model results in an indicated return of 11.1 percent.

Witness Camfield's recommendation of 11.50 percent is heavily influenced by his reliance on two approaches, the ex post RP model and the realized historical returns approach, that are based on historical earned returns. Witness Woolridge testified that there are a number of flaws in using historical earned returns over long periods of time to estimate expected equity returns. He cited numerous academic studies that highlight the many problems and errors associated with using historical earned returns to measure expected equity returns. For these reasons, we did not assign weight to the two approaches derived exclusively from historical earned returns.

In addition to its reliance on historical earned returns, witness Camfield's RP model also included an adjustment of 2.0 percent to account for a small size risk premia. He testified that this adjustment was necessary to recognize that the cost of equity is higher for small firms, other factors held constant. Witness Woolridge testified that the method witness Camfield used to measure the small risk premia adjustment was a poor measure for a risk adjustment to account for the size of a company. In addition, witness Woolridge testified that due to the frequent monitoring by federal and state regulatory agencies, publicly traded utility stocks do not exhibit a significant size premium. He cited two academic studies that support this view. Witness Camfield's size premia adjustment was only included in the results of his RP model. As noted earlier, we discounted the relevance of this model due to the well documented problems associated with models based on historical earned returns.

Finally, all of witness Camfield's return estimates include an adjustment for flotation costs of 6 percent, which translates into approximately 33 basis points. Witness Woolridge testified that issuance costs, if properly documented, should be recovered through the cost of service and not included as an adjustment to the ROE. Witness Camfield countered that flotation costs are real transaction costs that reduce the net proceeds realized by the Company from its sale of equity securities. Witness Woolridge acknowledged that it is common for rate of return estimates to include an adjustment for flotation costs. We have traditionally recognized a reasonable adjustment for flotation costs in the determination of the required return on equity. For these reasons, we believe an adjustment for flotation costs is reasonable.

After considerable discussion regarding the general level of capital costs, the signals that Commission decisions regarding ROE send to the capital markets, and the risk and return characteristics specific to this company, we believe an ROE of 11.00 percent is appropriate for FPUC. We note that this company has proven that it is very efficient in its operations and has kept rates relatively low. While we are aware that returns have trended downward nationally and interest rates have been low for a sustained period, we are not persuaded to reduce the ROE for FPUC as dramatically as OPC has recommended. That said, we do believe the record in this case supports a recognition that required returns are lower than they were when FPUC's ROE of 11.50 percent was last authorized. Based on the record before us, we believe 11.00 percent is the appropriate ROE at this time.

As discussed earlier, the return we authorize in this case must satisfy the fair and reasonable standards set forth by the U.S. Supreme Court in its Hope and Bluefield decisions. We believe the record supports a return of 11.00 percent, which is similar to returns authorized for utilities of comparable risk. We are confident that this return, along with prudent oversight by management of the Company and the supportive regulatory policies of this Commission, is sufficient to assure confidence in the financial integrity of the Company and will permit it to continue to raise capital under reasonable terms.

Conclusion

Based upon our analysis of the cost of capital testimony presented in this case, we shall set an authorized ROE of 11.00 percent for FPUC, with a range of plus or minus 100 basis

points. There is substantial evidence in the record to support this decision and it satisfies the standards set forth in the Hope and Bluefield decisions of the U.S. Supreme Court regarding a fair and reasonable return for the provision of regulated service.

B. Capital Structure

In its MFR's, FPUC filed a projected capital structure on both a 13-month average and year-end basis. Although the Company used a 13-month average capital structure for purposes of its request for a rate increase, witnesses Camfield and Cox filed testimony to support use of a year-end capital structure for purposes of this proceeding. FPUC's stated reason for requesting the year-end capital structure is to reflect the issuance of new shares of common equity in mid-year 2008. Use of a year-end capital structure produces an overall cost of capital that is six basis points greater than the rate of return indicated by a 13-month average capital structure. This incremental difference represents approximately $40,000 in annual revenue requirements. Witness Camfield acknowledged that use of a year-end capital structure is a departure from our long-standing policy of using a 13-month average capital structure. OPC took the position that the appropriate capital structure should be based on a 13-month average.

Conclusion

By using a projected test year, the Company's projected equity issuance is being partially recognized in the rate setting process. We do not believe that FPUC has demonstrated sufficient extenuating circumstances, such as extraordinary growth or inflation, to merit a divergence from the standard practice of using a 13-month average capital structure. For these reasons, we find that FPUC shall use a 13-month average capital structure to be consistent with its use of a 13-month average rate base and our past practice.[16]

FPUC witnesses Cox and Camfield also argue that the unregulated subsidiary Flo-Gas balances should be included in the capital structure, since they believe these funds cannot be earmarked for specific purposes. We believe, however, that removing non-utility investments directly from equity recognizes their higher risks and prevents cross subsidization through the cost of capital. This treatment is consistent with our past practice.[17]

C. Cost Rate for Short-Term Debt

FPUC asserted that the appropriate cost rate for short term debt is 6.81%. FPUC witness Camfield testified that FPUC's short-term debt cost rate is the London Interbank Offer Rate (LIBOR) plus 90 basis points. The starting point is the current U.S. Fed Funds interest rate. He then added 18 basis points to this rate to obtain an estimate of the LIBOR rate. Witness

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[16] Order No. 10449, issued December 15, 1981, in Docket No. 810035-TP, In re: Petition of Southern Bell Telephone and Telegraph Company for a rate increase.

[17] Order No. 23573, issued October 3, 1990, in Docket No. 891345-EI, In re: Petition of Gulf Power Company for an increase in its rates and charges.

Camfield acknowledged that the U.S. Fed Funds interest rate has been lowered from 5.25 percent contained in his testimony to the then current 3.00 percent. Using witness Camfield's methodology results in a LIBOR rate of 3.18 percent. Adding the 90 basis point spread to the 3.18 percent LIBOR rate results in the short-term debt cost rate of 4.08 percent.

OPC witness Woolridge's testimony contained a recommended short-term debt cost rate of 5.81 percent. This recommended rate was based on a U.S. Fed Funds interest rate of 4.25 percent that was the prevailing rate at the time of filing his testimony. We believe it is appropriate to use the U.S. Fed Funds rate in effect when the record closed, calculating the short-term debt cost rate utilizing the methodology outlined in witness Camfield's testimony.

Conclusion

Based on the record, we find that the appropriate projected cost rate for short-term debt is 4.08 percent.

D. Accumulated Deferred Taxes

FPUC proposes that the appropriate amount of accumulated deferred taxes to include in capital structure is $6,078,743, while OPC suggests that the accumulated deferred taxes to be included in the capital structure should be $5,633,172. OPC witness Larkin testified that the deferred tax amount should be $5,498,400. OPC provided no support regarding what adjustments should be made to the deferred tax amount stated in the MFRs.

Conclusion

We find, per MFR Schedule D-1a, Page 3 of 3, that the balance of jurisdictional deferred taxes to be included in FPUC's capital structure for the test year is $6,078,743. None of the adjustments we make in this Order has an impact on the accumulated deferred tax balance.

E. Unamortized Investment Tax Credits

FPUC proposes that the appropriate amount of unamortized investment tax credit to include in capital structure is $81,965, and the appropriate cost rate is 9.67 per cent. OPC contends that the appropriate amount of unamortized investment tax credit to be included in the capital structure should be $75,957. OPC witness Larkin testified that the unamortized investment tax credit amount should be $74,140. OPC provided no support regarding what adjustments should be made to the unamortized investment tax credit amount stated in the MFRs.

Conclusion

None of the adjustments we make in this Order has an impact on the unamortized investment tax credit balance. We have recalculated the investment tax credit cost rate based on other our adjustments and our approved return on equity, resulting in an 9.26 percent weighted

average cost rate for the investment tax credits. Accordingly, we find that the appropriate amount and cost rate of unamortized investment tax credits to include in the capital structure is $81,965 and 9.26 percent, respectively.

F. Weighted Average Cost of Capital

FPUC proposes that the overall cost of capital for regulatory purposes is 8.07%, while OPC contends that the overall cost of capital is 7.01%. Based upon the decisions we have made in this Order, and the proper components, amounts and cost rates associated with the projected capital structure, we find that that the weighted average cost of capital shall be 7.64 percent.

By stipulation between the parties, the appropriate weighted average cost of long-term debt in this proceeding is 7.96 percent. We have determined that 4.08 percent is the appropriate cost rate for short-term debt. We have also determined that the appropriate mid-point return on common equity shall be 11.00 percent, and that FPUC shall use a 13-month average capital structure to be consistent with its use of a 13-month average rate base in lieu of using a proposed year-end capital structure. No evidence in the record disputes the reasonableness of a preferred stock cost rate of 4.75 percent.

Conclusion

The net effect of these adjustments is a reduction in the overall cost of capital from the 8.07 percent return requested by the Company to the return of 7.64. Schedule 2 shows the recommended test year capital structure. Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ending December 31, 2008, we find that the appropriate weighted average cost of capital for FPUC is 7.64 percent.

X. NET OPERATING INCOME

A. Inspection and Testing of Substation Equipment

FPUC requests recovery of additional expenses to inspect and test transmission substation equipment costs in the amount of $73,050. FPUC asserts that it has provided sufficient information regarding the increased level of substation maintenance required to increase the reliability of substation equipment. OPC contends that FPUC has not provided documentation that supports an additional increase in the level of expenses for inspection and testing of its transmission substations. OPC witness Larkin explained that there was not a step by step plan detailing the expenditures that would justify the increase. Also, Staff witness Welch stated that the utility did not provide her with documents showing if or how the maintenance plan would have decreased the 2006 expenses and the corresponding 2008 expenses.

In rebuttal testimony, FPUC witness Cutshaw provided the maintenance standards in Maintenance Testing Specifications for Electrical Power Distribution Equipment and Systems. Witness Larkin dismissed these standards as "generic standards," implying that they were not specific enough to support FPUC's proposed expense increase. FPUC countered that the maintenance requirements included are proposed as scheduled maintenance in accordance with the manufacturer's recommendation. FPUC believes that the maintenance activity will

ultimately reduce the expected repairs that were necessary during 2006. The scheduled maintenance was estimated at $126,000. for 2008, while the requested increase for 2008 is $73,050.

Conclusion

We find that the maintenance standards in Maintenance Testing Specifications for Electrical Power Distribution Equipment and Systems that FPUC provided are sufficient to show how the expenses will be incurred and how resulting reductions in outages and the extended life of the plant equipment will benefit FPUC's ratepayers. We approve recovery of an additional expense of $73,050. to inspect and test substation equipment. No adjustment is necessary because the $73,050. is already included in FPUC's filing.

B. Forfeited Discounts (late fees)

FPUC claims that it has properly projected forfeited discounts (late fees) of $342,133. for the projected test year 2008. OPC contends that Other Operating Revenues should be increased by $48,919. to reflect an understated projection of revenues associated with late payment charges.

Characterizing the forfeited discounts as actually late payment charges, OPC witness Larkin testified that there are certain reasons that the late charges should be greater than projected for 2008. FPUC's revised tariff filed in the MFRs states that a bill is past due upon the expiration of 20 days from the date the bill is generated by the Company. Witness Larkin testified that this would give the customers a shorter time period to pay their bill than they currently have, and, therefore, the late fees should be increased. FPUC witness Cutshaw testified, however, that it was not the Company's intent to shorten the time that the customers have to pay their bills, that the company would re-file the tariff language to clarify that the time period for payments does not decrease, and that the Company is in compliance with Rule 25-6.101, F.A.C., Delinquent Bills.

Witness Larkin also testified that the late charges will increase because of the increase in revenues from the rate case and the increase in fuel costs. Witness Larkin suggested a 5 percent increase for 2007 and 2008 to arrive at a late payment fee increase of $391,052. This is a $48,919. increase over the Company's projected 2008 late payment fees of $342,133. Witness Larkin did not state the reasons that he recommended a 5 percent increase over another percentage increase in late fees for 2007 and 2008. Witness Cutshaw testified that the actual revenues from January through November for late payments for 2007 ($315,170.) compared to 2006 ($323,038.) have in fact declined 2.4 percent. Witness Cutshaw stated that this trend may continue. This calculation does not compare the expenses for the same length of time of one year. Therefore, we annualized the 2007 late fees in the following table.

Forfeited Discounts (Late Fees)			
	2006	**2007**	**2008**
Utility – MFRs	$354,696	$353,444	$342.133
Commission - Actual Per Utility 1-1-07 to 11-31-07		$315,179	
Annualized 1-07 to 12-31-07		$343,832	
Escalated by customer growth – 1.2% for 2007-2008			$347,958
Adjustment to Increase Forfeited Discounts (Late Fees)			$5,825

Conclusion

We have based our adjustment here on the methodology we used in Order No. PSC-04-0369-AS-EI.[18] We find that an adjustment to increase 2008 Late Fees by $5,825 is reasonable and appropriate.

C. Miscellaneous Service Revenue

FPUC asserts that the appropriate projected test year miscellaneous service revenues are $225,209. OPC argues that miscellaneous service revenues should be increased by $27,150 to reflect the removal of the debit balance of temporary service from working capital. This increase is appropriate so that ratepayers do not subsidize any of these services, in which revenues collected should fully offset the costs of providing that service.

Conclusion

We find that no adjustment is necessary to miscellaneous service revenue, because we have increased the cost of temporary services from $44 to $52 on a going forward basis.

D. Total Operating Revenues

FPUC claims that the appropriate balance of Total Operating Revenues should be $17,186,965 projected for the December 2008 test year. OPC contends that the appropriate balance should be $17,263,034. which reflects an increase of $76,069 from the Company's requested amount of $17,186,965.

Conclusion

This is a fallout issue based on the determinations we have made in this proceeding. Based on the adjustments we have made, we find that $17,192,790 is the appropriate projected level of Total Operating Revenues for the December 2008 projected test year.

[18] Order No. PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030438-EI, In re: Petition for rate increase by Florida Public Utilities Company.

	FPUC	OPC	COMM.
Operating Revenues as filed	$17,186,965	$17,186,965	$17,186,965
Issue 71 – Forfeited Discounts	0	48,919	5,825
Issue 72(S) – Fuel Revenue	0	0	0
Issue 73(S) – Conservation Revenue	0	0	0
Issue 74 – Misc. Service Revenue	0	27,150	0
Adjusted Operating Revenues	$17,186,965	$17,263,034	$17,192,790

E. Escalation Factors and Trend Rates

FPUC's MFR projection factors are divided into the following categories: Inflation; Payroll; Customer Growth; Sales (KWH) – No Price; Inflation & Customer Growth; Inflation & Payroll; Payroll & Customer Growth; Direct; Revenues; Zero Balance. These projection factors are applied to years 2006-2007, 2007-2008, and 2006-2008. The projection factors are listed for each account on Schedule C-7, pages 1-3, under the adjustment basis column. The number in the adjustment basis column corresponds with the number on page 95 for the projection factors. FPUC states that it believes that applying the appropriate trend factors to the 2006 accounts balances results in the necessary 2008 operation and maintenance expenses.

FPUC witness Martin testified that there were additional expenses added over/above the 2008 trended balances. Witness Martin stated that the inflation rate used was based on the national-level consumer price index for all urban consumers. Based on the Congressional Budget Office economic projections, FPUC used the following inflation factors: 2006 to 2007: 102.2 percent; 2007 to 2008: 102.3 percent; and 2006 to 2008: 104.5 percent.

Witness Martin explained that FPUC chose factors similar to those in previous rate cases and that these factors produced the expected and appropriate results. Witness Martin stated that after the projection factors were applied, the division manager and accounting department verified that the projected 2008 balances were in line with FPUC's expectations.

1. Payroll and Customer Growth Projection Factors

Witness Larkin stated that FPUC has applied the payroll and customer growth projection factor, 102.4 percent, to 20 accounts. Witness Larkin asserted that the customer growth factor should not be used because the growth factor can be offset by new technologies that would increase the efficiencies of the utility personnel and alleviate the need for additional employees. FPUC witness Martin agreed that new technologies and computers may help employees to perform their jobs more efficiently. She claimed, however, that in many instances the new technologies might improve customer service but not decrease the workload. New technologies do not negate the fact that customer growth will necessitate the addition of new employees.

Witness Larkin stated that FPUC made several specific adjustments to add new employees between 2006 and the projected 2008 test year. Witness Larkin explained that it was not appropriate to apply a trending rate to new positions because the positions hired in 2008 would be hired at current costs and no adjustment is needed to increase those salaries to 2008 levels. To do so would result in a double-counting of costs associated with hiring new

employees in the account that has specific adjustments for new positions. Witness Larkin recommended a reduction to O&M expenses by removing the 2.4 percent inflation factor, which reduced O&M expenses by $36,691

In FPUC's last rate case, Order No. PSC-04-0369-AS-EI, we found that the 2004 customer growth factor was 2.44 percent. In its MFRs, FPUC included a customer growth factor of 1.2 percent for 2006-2007 and 1.2 percent for 2007-2008, for a combined customer growth factor for 2006-2008 of 2.4 percent. We find that the customer growth factor of 2.4 percent for this rate case is appropriate because it is consistent with the last rate case.

We find that the use of the customer growth factor times the payroll factor is appropriate, because new technologies may increase the efficiency of serving the customers, but do not decrease the needed employees for an increased number of customers. Overall workload would increase because of customer service, plant in service, and any other work created by an increased number of customers. Therefore, no adjustment shall be made to the combination trend factor of payroll and customer growth.

2. Inflation and Customer Growth Projection Factors

OPC witness Larkin testified that FPUC applied the inflation factor and the customer growth projection factor of 102.4 percent to 33 accounts for a combined projection factor of 107 percent. Witness Larkin argued that FPUC did not provide sufficient evidence to justify the application of the combined trend rates, and the customer growth factor should not be used. Witness Larkin did not state what documentation would justify the use of the customer growth factor. Witness Larkin did state that customer growth would have little or no impact on the following accounts: advertising expense, industry association dues, and economic development costs. We note that the industry association dues account balance and the economic development costs account balance is minimal. As explained below, we have approved a reduction to FPUC's advertising expense account. FPUC witness Martin explained that the combined trend rates used by the company were appropriate because as new employees are added over time as a result of customer growth, inflation has to be taken into consideration in order to account for additional payroll expense due to issues such as pay raises associated with cost of living and general economic conditions. Witness Martin testified that the new positions that are added over and above the trended factors are needed as the result of factors outside of the normal growth factors, such as additional internal control requirements required by the Sarbanes-Oxley Act of 2002. Therefore, according to FPUC, these additions do not result in double counting.

Order No. PSC-04-0369-AS-EI stated that the 2004 inflation projection factor was 103.3 percent. In this case, the inflation projection factor for 2006-2007 is 102.2 percent, 2007-2008 is 102.3 percent, and 2006-2008 is 104.6 percent. There is no evidence in the record to support a change to the inflation factor of 104.6 percent. We find that the inflation and customer growth increase shall be applied to the O&M accounts to address the increase in expenses, such as pay raises associated with the cost of living and general economic conditions. We also find that the new positions are required to address the additional internal control requirements of the Sarbanes-Oxley Act of 2002 and that there is no material double-counting of expenses.

Therefore, no adjustment shall be made to the combination trend factors of payroll and customer growth.

3. Payroll and Non-Payroll Costs

Witness Larkin asserted that FPUC applied payroll rates to accounts that have payroll and non-payroll costs included in them. Witness Larkin explained the payroll trend factor should be applied to the payroll costs only. Applying the 2006 – 2008 payroll trend factor of 11.3 percent, to the payroll account balances increases the projection too much because of the non-payroll costs in the account. In her rebuttal testimony, FPUC witness Martin submitted Revised Schedule C-7 to separate payroll and nonpayroll costs for the operating and maintenance expense accounts.

We believe that expenses should be trended up for customer growth and the necessity of adding additional employees to provide FPUC's ratepayers sufficient quality service. We find that it is appropriate to break down the account balances between payroll and nonpayroll expenses provided by witness Martin. We applied the payroll times customer growth factor (14.1 percent) to the payroll costs, and the inflation times customer growth factor to the non-payroll costs (7.0 percent). Based on the breakdown in costs and application of the recommended projection factors, O&M expenses increase $16,812. Based on the above, we find that the O&M expenses shall be increased by $16,812.

4. Trend Projection Balances versus 2007 Annualizing Expense Balances

Witness Larkin provided a comparison by account of FPUC's projected 2007 O&M expenses contained in the MFRs and the annualized 2007 actual costs recorded to date. The projected 2007 expenses in the MFRs are $9,089,515 and the 2007 annualized expenses are $8,145,557, for a difference of $943,958. In rebuttal, witness Martin stated that most of the original 2007 projections were due to the delay in the storm hardening initiatives. Witness Martin originally estimated that the surcharge would be in place by mid 2007 in order to begin implementation of the initiatives. The recovery of costs and implementation of the initiatives were delayed and were combined with the rate proceeding. Lastly, witness Martin stated that the test year is still materially correct since these expenditures will be incurred beginning in 2008.

Conclusion

We believe that the difference between the 2007 annualized expense total and the projected 2007 expenses in the MFRs has been resolved because of the stipulations regarding the storm hardening issues. Our decisions on the remaining issues in this Order will determine the appropriate expenditure level for 2008. We grant our staff the administrative authority to calculate the appropriate 2008 expenditures level as a fall-out of our decisions in this case.

F. Compliance Accountant Position

FPUC asserted that its requested new position for the Compliance Accountant is justified and needed and should be allowed full annual recovery. According to FPUC, the position will be filled at the very latest by April 2008, and since it will coincide with the implementation of the final rates it is appropriate for full recovery. FPUC adds that its calculation of the overhead was incorrect and 11 percent, or $2,640, should be removed from the total projected expense. The position is needed for special audits including inventory, cash, and other processes. The total increase for this new position is $82,220, of which 40 percent, or $32,880, was allocated to the electric division for 2008.

OPC agreed that a new position is needed for the corporate accounting staff. OPC witness Merchant also agreed with the annual salary level of the new position, but pointed out that the Company has not yet taken any action to hire a new employee. Witness Merchant explained that, based on her experience, it would take at least until the middle of May to July for the planning, advertisement, and hiring of a new employee. For this reason witness Merchant proposed that we only allow one-half of the proposed salary for the new internal audit/accounting position. The annual salary for this new position is $60,000 plus benefits at 38 percent or $22,800, totaling $82,800 for the full year. Witness Merchant also recommended that the 12 percent vacation/leave component in the overhead factor be removed for benefits of 26 percent. Based on one-half of the salary and 26 percent for the overhead factor, the recommended 2008 salary would be $37,800, of which 40 percent, $15,120, would be allocated to the electric division. Witness Merchant recommended an adjustment to Account 920 amounting to a decrease of $17,760. Witness Merchant clarified that the test year is a snapshot in time, and an adjustment to put the full $60,000 salary in the test year is not appropriate because at least three months have passed without the position being filled. She further explained that expenses and revenues after the test year may go up or down; so it is important to set a point in time on which to set rates.

In rebuttal testimony, witness Martin stated that FPUC has begun the hiring process for this position and that is it posted both internally and on the website, monster.com. Witness Martin explained that FPUC was slightly delayed in the hiring of this position, but it has begun the process and expects to have a full time candidate hired in the position by April 2008, at the very latest. If not, FPUC will hire temporary personnel to cover the duties until such time that a permanent candidate can be hired. Witness Martin argued that it is appropriate to recover the annual amount of the salary plus benefits since the base rate final rate recovery will begin after the time that this position is hired, and the revenues will match the expenses.

On cross-examination, witness Martin stated that FPUC has made an offer to someone for the corporate accounting position and it is hoped that the position will be filled by March 2008. If the employee has not been hired by then, FPUC would hire a temporary person from an agency. This person would have the appropriate skill set, in the hopes that the person would be hired on a permanent basis. Witness Martin stated that hiring a temporary employee would provide FPUC the time to judge the employee's ability to perform any work that would be

associated with that position. Lastly, witness Martin agreed to a reduction of 11 percent for vacation/sick leave from the overhead benefits of 37 percent of the salary.

Conclusion

We find that while the new employee FPUC proposes to hire has not worked for all of 2008, neither has the utility received compensatory rates for all of 2008. In fact, FPUC's new rates will not go into effect probably until July given the noticing requirements to inform its customers of any changes in rates. We do not believe that a 50 percent reduction to the Corporate Accountant salary is necessary because of the late hiring of this employee. We do find that a reduction to Account 920 for $2,640 for vacation/sick leave overhead is appropriate, which is a reduction of 11 percent in the overhead benefits.

G. Customer Relations Analyst

FPUC's requested new position is called a CR analyst/coordinator. The Company stated that it needed to hire a new internal auditing position to comply with the requirements of the Sarbanes-Oxley Act of 2002 and Section 404, Management's Assessment of Internal Controls. The work load continues to increase within the accounting department as a whole and FPUC stated that an increase in staff is required at this time. The total increase for this new position is $56,992, of which 30 percent, or $17,098, is for the electric division.

OPC witness Merchant argues that the Company failed to adequately justify the need for this position by incorrectly providing information for another position and failing to provide the correct position information. In her rebuttal testimony, witness Martin explained that FPUC discovered the mistake after reviewing the testimony of witness Merchant. Witness Martin submitted a job description for this position. She clarified that many of the duties of the new position have been decentralized to each local office, and the company struggled to successfully complete the duties in a timely manner. Witness Martin stated that the Company's intention was to ensure it is compliant within its local offices on Section 404 of the Sarbanes-Oxley Act, so it has decided to centralize some of the duties so that its operation can run smoothly and efficiently.

Conclusion

The Company incorrectly referred to the new Compliance Accountant position needed in the Corporate Accounting department as opposed to the CIS Project Analyst position in the CR department. We have reviewed the CIS Project Analyst position announcement posted on December 26, 2007. The job description fits the needs requested by the utility, and the position needs to be filled because of the heavy workload in the accounting department. The salary is $95,066 for 2008, and the 40 percent electric portion is $38,026 for 2008. We have corrected a slight computational error and reduced overhead expenses by 11 percent or $1,373. We find that this expense for the CIS Project Analyst position is appropriate and we approve it. Account 920 shall be reduced by $1,373.

H. Training Expense

FPUC has revised its request for an increase in training expense from $54,354 to $127,135, which includes trainers in each division and the necessary training modules and programs. OPC argues that the Company has not justified either the original or revised request for training and its original request for a $54,354 increase should be disallowed.

For several years, the Company used a training program administered by the state, which was a home study or book program that took four years to complete and 8,000 hours of on the job training under the review of a qualified journeyman. The Company investigated numerous options to train its apprentice lineman after it learned that a training program at a Tampa Electric Company (TECO) facility was no longer available. The Company decided to develop a formalized training program of its own to ensure the quality of its linemen. In order to administer the training program and continue the existing safety program, the Company determined that a safety and training position would be required in each division.

The Company requested the $127,135 for a full time trainer, travel for the trainer, non-capital training supplies, preparation costs of the training material, actual training material, and the cost of the state lineman program material. Witnesses Cutshaw and Myers agreed that the Company had included costs associated with State Lineman Program materials. Witness Cutshaw also admitted that the projected 2008 training expenses included 2006 test year training costs of $10,000 ($5,000 per division), and were updated to $11,000 for 2008. We find that the $2,235 in preparation of training costs is nonrecurring and shall be disallowed.

OPC Witness Merchant stated that no documentation such as written estimates, bids or invoices, only internal documents, had been provided to support these requested amounts. FPUC explained that the Company had considered having a dedicated lineman as a trainer in each division, having a dedicated lineman as a trainer serving both divisions, using supervisors as trainers, or using all working foremen as trainers. Witness Merchant pointed out that each of these methods would be less expensive than $127,137, and therefore FPUC did not choose the most cost-effective method. Witness Merchant recommended that training expense for the 2006 level should be escalated for the 2008 projected test year, and the over and above adjustment of $54,354 should not be allowed.

The other options considered by the Company to fulfill the need for lineman training have one major disadvantage over FPUC's preferred proposal. All the other options use supervisors, linemen, or other personnel to conduct the training as an "additional duty." We believe that those options would have diminished the effectiveness of the training and diverted attention from the employees' primary job. The option selected by the Company to use separate trainer/safety coordinators in each division provides the most efficient way to provide the training needed. The program will require a full time trainer.

Conclusion

We believe it is prudent to incorporate the safety program into the training program for apprentice linemen. The Company has done extensive work in developing the training/safety program, and the $127,135 in start-up costs is a good faith estimate of the costs going forward. The requested increase of $127,135 to the 2008 test year shall be reduced by $11,000 for the 2006 state lineman training expenses. Also, $2,325 for preparation of training expense shall be removed as a nonrecurring expense. Finally, we have removed the initial request of $54,354 to assure there is no over-lapping of expenses between the two training programs. Also, the new position for pole inspections/joint use attachments should not be used as a part-time training coordinator. A comparison of training expenses follows:

Training Expenses for Apprentice Linemen			
	FPUC	**OPC**	**COMM.**
Initial Request expenses	$54,354	$54,354	$54,354
Amended Request	$127,135	$127,135	$127,135
Itemized Expenses			
Additional Trainer Salary and Benefits	$87,750	$0	$87,750
Travel Expense for Trainer	$9,600	$0	$9,600
Training Supplies (non-capital)	$5,150	$0	$5,150
Preparation of Training Materials	$2,325	$0	$0
Actual Materials for the training program	$11,310	$0	$11,310
2006 State lineman Program Materials	$11,000	$0	$0
Total Expenses	$127,135	$0	$113,810
Initial Request			($54,354)
Total Costs allowed			$59,456

Based on the above, we find that the 2008 training expense for lineman shall be increased by $59,456.

I. Corporate Services Administrator

FPUC has requested recovery for expenses associated with the new position of Corporate Services Administrator to assure that the Company stays in compliance with its procedures. The cost in the over/above schedule reflected $33,280 being added in 2008, of which 28 percent or $9,318 was allocated to electric operations. FPUC asserted that while the position has not been hired yet, one is anticipated to coincide with the implementation of the final rates. FPUC states that there is a slight error in the computation of overheads, and 11%, or $923 should be removed from the calculation. OPC argues that FPUC has not demonstrated a need for the new position and pointed out that the position would not be filled until new rates are effective.

FPUC states that the new position will be responsible for assisting with administrative responsibilities currently assigned to safety professionals, allowing more time for safety professionals to focus on developing new safety programs, revising the current safety program, and performing an increased number of safety inspections. Duties now being performed by others will be consolidated to one position, thus freeing up the time of other employees.

Conclusion

The record indicates that this new position is needed to provide administrative support for the other new positions FPUC has requested. If the position is not filled until June or July 2008, the utility will receive approximately one-half year of revenues with one-half of the corresponding expenses based on the projected test year revenue requirement. We approve the new Corporate Services Administrator position. As FPUC pointed out, an adjustment shall be made to reduce the overhead expense by 11 percent, or $923, for an error in the calculation.

J. Travel Expense Increase

FPUC requests an increase in annual travel and miscellaneous costs associated with the increased internal audit functions of the Company and the new compliance position. The total Company increase is $20,000 with $5,200 allocated to the electric divisions for the test year. OPC argues that the travel expense should be reduced by 50 percent since the position has not been filled and will likely not be filled until after the rate case is concluded. OPC recommends disallowing $2,600 from travel expense.

Conclusion

Both FPUC and OPC agree that travel expenses associated with the new Corporate Accounting and Compliance position are appropriate. They disagree about the amount of travel expense to include in the test year, since the position has not yet been filled. In Subsection F above, we approved a full year's expense for the new position. Consistent with that decision, we find that the total annual travel and miscellaneous costs associated with the new Compliance position in Corporate Accounting shall be $20,000, and the electric share is $5,200.

K. Moving Expense

In Audit Finding No. 11, staff witness Welch noted that the Company had included moving expenses for 2006:

	2006	**2007**	**2008**
Acct. 580 Fernandina Operation Supervision	$1,173	$1,237	$1,305
Acct. 901 Fernandina Customer Acct. Supervision	1,136	1,199	1,265
Acct. 590 Fernandina Distribution Maintenance	1,136	1,199	1,265
Acct. 901 Propane	220		
Acct. 1439.1 Fernandina	69		
Total	$3,734	$3,635	$3,835

Both Staff witness Welch and OPC witness Larkin agree that these moving expenses may not be recurring and that the Company should provide support that establishes the need for these costs on an ongoing basis. In response to Audit Finding No. 11, FPUC witness Martin explained that the utility has moving expenses associated with hiring of new personnel on an ongoing basis, and accordingly, this expenditure is valid for recovery.

Conclusion

The moving expenses FPUC has requested do not appear to be recurring expenses. In the future, the Company would benefit from filing documentation that shows the details of the moving expenses incurred so that a determination can be made if they are in fact recurring expenses. We find that in this case the record does not support their inclusion. We shall remove $1,305 from Account 580, $1,265 from Account 901, and $1,265 from Account 590.

L. Travel Expense for Employee's Spouse

OPC suggested that Account 588.2 – Other Distribution Expense should be reduced by $773 for non-utility travel expenses for a prospective employee's wife. FPUC contended that travel costs associated with hiring is a recurring expenditure, as is the expense for a prospective employee's spouse, and the expense is appropriate for recovery.

Both Staff witness Welch and OPC witness Larkin testified that the expense for a safety contractor's wife's airline ticket should not be paid by the ratepayers and thus should be removed from the 2008 projected test year. FPUC witness Martin's response to Audit Finding No. 9 explained that part of the recruitment process for this contractor was to provide for reimbursement of his spouse's travel expenses. Witness Martin explained it is not an uncommon practice to include a spouse when interviewing potential new hires to ensure that a relocation would be successful.

Conclusion

We understand that a potential employee's spouse would wish to visit the area in which the job is located, but we do not believe that ratepayers should cover that expense. Therefore, we find that Account 588.2, Other Distribution Expense, shall be reduced by $773 for travel expenses for the employee's spouse.

M. Customer Information Expense

OPC suggested that an adjustment should be made to reduce FPUC's requested increase to customer information expense. FPUC argued that it has increased the level of information it provides to customers on a variety of issues, and that level of information will be continued to keep customers informed of future fuel price changes, storm hardening initiatives, vegetation management programs and other information.

The Company included $159,543 in the projected test year for Customer Information expense. The amount was trended up from the 2006 actual amount, plus an additional $14,904 determined necessary to inform and educate FPUC's customers. The Company stated that it has

always tried to provide information useful to its customers, and providing this information has became increasingly important because of increases in rates approved by the Commission.

OPC Witness Larkin pointed out that the Company's expenses historically were $1,037, $783, and $261, in 2003, 2004, and 2005, respectively. Thus, the expenses for informing customers from 2003 through 2005 were low. In rebuttal testimony, witness Cutshaw stated that prior to 2006, rates paid by FPUC customers were well below the average rates of other utilities, while reliability was good. Therefore, there was no need to have a high level of communication with the ratepayers. In 2006, the utility incurred $121,226 in informational and instructional expenses, and incurred $100,476 as of year to date September 30, 2007. FPUC explained that the dramatic increase in fuel costs prompted the Company to increase its communication with its customers to keep them informed and provide information on methods that could be used to control those costs. FPUC stated that this type of information is required when the customers are affected by a significant cost increase. Witness Cutshaw testified that the advertising expenses will remain at the increased level indicated in this filing, because even if the customers are aware of the high fuel costs, now customers tend to be more concerned with the service that they are receiving for their money. Witness Cutshaw believes there is a continuing need to keep customers well-informed.

FPUC's response to OPC's Interrogatory No. 102, listed the Vendor Name, Invoice Number, Invoice date, and Invoice amount with an explanation of the purposes of the advertising expenditure. Witness Larkin stated that almost every line item listed in the interrogatory response gave the justification for the expenditure as "[a]dvertising of Company name and website at an event where a large number of customers attend;" or "[a]dvertising and public relations work related to fuel increase." According to witness Larkin, the Company keeps providing the same information repeatedly. The difficulty in the Company's approach is that the customers are already aware of their fuel-based cost increases. Witness Larkin argued that there was no need to continue expenditures at this level. Witness Larkin testified that a detailed customer plan would be needed to show how the Company would spend the requested increase in informational expenses.

The Company believes that these expenses are necessary to inform its customers about vegetation management, interest in undergrounding of electric lines within cities, emphasis on photovoltaic systems and renewable energy generation, automated meter reading, franchise negotiations, deposit requirements, etc. FPUC asserts that customers will expect information on these subjects. Witness Larkin stated that to the extent that information is needed by the ratepayer, FPUC indicated that it could be posted on the Company's website. FPUC responded that using the website is only one tool that is available, and other means are needed to communicate information to customers that may not have a computer.

<u>Conclusion</u>

We agree with OPC that the Company's website is a useful means of communicating information to customers, but we do not believe it can be the exclusive means of communication, since not all customers would have access to the Internet. Upon review of the record, we find that FPUC's ratepayers are well aware at this time of the significant increase in fuel costs that

occurred in 2006 and 2007 and do not need the same level of information on that subject. We also believe, however, that it is important to continue to communicate with the customers about future fuel increases, storm hardening, vegetation management, and safety matters. We therefore approve the following adjustment:

2008 Information Expenses and Adjustments		
2008 Projected test year expenses		$159,543
2007 expenses through September	$100,476	
Nine month average	$11,164	
Annualized 2007 expenses	$133,968	
2007–2008 Inflation and customer factor of 3.5 percent	$4,689	
Total projected 2008 information expenses		$138,657
Adjustment		$20,886

Based on the above, Account 909 shall be decreased by $20,886.

N. Salaries and Employee Benefits

FPUC witness Martin testified that the Company implemented a salary adjustment in response to a recent salary survey conducted by FPUC's Human Resource department. The 2006-2007 survey was based on data within the utility industry and similarly sized and located companies. The salary survey confirmed that FPUC's employees were significantly under paid, and that a salary adjustment was required over and above the typical salary adjustment. The Company completed and finalized a salary survey for all nonunion employees and provided the numbers in Late Filed Exhibit 14. The company utilized data from various sources, including salary data from three widely known salary survey consulting firms, Mercer, CompData, and Salary Survey.com. In addition, the company requested salary data from utility business "Peer Groups."

OPC witness Merchant testified that these salary increases would not be in effect for a full year, so a full year of salaries should not be included in the test year. As we have noted before, the salaries may not be in effect for a full year, but neither will the rates be in effect for the full year of 2008. Witness Merchant pointed out that FPUC just requested approval for salary ranges and not specific positions. We find that the requested salaries are within acceptable salary ranges defined in the salary survey.

Witness Merchant testified that based on her analysis the 2008 expense should be reduced at a minimum by $23,205, but did not provide any calculations to support the $23,205 reduction. Witness Martin agreed that the 2008 over and above adjustment for the salary survey needed to be decreased $11,293, from $43,382 to $32,089. Witness Martin explained that 40 percent of the corporate increases were allocated to electric for a total of $11,082.32, and 100 percent of electric increases, or $16,845, for a total 2008 salary survey increase of $27,927. Therefore, the difference between the $32,089 and the $27,927 is $4,161, and FPUC suggests that this is the appropriate decrease to the 2008 over and above salary expenses.

Conclusion

We find that the Company has taken appropriate action to assure that its employee salaries are on the same level as other utility employees so that the Company will be competitive in hiring and retaining well trained and effective employees. We approve FPUC's proposed salary expense with a reduction of $4,161.

O. Salary Adjustment for Executives

FPUC's MFRs show an increase in 2008 executive salary expense of $51,531 of which 40 percent or $41,225 is allocated to the electric division. OPC objected to this increase, noting that the 2006 salary levels had been escalated by 21.5 percent from 2004 to 2006. Witness Merchant stated that collectively the average pay raise was 11 percent for 2005 and 2006.

Witness Merchant testified that the Company did not have sufficient documentation to support the 2008 increase of $51,530. The Company provided Late Filed EXH 94 to support its position that its executives' salaries are set below the market rate for those positions. Witness Martin explained that FPUC projected a salary increase of 11 percent in total for the three executive officers. Witness Martin stated that this 11 percent is the actual average increase that the executive officers have received in the last three historical years, and even after the 11 percent increase in 2007 the executive salaries were still under market. Witness Martin explained that FPUC's compensation committee awarded the executives a 3.5 percent increase with the understanding that future increases may occur in the summer of 2008.

Comparison of Utilities with FPUC from EXH 94

	Revenues	Number of Employees	Number of Customers	Gross Plant in Service/Assets	CEO Compensation for 2008
Average of six companies	$144,769,000	250	72.168	$229,657,000	$500,941
FPUC (Total Company)	$134,393,000	362	95,000	$188,968,000	$294,986
JEA	$1,157,354,000	2,356	404,828	$4,936,317,000	Not Currently Available
Seminole Electric	$1,173,425,000	N/A	890,000	$1,566,265,000	Not Currently Available

Conclusion

Our review of Late-filed Exhibit 94 and the other evidence presented in the case indicates that while FPUC's executive salaries are not as high as the average of other similarly situated utilities, they are also not the lowest. We agree with OPC that no increase to executive salaries should be approved in this proceeding. FPUC's executives have received significant increases in recent years, and considering the other increased expenses ratepayers will bear as a result of this rate case, we do not find this increase to be appropriate at this time. Therefore, based on the above we find that FPUC's operating expenses shall be reduced by $41,225 to remove the executive salary increase related to the executive salary survey.

P. Annual Storm Expense Accrual

FPUC proposed an increase to its annual storm damage accrual to $204,000, for a total storm reserve of $3,338,800 over an eight (8) year time period. OPC objected to the increase and argued that the storm damage accrual should remain at its current level of $121,620.

FPUC witness Cutshaw testified that the increase in accrual was based on 5 percent of the transmission and distribution plant investment. He stated that an increase in the annual property damage accrual is appropriate because of the substantial growth in the transmission and distribution facilities since the last FPUC rate case. Also, storm hardening initiatives, increased pole inspections, and an emphasis on placing electric infrastructure underground will take several years to have a significant impact on reducing overall storm damage. Therefore, witness Cutshaw argued that it is time to address the overall storm damage accrual.

Witness Cutshaw stated that during the 2004 and 2005 hurricane season Florida was affected by seven different hurricanes. Only three had significant impact on FPUC's operations. The 2004 storm-related damages charged to the storm damage reserve were $805,700. The 2004 storm damage reserve balance at year end was $1,538,088. In 2005, Hurricane Dennis caused $169,580 in storm damages to the operations in the Northwest Florida Division, and the storm reserve was $1,506,887 at year end 2005. Witness Cutshaw explained that even though the storm reserve was sufficient for previous years, it might not be sufficient for future hurricane seasons. He did indicate, however, that there were no formal studies or any other prepared documentation that reflected the projected risk and levels of storm damage that the Company might face in the future.

Witness Cutshaw stated that FPUC has had to become self-insured or collect for storm damages after the storm occurs, because the quotations it received from other insurers provided for a $10 million dollar limit with a $1.5 million dollar deductible, and an annual cost of $1.2 million.

OPC witness Larkin argued that an increase to FPUC's reserve is not a prudent expenditure at this time. Witness Larkin stated that FPUC did not provide documentation for the 5 percent estimate of damage to the transmission and distribution plant that would require a storm reserve of $3,338,800. Witness Larkin also argued that the storm reserve balance in the past nineteen years has been sufficient. The maximum amount of storm damage incurred by the Company in any one year was only approximately 37 percent of the total reserve at the end of the prior year.

Witness Cutshaw did acknowledge that the utility has other recovery mechanisms available if a storm were to hit and the reserve was insufficient. Witness Cutshaw also acknowledged that if no storm hit FPUC's system over the next eight years, the present storm accrual amount of $121,620 would accumulate to approximately 1 million dollars. This, added to the current reserve amount, would result in a $2.7 million storm damage reserve, which he agreed would equate to 4 percent of FPUC's transmission and distribution system.

Conclusion

FPUC's storm damage reserve has been sufficient to cover previous storm charges. If there is extensive storm damage greater than the amount of the storm reserve, the Company has the option to file a request with us to impose a surcharge to pay for the damage. Based on the record, we find that the utility has not justified an increase to the storm accrual. Therefore, the annual storm accrual shall be reduced by $82,260 to maintain the annual storm accrual at its current level of $121,620.

Q. Economic Development Donations

FPUC requested recovery for economic development expenses which it asserts provide benefits to customers. FPUC asserted that the costs cannot be precisely estimated for each year and may vary from year to year. To insure that the customers continue to receive the full benefit of the expense, FPUC stated that it will continue to place any unused economic development costs in its storm reserve. OPC argued that FPUC should be limited to $5,000, the amount of economic development costs it has historically spent. OPC witness Larkin stated that FPUC is requesting $22,641 even though the Company spent $5,000 annually for 2003 through 2007, with no expenditure at all in 2004. OPC also contended that membership dues related to Opportunity Florida should be disallowed.

Staff Witness Welch stated that the 2006 Economic Development costs of $5,000 were recorded in Marianna's Account 930.23 for membership dues to Opportunity Florida. The $5,000 was projected up for 2007-2008 using inflation and customer growth of 106.9 percent for a 2008 projected total of $5,351. Witness Welch stated that FPUC joined this organization for networking purposes, even though there may be other reasons that might benefit the Company or the ratepayers

Witness Cutshaw responded that FPUC's decrease in the level of economic development contributions in 2004 occurred because the anticipated economic development opportunities did not materialize. When the funds were not expended, the company transferred the unused balance to the storm reserve as stipulated in Order No. PSC-04-0369-EI.

Conclusion

We believe FPUC should have the opportunity to help develop the commercial and industrial base in its service territory, and thereby reduce some of the burden on its residential ratepayers by lowering residential rates. We will allow the requested economic development expense of $15,701. The Company may review and evaluate the prudence of future economic development opportunities on an annual basis. If the opportunities are not there, then the Company shall transfer the unused funds to the storm reserve. The amount that shall be credited to the storm reserve, should the Company spend less than the projected 2008 balance of $15,701, would be 95 percent of the difference between the $15,701 and the amount spent for the calendar year. Based on the above, we approve FPUC's projected 2008 economic development expenses.

R. Rate Case Expense

As explained below, we find that the appropriate total amount of test year rate case expense is $599,748. The amortization period was stipulated at four years. The annual accrual shall be reduced by $35,950. The Company requested $622,000 in rate case expenses for Docket No. 070304-EI and $106,000 in unamortized expenses for Docket No. 030438-EI,[19] for a total amount of $728,000.

OPC witness Larkin identified several items that, in his opinion, were not appropriately included as rate case expenses. First, witness Larkin noted that the Company has a fixed-rate contract with Christensen Associates for $165,000 for rate case preparation. The Company requested an additional $45,000 for extraordinary costs over and above the fixed contract amount, which OPC argued should be removed. OPC asserted that those costs are the responsibility of the Company since the rate case analysis was completed and filed in a timely manner. While FPUC witness Martin contended that the additional costs were caused by the extra work done by the Company, she did not provide documentation that demonstrated this additional work was outside the scope of the original contract. She stated that no one had specifically asked the Company for a breakdown of the additional work. It is clear that FPUC did not expect the workload demanded by OPC discovery requests. As witness Martin testified, the amount of discovery requests and related workload was the most that she had seen in twenty years. In cross-examination, witness Larkin testified that he did not know the amount of work it would take to file a rate case because he had not filed a rate case from the Company's perspective.

Second, witness Larkin contended that the Company's request for $30,000 for work labeled internal audit work should be removed because it is not directly related to the rate case filing. He stated that only those costs that are directly related to the preparation, filing and testimony before the Commission are legitimate rate case expenses. The Company opted to utilize outside internal auditors so that Company employees could do the rate case work and the outside personnel would do the internal auditing work. Witness Martin testified that the rate case expenses were managed in an efficient and effective manner. Outsourcing additional internal control functions allowed the internal personnel the ability to work on the rate case items. Witness Martin contended that the Company's creative use of resources resulted in cost savings to the customers. Using internal auditors to perform the additional internal audit work allowed the Company personnel more time to spend on the rate case. Witness Martin emphasized again that the workload was tremendous relating to the rate case on top of normal job duties.

Third, witness Larkin testified that the Company's request for $25,000 for "Salaried Overtime Pay for Extraordinary Work Load" for salaried employees should be removed. Witness Larkin noted that salaried employees are employed with the understanding that their work would not be limited to a 40-hour work week and would be based on the requirements of the job. When questioned whether the salaried employees had been paid for additional overtime, witness Martin said they had not, but would be paid the first week in March for the extra hours

[19] Docket No. 030438-EI, In re: Petition for rate increase by Florida Public Utilities Company.

worked in this rate proceeding. She conceded that it was not overtime per se, but rather additional compensation for work that was required on this rate case. Witness Larkin believed that substantially all the work load of preparing schedules and analysis was borne by the outside consultants.

Conclusion

Upon review, we shall disallow the following amounts from rate case expense: $45,000 above the fixed contract; $30,000 for non-rate case expense for internal control costs; and $25,000 for pay over and above the salaries of the employees that worked on the rate case. We do not believe that the ratepayers should pay for expenses above a fixed contract amount. These additional expenses should be borne by the Company. Also, the rate case expenses shall include only direct rate case expenses that can be verified. The indirect rate case expenses, such as outsourcing internal control functions so that the internal personnel can work on the rate case items, would be difficult to verify. The record does not include documentation to show all of the work that could not be completed because Company personnel were working on the rate case instead. Lastly, the "Salaried Overtime Pay for Extraordinary Work Load" shall be disallowed because these employees and managers are paid a salary, not an hourly wage. Salaried employees are usually expected to work the hours required to complete their job duties without extra compensation.

The appropriate rate case expense amount is calculated as follows:

Rate Case Expense	**Rate Case Expense Requested**		**Total Rate Case Expense Allowed**
Docket No. 030438-EI	$106,000	Amortization through April, 2008 (1)	$77,748
Docket No. 070304-EI	622,000	Total requested	622,000
Disallowance		Extra-Ordinary Costs	(45,000)
		Label-Internal control costs	(30,000)
		Salaried Over Time	(25,000)
Total Rate Case Expense	$728,000	Current rate case expense(2)	$522,000
		Recommended Rate Case Expense	**$599,748**
Yearly Amortization Expense		**Yearly Amortization Expense**	
Docket No. 030438-EI, Five Year	$26,500	Five Year Amortization (1)	$15,550
Docket No. 070304-EI, Four Year	$155,500	Four Year Amortization(2)	$130,500
Total	**$182,000**	**Total Amortization Expense**	**$146,050**
Recommended Amortization of Rate Case Expenses			
$182,000 in the MFRs			
$146,050 Recommended yearly rate case expense			
Reduce yearly amortization expense of rate case expense by ($182,000 - $146,050) = $35,950			

Based on the above, we approve $599,784 in rate case expense, a four year amortization period per the parties' approved stipulation, and a reduction to amortization of rate case expense of $35,950.

S. Uncollectible Expense

The Company's original MFR filing shows $216,664 of Uncollectible Expense for 2008. The Company asserts that this amount is based on the actual book expense recorded in 2006 increased for higher fuel rates, higher base rates, declining economic conditions, and currently inadequate customer deposit coverage due to Commission rule restrictions in obtaining new or additional deposits. Although the Company continues to expect a significant increase in Uncollectible Expense in 2008, it has offered an alternative to its original proposal. As an alternative, the Company proposes to use a four-year (2003-2006) average write-off rate of 0.1360 percent for 2006. Using this four-year average rate of 0.1360 percent, the 2006 Uncollectible Expense would be adjusted to $53,653. The 2006 uncollectible expense would then be reduced by $33,762, for a balance of $53,363. This adjustment was also recommended in Audit Finding No. 3 by staff witness Welch.

The 2006 Uncollectible Expense of $53,653 would then be increased by 180 percent to $150,228 for Test Year 2008 to include the increase in write-offs due to substantial increases in Purchased Power (fuel) costs, effective January 1, 2007, and January 1, 2008. FPUC contends that an adjustment of $66,436 is needed to reduce the 2008 Bad Debt Expense of $216,664 to $150,228. These increases in write-offs, coupled with the existing level of customer deposits, will cause the Uncollectible Expense in 2008 to increase approximately 180 percent over the 2006 level. FPUC stated that this increase in expense will continue until the Company is able to bill and collect the necessary customer deposit increases. FPUC asserted that the actual net write-offs of bad debts in 2007 ($83,185) have already increased substantially over 2006 ($58,025) due to the above reasons.

OPC Witness Larkin testified that his five year analysis to determine the 0.1151 percent bad debt write off percentage was based on the historical write-offs net of recoveries divided by the revenues for the five years. In Rebuttal Testimony, witness Martin completed this analysis and arrived at a bad debt write off percentage of 0.1470 percent. The increase in the bad debt write-off factor is because of the increase in revenues from higher fuel bills. The Company has also adjusted the bad debt portion of the revenue expansion factor to the average write-off rate of 0.1470 percent for the four-year period ended December 31, 2007, in keeping with Commission precedent. FPUC used the same methodology it used in its last stipulated rate case.[20]

Conclusion

We find that the adjustment to reduce the 2006 bad debt expense by $33,762 is appropriate. We also find that the 2008 bad debt expense shall be reduced by $66,436 to reflect a 180 percent increase in revenues above the 2006 revenues. We find that an increase in bad debt expense based on future increased bills is appropriate. Based on the above, we approve a decrease of $33,762 to 2006 bad debt expense and a bad debt factor of 0.1360 percent. We also

[20] Order No. PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030348-EI, In re: Petition for rate increase by Florida Public Utilities Company.

approve a decrease of $66,436 to 2008 bad debt expense and a 2008 bad debt factor of 0.1470 percent.

T. Tree Replacement Costs

FPUC requested $31,050 for replacing customer trees with low-growing trees in both divisions. OPC Witness Larkin believes that it is not appropriate for the ratepayers to pay for removing and replacing trees on private property. Witness Larkin explained that it is the customer's responsibility to keep trees away from power lines. FPUC already has a program for tree trimming and line clearance. Therefore, witness Larkin recommended the removal of $31,050 from expenses. Witness Larkin further explained that cities tell their residents where to plant or not plant their trees, and so it is not necessary to allow this expenditure for landscaping.

Conclusion

There is no documentation in the record to support the costs involved in removing trees and planting low growing trees on private property. It is the individual customer's responsibility to adhere to regulations and ordinances regarding the planting of trees so that the trees are not located in the rights-of-way. This type of information can be provided by the Company website or through other means of communication. Therefore, because there is not sufficient information in the record to determine if the $31,050 is a reasonable amount for this tree planting program, we find that $31,050 shall be removed from expenses.

U. Operations and Maintenance Expense

Based the stipulations we have approved and the adjustments we have made in the proceeding, we find that the projected 2008 O&M Expense – Other of $10,081,391 shall be reduced by $771,557, to an adjusted amount of $9,309,834. (See Schedule 3)

V. Depreciation Expense

We find that the depreciation portion of 2008 projected test year depreciation and amortization expense shall be increased by $283,480 to reflect the results of the FPUC 2007 depreciation study in Docket No. 070382-EI.

FPUC's composite exhibit shows that the depreciation rate used to calculate the depreciation for Account 396, Power Operated Equipment, was 6.3 percent. That percentage was to 4.8 percent in our recent Order on FPUC's depreciation study.[21] The difference in depreciation expense for that account is $2,888. Thus, the amount of depreciation expense shall be $283,480 [$286,368 – $2,888] to reflect the results of the FPUC 2007 depreciation study in Docket No. 070382-EI.

[21] Order No. PSC-08-0094-PAA-EI, p.9, issued February 14, 2008, in Docket No. 070382-EI, In re: 2007 depreciation study by Florida Public Utilities Company.

W. Depreciation and Amortization Expense

We examined the depreciation and amortization expense of the Company for 2008 to determine the proper projected test year amount. With the stipulations we approved and the adjustments we have made, we find that the projected depreciation and amortization expense of $3,418,847 shall be reduced by $68,480 to $3,350,367 for 2008.

X. Taxes Other than Income

In light of the decisions we have made in this case, we find that Taxes Other Than Income shall be increased by $5,554 for additional FICA payroll taxes, using the FICA tax rate of 0.0765.

Y. Income Tax Expense

In light of the adjustments to revenues and expenses that we have made in this case, current income tax expense for the test year shall be increased by a total of $349,150 to reflect an adjusted amount of ($1,011,810). Deferred tax expense shall be increased by $27,769 to reflect an adjusted amount of $607,267. The investment tax credit expense shall be ($27,935). Included in this calculation is an interest synchronization adjustment of $58,713 to current income tax expense to reflect our adjustments to FPUC's capital structure.

Z. Projected Net Operating Income

We find that the appropriate Net Operating Income for the December 2008 projected test year is $671,726. (See Schedule 3)

XI. REVENUE REQUIREMENTS

A. Net Operating Income Multiplier

We find that the appropriate net operating income multiplier is 1.60685 using a bad debt rate of 0.1470 percent. The following schedule provides the calculations for the net operating income multiplier. The bad debt factor, line four, is a fall-out number.

		FPUC	COMMISSION
1.	Revenue Requirement	100.0000%	100.0000%
2.	Gross Receipts Tax Rate	0.0000%	0.0000%
3.	Regulatory Assessment Fee	0.0720%	0.0720%
4.	Bad Debt Rate	0.2000%	0.1470%
5.	Net Before Income Taxes (1) - (2) - (3) - (4)	99.7280%	99.7810%

	FPUC	COMMISSION
6. Income Taxes (5) x 37.63%	37.5276%	37.5476%
7. Revenue Expansion Factor (5) - (6)	62.2004%	62.2334%
8. Net Operating Income Multiplier (100%/line 7)	1.6077	1.60685

B. Operating Revenue Increase

Based on the stipulations we have approved and the adjustments we have made in this case, we find that the appropriate revenue increase for the December 2008 projected test year is $3,856,897.

Calculation of Revenue Requirements December 31, 2008 Test Year			
	FPUC	**OPC**	**COMM.**
Rate Base	$43,020,996	$39,692,164	$40,209,549
Rate of Return	x 8.07%	x 7.01%	x 7.64%
Required NOI	$3,471,794	$2,782,421	$3,072,010
Adjusted Achieved NOI	(206,341)	(1,321,775)	(671,726)
NOI Deficiency	$3,265,453	$1,460,646	$2,400,284
Revenue Expansion Factor	x 1.6077	x 1.60634	x 1.60685
Total Revenue Increase	$5,249,895	$2,346,297	$3,856,897

XII. COST OF SERVICE AND RATE DESIGN

A. Demand Charges

We find, as discussed in detail below, that the appropriate demand charges are:

General Service Demand (GSD): $2.80 per kw of billing demand

General Service – Large Demand (GSLD): $4.00 per kw of billing demand

General Service – Large Demand-1 (GSLD-1):

Transmission Demand Charge: $ 1.12 per kw of billing demand

Reactive Demand Charge: $0.24 per kVar of excess reactive demand

Currently, FPUC's customers are paying the interim charges we approved in Order No. PSC-07-0897-PCO-EI. Prior to determining the final demand and energy charges, the proposed revenue increase must be allocated to each rate class. The FPUC proposed revenue increase by

rate class is shown in Schedule 4, page 1 of 2. Our approved revenue increase by rate class is shown in Schedule 4, page 2 of 2. The total retail amounts on that schedule shown for rate base, present and required NOI, rate of return (7.64 percent), and total revenue increase reflect the amounts we approve in this case.

We approved an overall increase of $3,856,897 for 2008, and we approved the parties' stipulation on the appropriate methodology for allocating the revenue increase to the rate classes. Specifically, methodology provides:

> The increase should be allocated to the rate classes in a manner that moves the class rate of return indices as close to parity as practicable based on the approved cost allocation methodology, subject to the following constraints: (1) no class should receive an increase greater than 1.5 times the system average percentage increase in total, and (2) no class should receive a decrease.

In accordance with this methodology, we have moved all classes closer to parity to the greatest extent practical. The GSLD-1 and OL (outdoor lighting) classes have been given no increase in base revenues because these classes are already significantly over parity at present rates.

The next step in rate design is to divide each rate class's total revenue responsibility among various rate elements: the customer, demand, and energy charges. We have already approved the parties' stipulation regarding customer charges. The revenue generated by the customer charge times the number of bills is first subtracted from the total class revenue requirement. The remainder of the class revenue requirement is recovered through the non-fuel energy charge for the RS and GS classes, and through the non-fuel energy charge and the demand charge for the GSD and GSLD classes. Below we address the demand charge for the GSD, GSLD, and GSLD-1 rate classes.

FPUC does not generate power, so the demand charge is designed to recover demand-related costs such as transmission and certain distribution costs. FPUC Witness Cutshaw testified that FPUC arrived at its proposed demand rates by applying the proposed percentage increase for the GSD and GSLD rate classes as a whole to the existing demand charge. Our development of the demand and energy charges for all rate classes (except the lighting rate classes) are shown in the rate design spreadsheets contained in Schedule 5, pages 1-5. Rather than apply a set percentage to the demand charge as requested by FPUC, we relied on the results of the cost of service study to set the demand rates. The charges for each rate class are developed separately.

We will address energy charges in Section XII-B, but we believe it may be helpful to discuss the overall rate design process here to show how the parts interact. We have used the Residential class as the simplest example of the process. The target revenue for the residential class is $9,834,957. The target revenue is determined by adding revenues at present rates to the revenue increase shown in Schedule 4, page 2 of 2, Column (6). In rate design, the customer charge is typically determined first based on the cost of service, with the energy charge being the fall-out charge. The residential customer charge was set at $12 by stipulation. By multiplying the $12 customer charge by the 2008 projected number of bills, the customer charge revenues are

calculated ($3,464,352). The customer charge revenues are subtracted from the target revenues: $9,834,957 - $3,464,352 = $6,370,605. The $6,370,605 amount represents the revenues that must be recovered from the energy charge. Dividing the projected 2008 kwh sales for the residential class into $6,370,605 results in a $0.01958 per kWh energy charge.

The same methodology is used to develop rates for all other rate classes. The GS calculation mirrors the RS since both classes have only two rate elements, customer and energy charge. The GS tariff also contains charges for Non-Profit Sports Fields. By the stipulation that we approved, we increased the customer and energy charge for Non-Profit Sports Fields by the percentage increase to the GS class (29.9 percent). The calculation is shown on Schedule 5, page 2 of 5.

In addition to the customer and energy charge, the GSD and GSLD rate classes include a demand charge, so a second step is involved. Like the customer charge, the demand charge is based on the allocated costs from the cost of service study. After the demand charges are determined, both the customer charge revenues and the demand charge revenues are subtracted from the class revenue requirement, and the energy charge is a fallout charge designed to recover the remaining revenue requirement. We approved the transformer ownership discount by stipulation of the parties. The discount applies to customers who take service at primary voltage and furnish and maintain any transformers required.

The GSLD-1 class received an interim rate increase pursuant to Rule 25-6.0435, F.A.C., which requires an interim increase to be applied to all existing base rates and charges. Witness Cutshaw stated that, based on the cost of service study results, FPUC did not propose to increase the transmission and reactive demand charges for the GSLD-1 rate class for final rates. We agree with Witness Cutshaw, and as shown on Schedule 4, page 2 of 2, we have not allocated an increase in base revenues to this class. The GSLD-1 rate is available to industrial customers taking service at transmission voltage level. FPUC currently has two customers on this rate, and both customers are located in the Northeast Division. In addition to the transmission and reactive demand charges, GSLD-1 customers pay for production demand and purchased power costs that are assigned to the GSLD-1 class directly based on their actual consumption and based on actual charges from JEA to FPUC.

To summarize, the table below shows the demand charges that were in effect prior to the interim increase (effective November 23, 2007), our approved interim charges, the FPUC proposed final, and our approved demand charges:

Rate Schedule	Prior to interim rate increase ($/kw)	Approved interim ($/kw)	FPUC proposed ($/kw)	Commission approved ($/kw)
General Service Demand	2.48	2.63	3.47	2.80
General Service – Large Demand	2.89	3.06	4.34	4.00
General Service – Large Demand-1				
Transmission Demand Charge	1.12	1.19[23]	1.12	1.12
Reactive Demand Charge	0.24/kVar[22]	0.25/kVar	0.24/kVar	0.24/kVar

[22] kVar = kilovolt-ampere reactive, the measure of reactive power

Schedule 6 contains a comparison of FPUC's 1,000 kilowatt-hour (kWh) monthly residential bill for each division prior to interim, interim, effective January 2008, and our approved final rates. The bills are shown exclusive of any local taxes or franchise fees, and include the Purchased Power (fuel) and Conservation Cost Recovery charges effective for the current period.

The 1,000 kWh residential bill for the Northwest Division will increase from $104.50 to $111.13, a $6.63, or 6.3 percent, increase. For the Northeast Division, the 1,000 kWh residential bill will increase from $94.43 to $101.06, a $6.63, or 7.0 percent, increase. Customers in the Northwest and the Northeast Division pay different fuel charges, resulting in different total bills, and therefore there is a minor difference in the percentage increase. We note that the fuel charges increased in January 2008, contributing to the overall increase in customer bills, compared to base rates in effect prior to the rate case. Purchased Power and Conservation Cost Recovery factors were approved in Docket Nos. 070001-EI and 070002-EI.[24]

FPUC shall file revised tariffs to reflect our approved final rates and charges for administrative approval by our staff within five (5) business days of issuance of the final order. The revised rates are to become effective for meter readings on or after 30 days following the date of the Commission vote approving the revised rates. We approved the new rates at our April 22, 2008 Agenda Conference, and they will become effective for meter readings on or after May 22, 2008. Pursuant to the requirements of Rule 25-22.0406(8), F.A.C., customers will be notified of the revised rates in their first bill containing the new rates. A copy of the notice shall be submitted to our staff for approval prior to its use.

B. Energy Charges

We find, as discussed below, that the appropriate energy charges are:

Residential Service: 1.958 cents per kWh

General Service – Non-Demand: 1.927 cents per kWh

General Service Demand: 0.340 cents per kWh

General Service – Large Demand: 0.145 cents per kWh

The table below shows the energy charges that were in effect prior to the interim increase, the interim charges, the FPUC proposed, and our approved energy charges.

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[23] By operation of the interim rule, this class received an interim increase, however based on the cost of service study no permanent increase is being recommended.
[24] See Order No. PSC-08-0030-FOF-EI, issued January 8, 2008, in Docket No. 070001-EI, in Re: Fuel and purchased power cost recovery clause with generating performance incentive factor, and Order No. PSC-07-0933-FOF-EG, issued November 26, 2007, in Docket No. 070002-EI, in Re: Energy conservation cost recovery clause.

Rate Schedule	Prior to interim rate increase (c/kwh)	Approved interim charge (c/kWh)	FPUC proposed (c/kWh)	Commission approved (c/kWh)
Residential Service	1.373	1.453	1.967	1.958
General Service – Non-Demand	1.473	1.559	2.206	1.927
General Service Demand	0.232	0.246	0.323	0.340
General Service – Large Demand	0.086	0.091	0.113	0.145

C. Street and Outdoor Lighting Rates.

See Schedule 7 and 8 for the recommended Street and Outdoor Lighting rates. The monthly lighting charges for Street and Outdoor lights consist of three separate parts: the energy charge, the maintenance charge, and the fixture charge. The energy charge is determined by multiplying the estimated kilowatt-hour usage of each fixture by the non-fuel energy and customer unit cost determined from the cost of service study. An estimated kWh usage is used because Street and Outdoor lights are not metered. The maintenance charge is designed to recover the monthly cost of maintaining each fixture, as derived from the cost of service study. The fixture charge is similar in nature to a rental charge for the light and is designed to recover the carrying cost of the fixture. The fixture charges, along with charges for poles, are typically fallout charges adjusted to recover the remaining revenue requirements for each class after subtracting the maintenance and energy charge revenues.

We allocated increases to the energy and maintenance revenues by taking the average class base revenue increase for the OL-2, SL-2, and SL-3 rate classes, which came to an average increase of 26 percent. The remaining amount of revenue to be recovered was allocated to fixtures and poles, based on the percentage that those two components currently comprise in the existing revenues.

We allocated on a percentage basis for each OL and SL fixture the amounts to be recovered by the maintenance and fixture components based on the percentage amount the individual component comprised of the existing total class component. Similarly we set the amounts to be recovered by the pole charges based on the amount that each individual pole contributes to a class's total pole revenue. We allocated the energy component by setting an equalized energy charge for all OL and SL classes that recovered the total revenues determined appropriate.

The Company also proposed to eliminate several underutilized fixture and pole offerings in this rate proceeding. FPUC stated that no customers are currently using these options and it does not anticipate such requests in the future. We approve the elimination of these offerings.

While we find that the new rates are reasonable, we had some difficulty gathering the necessary data to calculate the appropriate energy and maintenance charges. The energy charge is set based in part on the estimated monthly kWh of each type of street and outdoor lighting fixture. The Company indicated that it had not established procedures to determine the monthly lighting usage amounts. Given that increases in technology and luminaire performance can alter the monthly kWh over a period of time, we direct the Company to establish procedures to insure that the reported monthly kWh amounts are correct.

Typically, information on the maintenance charge comes in two forms: the amount of money by lighting class that the company is spending for maintenance, and an engineering study that breaks those costs down by lighting fixture. In FPUC's posthearing statement, the Company stated that it did not have information on specific lights and poles to determine increases based on each individual fixture's costs. Thus, an engineering study of the maintenance costs is not available. We direct the Company to maintain and update on a periodic basis, an engineering study that breaks out the maintenance costs incurred by each type of Street and Outdoor Lighting fixture, in order to more accurately set cost-based rates.

XIII. OTHER ISSUES

A. Interim Rate Increase

We find that the recommended permanent base rate increase of $3,856,897 is greater than the interim rate increase granted of $790,784, and therefore, no refund of any portion of the $790,784 interim rate increase is required.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Public Utilities Company's 2007 Electric Infrastructure Storm Hardening Plan filed pursuant to Rule 25-6.0432, F.A.C. meets the requirements of the Rule and is approved as set forth in the body of this Order. It is further

ORDERED that in accordance with Rule 25-6.0342, F.A.C., Florida Public Utilities Company's updated storm hardening plan shall be filed by May 1, 2010. It is further

ORDERED that Florida Public Utilities Company's Petition for Rate Increase is granted in part and denied in part as described in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order are hereby approved in every respect. It is further

ORDERED that all matters contained in the attachments and schedules appended hereto are incorporated herein by reference. It is further

ORDERED that within five business days of the issuance of this Order, Florida Public Utilities Company shall file revised tariffs to reflect our approved final rates and charges for administrative approval by our staff. It is further

ORDERED that the approved rates and charges for Florida Public Utilities Company shall be effective for meter readings on or after May 22, 2008. Pursuant to the requirements of Rule 25-22.0406(8), F.A.C., customers shall be notified of the revised rates in their first bill containing the new rates. It is further

ORDERED that Florida Public Utilities Company shall 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, earnings surveillance reports, and books and records that will be required as a result of the decision's made in this docket. It is further

ORDERED that upon expiration of the period for appeal these dockets shall be closed.

By ORDER of the Florida Public Service Commission this 19th day of May, 2008.

ANN COLE

Commission Clerk

(S E A L)

MCB

DISSENT BY: COMMISSIONER SKOP
COMMISSIONER MCMURRIAN

COMMISSIONER SKOP, dissenting with opinion:

I respectfully dissent with the majority view on Section IX-A, Return on Common Equity, and Section X-O, Salary Adjustment for Executives, as follows:

Section IX-A, Return on Common Equity

Based upon the record evidence, I believe that the 50 basis point reduction to the Florida Public Utilities Company (FPUC) Return on Equity (ROE) was excessive and that the appropriate ROE should have remained at, or slightly below, the previously established level of 11.50%.[25] Under the United States Supreme Court decisions of Bluefield[26] and Hope,[27] a public utility is entitled to earn a fair and reasonable rate of return on the value of the property placed in

[25] In this regard, I would have supported an appropriate ROE in the range of 11.20% - 11.50%.

[26] Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679, 692-693 (1923).

[27] Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 591, 603 (1944).

service for the convenience of the public that is sufficient to ensure the financial integrity of the utility, maintain its creditworthiness, and to attract capital.

While recognizing that the setting of an appropriate ROE is not an exact science and open to regulatory discretion, such discretion should be properly balanced in relation to prevailing market conditions and sound regulatory policy. In the instant case, many of the discretionary factors that weigh in favor of adjusting the ROE downward (e.g., corporate risk profile, prevailing interest rates, and ROE benchmarking trends) are effectively mitigated by other factors that weigh in favor of maintaining the previously established ROE level (e.g., risk profile adjustment reflecting the small size/market capitalization of the utility in relation to benchmarks, access to market capital, the potential for interest rates to rise significantly from historic lows during a period of inflation following an economic downturn, the sound regulatory policy of not setting rates at the bottom of an interest rate trough, and the significant cost associated with another rate case if rates were set too low). Furthermore, sound regulatory policy considerations recognize the fact that consumers directly benefit from ensuring the continued financial integrity of a public utility to the extent that it allows the utility to access capital at a lower borrowing rate. Accordingly, I believe that the appropriate ROE should have remained at, or slightly below, the previously established level of 11.50%.

Section X-O, Salary Adjustment for Executives

In the instant case, FPUC alleged, and the staff recommendation supported, the position that FPUC executive salary levels were significantly below market. Over the past three years, FPUC has increased executive salary levels by an average of 11% per year in an attempt to bring the executive salary levels up to market parity. In this regard, it is important to note that executive salary levels are established and approved by the Board of Directors. The threshold question then becomes what portion, if any, of the executive salary increases granted by the Board should appropriately included within rate base? Maintaining the higher ROE would influence both the Weighted Average Cost of Capital (WACC) and the overall rate of return that the company is allowed to earn. Therefore, if the ROE had remained at, or slightly below, the previously established level, FPUC would have had additional resources available to use for discretionary executive salary adjustments, and would have had sufficient means to absorb such salary increases without passing them through to the consumer. Accordingly, had the ROE remained at, or slightly below, the previously established level of 11.50%, I would have been more inclined to consider adopting the majority view on this issue and the denial of such costs.

* * *

COMMISSIONER KATRINA J. MCMURRIAN dissents with respect to the majority's decision to deny FPUC's requested salary adjustment for executives (Section X-O).

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Office of Commission Clerk, and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 070304-EI
13-MONTH AVERAGE RATE BASE
DECEMBER 2008 TEST YEAR

SCHEDULE 1

Issue No.		Plant in Service	Accumulated Depreciation	Net Plant in Service	CWIP	Plant Held for Future Use	Net Plant	Working Capital	Total Rate Base
	Adjusted per Company	81,437,513	(37,180,863)	44,256,650	75,000	0	44,331,650	(1,310,654)	43,020,996
	Commission Adjustments:								
17-S	Wood Pole Replacement	20,000	(385)	19,615			19,615		19,615
32	Dropped	---	---	---	---	---	---	---	---
34	Dropped	---	---	---	---	---	---	---	---
35-S	Missing Invoices	0	0	0			0		0
36-S	Office Wall	2,219	(102)	2,117			2,117		2,117
37-S	Transformer Pad	0	0	0			0		0
38	Fall Out - Plant in Service			0			0		0
39	Dropped	---	---	---	---	---	---	---	---
40-S	Plant Retirements	0	0	0			0		0
41-S	Water Division Trucks	22	(1,373)	(1,351)			(1,351)		(1,351)
42	2007 Depreciation Study		(58,292)	(58,292)			(58,292)		(58,292)
43	Fall Out - Depreciation		162,633	162,633			162,633		162,633
44-S	Included in 42 (Common Plant)	---	---	---	---	---	---	---	---
45	Dropped	---	---	---	---	---	---	---	---
46	Cash			0			0	0	0
47-S	Special Deposits			0			0	(317,836)	(317,836)
48	Accounts Receivable			0			0	(1,030,667)	(1,030,667)
49-S	Uncollectible Accounts			0			0	(7,986)	(7,986)
50-S	Pension Liability			0			0	0	0
51-S	Reg. Asset - Retirement Plan			0			0	0	0
52-S	Prepaid Insurance			0			0	(37,779)	(37,779)
53	Unbilled Revenue			0			0	(88,808)	(88,808)
54	Temporary Services			0			0	(26,961)	(26,961)
55	Over/Under Recoveries			0			0	(1,143,377)	(1,143,377)
56-S	Other Special Funds			0			0	0	0
57	Accrued Interest - Cust. Dep.			0			0	(10,178)	(10,178)
58	Rate Case Expense			0			0	(304,836)	(304,836)
59	Storm Damage Reserve			0			0	32,259	32,259
60	Fall Out - Working Capital			0			0		0
90	Moving Expenses			0			0		0
---	Total Commission Adjustments	22,241	102,481	124,722	0	0	124,722	(2,936,169)	(2,811,447)
61	Commission Adjusted Rate Base	81,459,754	(37,078,382)	44,381,372	75,000	0	44,456,372	(4,246,823)	40,209,549

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 070304-EI
13-MONTH AVERAGE CAPITAL STRUCTURE
DECEMBER 2008 TEST YEAR

SCHEDULE 2

Company As Filed	($) Amount	Ratio	Cost Rate	Weighted Cost
Common Equity	17,095,113	39.74%	11.50%	4.57%
Long-term Debt	14,733,561	34.25%	7.96%	2.73%
Short-term Debt	1,905,259	4.43%	6.81%	0.30%
Preferred Stock	177,593	0.41%	4.75%	0.02%
Customer Deposits	2,948,763	6.85%	6.32%	0.43%
Deferred Income Taxes	6,078,743	14.13%	0.00%	0.00%
Tax Credits - Zero Cost	0	0.00%	0.00%	0.00%
Tax Credits - Weighted Cost	81,965	0.19%	9.67%	0.02%
Total	43,020,997	100.00%		8.07%
Equity Ratio	50.41%			

Commission Adjusted	($) Amount	($) Specific Adjustments	($) Pro Rata Adjustments	($) Staff Adjusted	Ratio	Cost Rate	Weighted Cost
Common Equity	17,095,113	0	(1,417,276)	15,677,837	38.99%	11.00%	4.29%
Long-term Debt	14,733,561	0	(1,221,491)	13,512,070	33.60%	7.96%	2.67%
Short-term Debt	1,905,259	0	(157,956)	1,747,303	4.35%	4.08%	0.18%
Preferred Stock	177,593	0	(14,723)	162,870	0.41%	4.75%	0.02%
Customer Deposits	2,948,763	0	0	2,948,763	7.33%	6.32%	0.46%
Deferred Income Taxes	6,078,743	0	0	6,078,743	15.12%	0.00%	0.00%
Tax Credits - Zero Cost	0	0	0	0	0.00%	0.00%	0.00%
Tax Credits - Weighted Cost	81,965	0	0	81,965	0.20%	9.26%	0.02%
Total	43,020,997	0	(2,811,447)	40,209,550	100.00%		7.64%
Equity Ratio	50.41%			50.41%			

Interest Synchronization	($) Adjustment Amount	Cost Rate	($) Effect on Interest Exp.	Tax Rate	($) Effect on Income Tax
Dollar Amount Change					
Long-term Debt	(1,221,491)	7.96%	(97,231)	37.630%	36,588
Short-term Debt	(157,956)	4.08%	(6,445)	37.630%	2,425
Customer Deposits	0	4.75%	0	37.630%	0
					39,013
Cost Rate Change					
Short-term Debt	1,905,259	-2.73%	(52,014)	37.630%	19,573
Tax Credits - Weighted Cost	81,965	-0.41%	(338)	37.630%	127
					19,700
Total Interest Synchronization					58,713

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 070304-EI
NET OPERATING INCOME
DECEMBER 2008 TEST YEAR

SCHEDULE 3
Page 1 of 2

		Operating Revenues	O&M - Fuel & Purchased Power	O&M Other	Depreciation and Amortization	Taxes Other Than Income	Income Taxes Current	Deferred Income Taxes (Net)	Investment Tax Credit (Net)	(Gain)/Loss on Disposal of Plant	Total Operating Expenses	Net Operating Income
	Adjusted per Company	17,186,965	0	10,081,391	3,418,847	4,287,783	(1,360,960)	581,498	(27,935)	0	16,980,624	206,341
	Commission Adjustments:											
16	N/A	---	---	---	---	---	---	---	---	---	---	---
17-S	Wood Pole Replacement				(354,600)			133,436			(221,164)	221,164
17-S	Wood Pole Replacement				660			(248)			412	(412)
18-S	Tree Trimming Crews			(352,260)			132,555				(219,705)	219,705
19	Outside Contractor Pole Inspections			0			0				0	0
20	Joint Use Audit & Pole Inspections			0			0				0	0
21-S	Post Data - Forensic Review			(27,000)			10,160				(16,840)	16,840
22	Transmission Inspection Contractor			0			0				0	0
23	Joint Use Audit - Add Employee			0			0				0	0
24	Dropped	---	---	---	---	---	---	---	---	---	---	---
25-S	Emergency Center Personnel			(19,991)			7,523				(12,468)	12,468
26	Travel & PURC Costs			(2,000)			753				(1,247)	1,247
28	Fall Out - Storm Harding/10 Points										0	0
33	Transformer			(25,680)			9,663				(16,017)	16,017
36-S	Office Wall				44			(17)			27	(27)
41-S	Water Division Trucks				1,936			(729)			1,207	(1,207)
70	Substation Equip. Inspection			0			0				0	0
71	Forfeited Discounts	5,825				4	2,190				2,195	3,630
72-S	Fuel Revenues & Expenses	0	0				0				0	0
73-S	Conservation Rev & Exp	0	0				0				0	0
74	Misc. Service Revenue	0					0				0	0
75	Fall Out - Operating Revenue						0				0	0
76	Escalation/Trend Factors			16,812			(6,326)				10,486	(10,486)
77	Compliance Accountant			(2,640)			993				(1,647)	1,647
78	CR Analyst/Coordinator			(1,373)			517				(856)	856
79-S	Office Renovations - Wall			(2,375)			894				(1,481)	1,481
80-S	Information Technology Position			(548)			206				(342)	342
81-S	Sales Survey			(27,397)			10,309				(17,088)	17,088
82-S	OPEB Expense			0			0				0	0
83-S	Postage/Printing Expense			(6,250)			2,352				(3,898)	3,898
84-S	Legal Fees			(32,383)			12,186				(20,197)	20,197
85-S	NW Division Operations Manager			(5,310)			1,998				(3,312)	3,312
86	Apprentice Linemen Training			59,456			(22,373)				37,083	(37,083)
87-S	NE Division Safety Coordinator			(3,158)			1,188				(1,970)	1,970
88	Corporate Services Manager			(923)			347				(576)	576
89	Compliance Accounting Travel			0			0				0	0
90	Moving Expenses			(3,835)			1,443				(2,392)	2,392
91	Spouse Travel Expenses			(773)			291				(482)	482
92-S	New Transformer			0			0				0	0
93-S	Outside Audit Fees			(42,800)			16,106				(26,694)	26,694

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 070304-EI
NET OPERATING INCOME
DECEMBER 2008 TEST YEAR

SCHEDULE 3
Page 2 of 2

No.	Description	Operating Revenues	O&M - Fuel & Purchased Power	O&M Other	Depreciation and Amortization	Taxes Other Than Income	Income Taxes Current	Deferred Income Taxes (Net)	Investment Tax Credit (Net)	(Gain)/Loss on Disposal of Plant	Total Operating Expenses	Net Operating Income
94-S	Janitorial, A/C, Landscaping, etc.			(6,223)			2,342				(3,881)	3,881
95-S	Supervisory Training			(2,938)			1,106				(1,832)	1,832
96	Dropped	---	---	---	---	---	---	---	---	---	---	---
97	Customer Information			(20,886)			7,859				(13,027)	13,027
98	Salary Survey			(4,161)			1,566				(2,595)	2,595
99	Executive Salary Adjustment			(41,225)			15,513				(25,712)	25,712
100-S	OPEB Medical Expense			0			0				0	0
101	Storm Accrual			(82,260)			30,954				(51,306)	51,306
102	Dropped	---	---	---	---	---	---	---	---	---	---	---
103-S	General Liability Expense			0			0				0	0
104	Economic Development Donations			0			0				0	0
105	Dropped	---	---	---	---	---	---	---	---	---	---	---
106-S	Postage Expense			0			0				0	0
107	Rate Case Expense Amortization			(35,950)			13,528				(22,422)	22,422
108	Rate Case Expense Amort. Period	---	---	---	---	---	---	---	---	---	---	---
109	Uncollectible Expense			(66,436)			25,000				(41,436)	41,436
110-S	Pension Expense			0			0				0	0
111	Tree Replacement Costs			(31,050)			11,684				(19,366)	19,366
112	Dropped	---	---	---	---	---	---	---	---	---	---	---
113	Fall Out - O&M										0	0
114	2007 Depreciation Study				283,480			(106,674)			176,806	(176,806)
115	Fall Out - Depreciation Expense										0	0
116	Taxes Other Than Income					5,554	(2,090)				3,464	(3,464)
117	Income Tax Expense										0	0
	Interest Synchronization						58,713				58,713	(58,713)
	Total Commission Adjustments	5,825	0	(771,557)	(68,480)	5,558	349,150	25,769	0	0	(459,560)	465,385
118	Commission Adjusted NOI	17,192,790	0	9,309,834	3,350,367	4,293,341	(1,011,810)	607,267	(27,935)	0	16,521,064	671,726

SCHEDULE 4
Page 1 of 2

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 070304-EI
FPUC PROPOSED REVENUE INCREASE BY RATE CLASS*
SUMMARY OF CLASS RATES OF RETURN AND PECENTAGE INCREASES

(1)	(2)	(3)	(4)		(5)	(6)	(7)	(8)	(9)		(10)	
					INCREASE FROM	INCREASE IN	TOTAL				% INCREASE IN REV FROM SALES OF ELEC	
	RATE	PRESENT	PRESENT		SERVICE	BASE	INCREASE	REQUIRED	PROPOSED			
RATE CLASS	BASE	NOI	ROR	INDEX	CHARGES**	REVENUES	IN REVENUE	NOI	ROR /	INDEX	BASE REV.	W/FUEL***
RS	$23,198,340	($295,952)	-1.28%	-2.66	$43,039	$3,088,924	$3,131,963	$1,652,150	7.12%	0.88	42.0%	8.6%
GS	$4,283,176	$24,059	0.56%	1.17	$6,268	$703,902	$710,170	$465,789	10.87%	1.35	49.5%	10.9%
GSD	$7,743,326	$201,473	2.60%	5.42	$1,898	$838,738	$840,636	$724,354	9.35%	1.16	40.0%	5.6%
GSLD	$2,832,581	($42,409)	-1.50%	-3.12	$358	$290,349	$290,707	$138,413	4.89%	0.61	50.0%	4.2%
GSLD-1	$2,260,987	$206,828	9.15%	19.07	$538	$0	$538	$207,163	9.16%	1.14	0.0%	0.0%
OL	$167,150	$104,021	62.23%	129.75	$5	$40,527	$40,532	$129,232	77.32%	9.58	20.0%	12.4%
OL-2	$1,705,178	$6,352	0.37%	0.78	$15	$130,651	$130,666	$87,627	5.14%	0.64	20.0%	12.7%
SL-2	$146,437	$2,659	1.82%	3.79	$3	$18,928	$18,931	$14,434	9.86%	1.22	43.0%	17.6%
SL-3	$683,821	($691)	-0.10%	-0.21	$5	$85,756	$85,761	$52,653	7.70%	0.95	43.0%	23.6%
TOTAL RETAIL	$43,020,996	$206,340	0.48%	1	$52,129	$5,197,775	$5,249,904	$3,471,815	8.07%	1.00	39.9%	7.8%
									1.5 Times system avg. increase.		59.80%	

* The information contained in this table is shown in MFR Schedules E-6a and E-8.

** Includes increase from other revenues as shown in MFR Schedule E-8.

*** Includes 2008 fuel and conservation factors. Fuel factor used is average between Northeast and Northwest Division.

SCHEDULE 4
Page 2 of 2

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 070304-EI
APPROVED REVENUE INCREASE BY RATE CLASS
SUMMARY OF CLASS RATES OF RETURN AND PECENTAGE INCREASES

(1)	(2)	(3)	(4)		(5)	(6)	(7)	(8)	(9)		(10)	
RATE CLASS	RATE BASE	PRESENT NOI	PRESENT ROR	PRESENT INDEX	INCREASE FROM SERVICE CHARGES*	INCREASE IN BASE REVENUES	TOTAL INCREASE IN REVENUE	REQUIRED NOI	RECOMMENDED ROR /	RECOMMENDED INDEX	% INCREASE IN REV FROM SALES OF ELEC BASE REV.	% INCREASE IN REV FROM SALES OF ELEC W/FUEL**
RS	$21,690,389	($140,230)	-0.65%	-0.39	$43,039	$2,481,588	$2,524,627	$1,430,935	6.60%	0.86	33.7%	7.0%
GS	$4,004,770	$36,719	0.92%	0.55	$6,268	$424,941	$431,209	$305,076	7.62%	1.00	29.9%	6.9%
GSD	$7,216,780	$307,488	4.26%	2.55	$1,898	$421,609	$423,507	$571,052	7.91%	1.04	20.1%	2.9%
GSLD	$2,639,965	($20,093)	-0.76%	-0.46	$358	$253,630	$253,988	$137,972	5.23%	0.68	43.7%	3.7%
GSLD-1	$2,107,240	$315,661	14.98%	8.97	$538	$0	$538	$315,996	15.00%	1.96	0.0%	0.0%
OL	$158,793	$158,757	99.98%	59.85	$5	$0	$5	$158,760	99.98%	13.09	0.0%	0.0%
OL-2	$1,602,867	$9,694	0.60%	0.36	$15	$150,000	$150,015	$103,054	6.43%	0.84	23.0%	14.3%
SL-2	$139,115	$4,058	2.92%	1.75	$3	$11,000	$11,003	$10,906	7.84%	1.03	25.0%	11.0%
SL-3	$649,630	($327)	-0.05%	-0.03	$5	$62,000	$62,005	$38,261	5.89%	0.77	31.1%	18.3%
TOTAL RETAIL	$40,209,549	$671,726	1.67%	1	$52,129	$3,804,768	$3,856,897	$3,072,011	7.64%	1.00	29.2%	5.8%
									1.5 Times system avg. increase:		43.8%	

* Includes increase from service charges and other revenues shown in MFR Schedule E-8

** Includes 2008 fuel and conservation factors. Fuel factor used is average between Northeast and Northwest Division

FLORIDA PUBLIC UTILITIES COMPANY
Docket No. 070304-EI
Rate Design Spreadsheets
RATE SCHEDULE RS

Current Base Revenues*	$7,354,580
Increase in Base Revenues**	$2,480,377
Target Revenues	**$9,834,957**

RS Customer Charge Revenue

24,058	Customers
288,696	Bills
$12	**Customer Charge*****
$3,464,352	Customer Charge Revenue

Target Revenue	$9,834,957
Less Customer Charge Revenue	($3,464,352)
Total Energy/Demand Charge Revenue	$6,370,605

Revenue to recover from RS Energy Charge	$6,370,605
RS Kwh sales	325,395,385
RS Base Energy Charge: $/kwh	**0.01958**
RS Base Energy Charge: cents/kwh	1.958

PROOF OF REVENUE

	Rate	Bills/kwh	Revenue
Customer Charge	$12.00	288,696	$3,464,352
Base Energy Charge	$0.01958	325,395,385	$6,370,605
TOTAL REVENUE			**$9,834,957**
Target Revenue			$9,834,957
Difference			0

*Stipulated Issue 121
**Adjusted for unbilled, stipulated Issue 132
***Stipulated Issue 124

FLORIDA PUBLIC UTILITIES COMPANY
Docket No. 070304-EI
Rate Design Spreadsheets
RATE SCHEDULE GS

SCHEDULE 5
Page 2 of 5

Current Base Revenues*	$1,421,804
Revenue Increase**	$424,696
Target Revenue	**$1,846,500**

GS Customer Charge Revenue

3,458	(excludes sportsfield customers)
41,496	Bills
$18	**Customer Charge*** **
746,928	Customer Charge Revenue

NON-PROFIT SPORTS FIELDS******	
Current Customer Charge	18.08
Current Energy Charge	0.03244
Percent Increase to GS	29.90%
Sportsfield Customer Charge	$23.49
Sportsfield Energy Charge	0.04214
Bills	312
kwh	497,784
Customer Charge Revenue	$7,328
Energy Charge Revenue	$20,976
Total Non-Profit Sports Fields Revenue	**$28,304**

Target Revenue	$1,846,500
Less GS Customer Charge Revenue	($746,928)
Less Non-Profit Sports Field Revenues	($28,304)
Total Energy/Demand Charge Revenue	$1,071,268

Revenue to recover from GS energy charge	$1,071,268	
GS Kwh sales	55,604,704	(excludes sportsfield kwh sales)

GS Base Energy Charge: $/kwh	**0.01927**
GS Base Energy Charge: cents/kwh	1.927

PROOF OF REVENUE

	Rate	Bills/kwh	Revenue
GS Customer Charge	$18.00	41,496	$746,928
GS Base Energy Charge	$0.01927	55,604,704	$1,071,268
Sports fields customer charge revenue	$23.49	312	$7,328
Sports fields energy charge revenue	$0.04214	497,784	$20,976
TOTAL REVENUE			**$1,846,500**
Target Revenue			$1,846,500
Difference			$0

*Stipulated Issue 121
**Adjusted for unbilled, stipulated Issue 132
***Stipulated Issue 124
****Pursuant to Stipulated Issue 130 customer and energy charge increased by percentage increase to GS class

FLORIDA PUBLIC UTILITIES COMPANY
Docket No. 070304-EI
Rate Design Spreadsheets
RATE SCHEDULE GSD

SCHEDULE 5
Page 3 of 5

Current Base Revenues*	$2,096,846
Revenue Increase**	$421,269
Target Revenue	**$2,518,115**

GSD Customer Charge Revenue

722	Customers
8,664	Bills
$52	**Customer Charge*** **
$450,528	Customer Charge Revenue

Demand Charge Revenue

537,577	kw
$2.80	**Demand Charge**
$1,505,216	Demand Charge Revenue
6213	kw
($0.55)	Transformer Ownership Discount****
($3,417)	Transformer Ownership Discount Revenue

Target Revenue	$2,518,115
Less Customer Charge Revenue	($450,528)
Less Demand Charge Revenue	($1,505,216)
Add Transformer Ownership Discount	$3,417
Total Energy Charge Revenue	$565,789

Revenue to recover from Energy Charge	$565,789
GSD Kwh sales	166,194,581
GSD Energy Charge: $/kwh	**0.00340**
GSD Energy Charge: cents/kwh	0.340

PROOF OF REVENUE

	Rate	Bills/kwh/kw	Revenue
Customer Charge	$52.00	8,664	$450,528
Demand Charge	$2.80	537,577	$1,505,216
Transformer Ownership Discount	($0.55)	6,213	($3,417)
Base Energy Charge	$0.00340	166,194,581	$565,789
TOTAL REVENUE			**$2,518,115**
Target Revenue			$2,518,115
Difference			$0

*Stipulated Issue 121
**Adjusted for unbilled, stipulated Issue 132
***Stipulated Issue 124
****Stipulated Issue 128

FLORIDA PUBLIC UTILITIES COMPANY
Docket No. 070304-EI
Rate Design Spreadsheets
RATE SCHEDULE GSLD

Current Base Revenues*	$580,698
Revenue Increase**	$253,529
Target Revenue	**$834,227**

GSLD Customer Charge Revenue

20	Customers
240	Bills
$100	**Customer Charge*** **
24,000	Customer Charge Revenue

Demand Charge Revenue

178,818	kw
$4.00	**Demand Charge**
$715,272	Demand Charge Revenue
48930	kw
($0.55)	Transformer Ownership Discount****
($26,912)	Transformer Ownership Discount Revenue

Target Revenue	$834,227
Less Customer Charge Revenue	($24,000)
Less Demand Charge Revenue	($715,272)
Add Transformer Ownership Discount	$26,912
Total Energy Charge Revenue	$121,867

Revenue to recover from Energy Charge	$121,867
GSLD Kwh sales	83,849,371
GSLD Energy Charge: $/kwh	**0.00145**
GSLD Energy Charge: cents/kwh	0.145

PROOF OF REVENUE

	Rate	Bills/kwh	Revenue
Customer Charge	$100.00	240	$24,000
Demand Charge	$4.00	178,818	$715,272
Transformer Ownership Discount	($0.55)	48,930	($26,912)
Base Energy Charge	$0.00145	83,849,371	$121,867
TOTAL REVENUE			**$834,227**
Target Revenue			$834,227
Difference			$0

*Stipulated Issue 121
**Adjusted for unbilled, stipulated Issue 132
***Stipulated Issue 124
****Stipulated Issue 128

FLORIDA PUBLIC UTILITIES COMPANY
Docket No. 070304-EI
Rate Design Spreadsheets
RATE SCHEDULE GSLD-1

Current Base Revenues*	$484,098
Revenue Increase	$0
Target Revenue	**$484,098**

GSLD-1 Customer Charge Revenue

2	Customers
24	Bills
$600	**Customer Charge****
$14,400	Customer Charge Revenue

Demand Charge Revenue

417,249	kw
$1.12	**Demand Charge**
$467,319	Demand Charge Revenue
9,911	kVar
$0.24	**Reactive Demand Charge**
$2,379	Reactive Demand Charge Revenue

PROOF OF REVENUE

	Rate	Bills/kwh	Revenue
Customer Charge	$600.00	24	$14,400
Demand Charge	$1.12	417,249	$467,319
Reactive Demand Charge	$0.24	9,911	$2,379
TOTAL REVENUE			**$484,098**
Target Revenue			$484,098
Difference			$0

*Stipulated Issue 121
**Stipulated Issue 124

SCHEDULE 6

FLORIDA PUBLIC UTILITIES COMPANY
Docket No. 070304-EI
Monthly 1,000 Kilowatt-Hour Residential Electric Bill
Purchased Power and Conservation Factors effective for the respective period

	Northwest Division prior Interim	Northwest Division Interim(1)	Northwest Division Jan 08(2)	Northwest Division Approved(3)
Customer Charge	$10.00	$10.59	$10.59	$12.00
Energy Charge	$13.73	$14.53	$14.53	$19.58
Purchased Power	$53.48	$53.48	$76.10	$76.10
Conservation	$0.60	$0.60	$0.67	$0.67
Gross Receipts Taxes	$2.00	$2.03	$2.61	$2.78
Total Monthly Bill	**$79.81**	**$81.23**	**$104.50**	**$111.13**

	Northeast Division prior Interim	Northeast Division Interim	Northeast Division Jan-08	Northeast Division Approved
Customer Charge	$10.00	$10.59	$10.59	$12.00
Energy Charge	$13.73	$14.53	$14.53	$19.58
Purchased Power	$63.55	$63.55	$66.28	$66.28
Conservation	$0.60	$0.60	$0.67	$0.67
Gross Receipts Taxes	$2.25	$2.29	$2.36	$2.53
Total Monthly Bill	**$90.13**	**$91.56**	**$94.43**	**$101.06**

(1) Interim Rates went into effect November 23, 2007
(2) Reflects Purchased Power and Conservation factors that went into effect January 2008.
(3) Effective for meter readings on or after May 22, 2008.

Schedule 7

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 070304-EI
SCHEDULE OF PRESENT, FPUC PROPOSED, AND COMMISSION-APPROVED STREET AND OUTDOOR LIGHTING RATES

STREET LIGHTING - SL 1-2

Type of Fixture	Description	Facilities Charge Present	Facilities Charge FPUC Proposed	Facilities Charge Approved	Energy Charge Present	Energy Charge FPUC Proposed	Energy Charge Approved	Maintenance Charge Present	Maintenance Charge FPUC Proposed	Maintenance Charge Approved	Total Monthly Charge Present	Total Monthly Charge FPUC Proposed	Total Monthly Charge Approved
175w MV SL1-2	Cobra Head	$0.61	$0.87	$0.67	$2.16	$3.09	$2.71	$0.92	$1.32	$1.23	$3.69	$5.28	$4.61
400w MV SL1-2	Cobra Head	$1.02	$1.46	$1.13	$4.62	$6.61	$5.81	$1.05	$1.50	$1.40	$6.69	$9.57	$8.34

STREET LIGHTING - SL-3

Lumens	Description	Facilities Charge Present	Facilities Charge FPUC Proposed	Facilities Charge Approved	Energy Charge Present	Energy Charge FPUC Proposed	Energy Charge Approved	Maintenance Charge Present	Maintenance Charge FPUC Proposed	Maintenance Charge Approved	Total Monthly Charge Present	Total Monthly Charge FPUC Proposed	Total Monthly Charge Approved
150w HPS	Acorn	$7.95	$11.37	$10.47	$1.83	$2.62	$2.34	$4.68	$6.69	$6.15	$14.46	$20.68	$18.96
100w HPS	Amer Rev.	$4.55	$6.51	$5.99	$1.23	$1.76	$1.58	$2.89	$4.13	$3.80	$8.67	$12.40	$11.37
150w HPS	Amer Rev	$4.44	$6.35	$5.85	$1.83	$2.62	$2.34	$3.26	$4.66	$4.28	$9.53	$13.63	$12.47
175w MH	ALN 440	$16.97	$24.27	$22.36	$2.13	$3.05	$2.75	$1.30	$1.86	$1.71	$20.40	$29.18	$26.82
100w HPS	Cobra Head	$3.32	$4.75	$4.37	$1.23	$1.76	$1.58	$2.12	$3.03	$2.78	$6.67	$9.54	$8.73
200w HPS	Cobra Head	$0.00	$6.09	$5.61	$2.43	$3.47	$3.13	$2.19	$3.13	$2.88	$4.62	$12.69	$11.62
250w HPS	Cobra Head	$4.08	$5.83	$5.38	$3.03	$4.33	$3.88	$3.00	$4.29	$3.94	$10.11	$14.45	$13.20
400w MH	Cobra Head	$4.77	$6.82	$6.28	$4.86	$6.95	$6.26	$3.36	$4.80	$4.41	$12.99	$18.57	$16.95
250w HPS	Flood	$7.00	$10.01	$9.22	$3.03	$4.33	$3.88	$4.10	$5.86	$5.38	$14.13	$20.20	$18.48
400 MH	Flood	$7.31	$10.45	$9.63	$4.86	$6.95	$6.26	$8.82	$12.61	$11.58	$20.99	$30.01	$27.47
1000w MH	Flood	$8.42	$12.04	$11.09	$12.15	$17.37	$15.61	$5.17	$7.39	$6.79	$25.74	$36.80	$33.49

POLES	Pole Charge Present	Pole Charge FPUC Proposed	Pole Charge Approved
10' Alum Deco Base	$11.31	$16.17	$14.92
35' Concrete Square	$9.71	$13.89	$12.81
13' Deco Concrete	$7.85	$11.23	$10.35
20' Deco Concrete	$8.68	$12.41	$11.45
18' Fiberglass Round	$5.78	$8.27	$7.64
30' Wood Pole Std.	$2.78	$3.98	$3.67
40' Wood Pole Std.	$6.85	$9.80	$0.00

Schedule 8

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 070304-EI
SCHEDULE OF PRESENT, FPUC PROPOSED, AND COMMISSION-APPROVED STREET AND OUTDOOR LIGHTING RATES

OUTDOOR LIGHTING - OL

Type of Fixture	Description	Facilities Charge			Energy Charge			Maintenance Charge			Total Monthly Charge		
		Present	FPUC Proposed	Approved	Present	FPUC Proposed	Approved	Present	FPUC Proposed	Approved	Present	FPUC Proposed	Approved
175w MV	Cobra Head	$2.11	$2.53	$1.44	$2.16	$2.59	$2.72	$0.41	$0.49	$0.52	$4.68	$5.61	$4.68
400w MV	Cobra Head	$5.77	$6.92	$4.39	$4.62	$5.54	$5.82	$0.71	$0.85	$0.89	$11.10	$13.31	$11.10
	Pole - Wood	$3.53	$4.24	$3.53									

OUTDOOR LIGHTING - OL2

Type of Fixture	Description	Facilities Charge			Energy Charge			Maintenance Charge			Total Monthly Charge		
150w HPS	Acorn	$12.50	$15.00	$14.42	$1.83	$2.20	$2.34	$1.51	$1.81	$1.83	$15.84	$19.01	$18.59
150w HPS	ALN 440	$18.60	$22.32	$21.46	$1.83	$2.20	$2.34	$2.16	$2.59	$2.61	$22.59	$27.11	$26.41
175w HPS	ALN 440	$18.72	$22.46	$21.60	$2.13	$2.56	$2.75	$2.20	$2.64	$2.66	$23.05	$27.66	$27.01
100w HPS	American Revolution	$7.02	$8.42	$8.10	$1.23	$1.48	$1.58	$0.95	$1.14	$1.15	$9.20	$11.04	$10.83
150w HPS	American Revolution	$7.20	$8.64	$8.31	$1.83	$2.20	$2.34	$0.94	$1.13	$1.14	$9.97	$11.97	$11.79
100w HPS	Cobra Head	$5.31	$6.37	$6.13	$1.23	$1.48	$1.55	$0.79	$0.95	$0.96	$7.33	$8.80	$8.64
200w HPS	Cobra Head	$8.08	$9.70	$9.32	$2.43	$2.92	$3.13	$0.35	$0.42	$0.42	$10.86	$13.04	$12.87
250wHPS	Cobra Head	$9.72	$11.66	$11.21	$3.03	$3.64	$3.88	$1.21	$1.45	$1.46	$13.96	$16.75	$16.55
400w HPS	Cobra Head	$7.31	$8.77	$8.43	$4.86	$5.83	$6.26	$1.11	$1.33	$1.34	$13.28	$15.93	$16.03
250w HPS	Flood	$7.36	$8.83	$8.49	$3.03	$3.64	$3.88	$1.11	$1.33	$1.34	$11.50	$13.80	$13.71
400w HPS	Flood	$11.34	$13.61	$13.08	$4.86	$5.83	$6.26	$1.37	$1.64	$1.66	$17.57	$21.08	$21.00
400w MH	Flood	$7.64	$9.17	$8.81	$4.86	$5.83	$6.26	$1.15	$1.38	$1.39	$13.65	$16.38	$16.46
1000w HPS	Flood	$14.20	$17.04	$16.38	$12.15	$14.58	$15.61	$1.81	$2.17	$2.19	$28.16	$33.79	$34.18
1000w MH	Flood	$13.18	$15.82	$15.20	$12.15	$14.58	$15.61	$1.68	$2.02	$2.03	$27.01	$32.42	$32.84
175w MH	Shoebox	$14.41	$17.29	$16.62	$2.13	$2.56	$2.75	$1.78	$2.14	$2.15	$18.32	$21.99	$21.52
250w MH	Shoebox	$15.33	$18.40	$17.69	$3.03	$3.64	$3.88	$1.98	$2.38	$2.40	$20.34	$24.42	$23.97
100w HPS	SP2 Spectra	$15.76	$18.91	$18.18	$1.23	$1.48	$1.58	$2.61	$3.13	$3.16	$19.60	$23.52	$22.92
100wMH	SP2 Spectra	$15.64	$18.77	$18.04	$1.23	$1.48	$1.58	$1.82	$2.18	$2.20	$18.69	$22.43	$21.82
1000w MH	Vert Shoebox	$18.47	$22.16	$21.31	$12.15	$14.58	$15.61	$2.22	$2.66	$2.69	$32.84	$39.40	$39.61

POLES	Pole Charge Present	FPUC Proposed	Approved
10' Alum Deco Base	$11.64	$13.97	$13.50
35' Concrete Square	$9.89	$11.87	$11.45
13' Decorative Concrete	$8.94	$10.73	$10.36
20' Decorative Concrete	$10.13	$12.16	$11.75
18' Fiberglass Round	$5.93	$7.12	$6.86
30' Wood Pole Std.	$3.35	$4.02	$3.95
40' Wood Pole Std.	$6.76	$8.11	$7.85

ATTACHMENT A

APPROVED STIPULATIONS

STORM HARDENING AND RULE 25-6.0342, F.A.C.

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

POSITION: Yes, the plan complies with NESC requirements, subject to the appropriate modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and 10 point initiatives issues.

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

POSITION: Yes, the plan complies with NESC requirements, subject to the appropriate modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and 10 point initiatives issues. (Cutshaw, Myers)

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

POSITION: Yes, the plan addresses extreme wind loading standards, subject to the appropriate modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and 10 point initiatives issues. (Cutshaw, Myers)

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

POSITION: Yes, the plan includes projects for upgrading distribution facilities to critical infrastructure and major thoroughfares, subject to the appropriate modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and 10 point initiatives issues.

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

POSITION: Yes, the plan addresses mitigation of damage to underground and supporting overhead facilities due to flooding and storm surge, subject to the appropriate modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and 10 point initiatives issues. (Cutshaw, Myers)

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

POSITION: Yes, the plan addresses the placement or replacement of distribution facilities, subject to the appropriate modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and 10 point initiatives issues. (Cutshaw, Myers)

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

POSITION: Yes, the plan addresses the deployment strategy, subject to the appropriate modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and 10 point initiatives issues and subject to the approval and implementation of the Process to Engage Third Party Attachers. There are some additional more detailed design specifications, construction standards and construction methodologies that will be completed when the approval of Dockets are completed. These will be shared with third party attachers in accordance with the Process to Engage Third Party Attachers.

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

POSITION: Yes, the plan addresses the areas affected by infrastructure improvements, subject to the appropriate modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and 10 point initiatives issues and subject to the approval and implementation of the Process to Engage Third Party Attachers.

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

POSITION: Yes, subject to the appropriate modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and 10 point initiatives issues and subject to the approval and implementation of the Process to Engage Third Party Attachers. Additional details have been provided to third parties that were not included in the filed Storm Hardening Plan. (Cutshaw, Myers)

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

POSITION: FPUC agrees, and hereby clarifies its position that FPUC is not seeking the approval of the Florida Public Service Commission of its attachment standards and procedures for third party attachments beyond a finding that FPUC has attachment standards and procedures for third party attachment that meet or exceed the NESC. (Cutshaw, Myers)

10 POINT STORM PREPAREDNESS INITIATIVES

STIPULATED
ISSUE 14: Should the Commission approve FPUC's request to implement a 3/6 tree trimming cycle instead of a 3/3 cycle?

POSITION: Yes, the Commission should approve FPUC's request to implement a 3/6 tree trimming cycle as the most appropriate and cost-effective storm preparedness vegetation management plan for FPUC's system and approve that modification to FPUC's compliance plan.

COSTS FOR STORM HARDENING AND 10 POINT INITIATIVES

STIPULATED
ISSUE 16: Should the company's projected plan to accelerate the replacement of the existing wood 69 kv transmission system with concrete poles be approved?

POSITION: Yes, with the exception of any agreed upon changes to the plan or changes to our storm hardening plan, the replacement of wood poles with concrete poles will continue based on current practice with an average of one pole per year being replaced. The Company has recently provided actual cost estimates based on bids received for the purchase and installation of concrete poles along with actual cost associated with previous jobs. This information verifies the accuracy of the projected cost for pole replacement within the proposal. This revised proposal and the associated modification of the Storm Plan will comply with the storm hardening initiative to address transmission structures.

STIPULATED
ISSUE 17: Should amortization expense be increased by $354,600 annually to collect the projected $7,092,000 total plant cost of FPUC's proposed 20 year storm hardening project to replace its wood transmission poles with concrete poles?

POSITION: No, since an average of one transmission pole will be replaced each year, only the rate base should be increased for the amount of the transmission pole. Based upon recent cost information provided in rebuttal testimony, the increase should be in the amount of $20,000 with corresponding increases to accumulated depreciation and depreciation expense and a full 13 month average for the test year should be allowed for recovery. The amortization of $354,600.00 should be removed from test year expenses.

STIPULATED
ISSUE 18: Should FPUC's request to increase Account 593, Maintenance of Overhead Lines, by $352,260 for three additional tree trimming crews be approved?

POSITION: No, the Company will be able to comply with a 3/6 trim cycle with existing crews and no increase is required, and requests a modification to the Vegetation Management section of the Storm Plan. This includes the modification of items in the Vegetation Management Plan that address "Annual inspection of main feeders to critical infrastructure prior to the storm season to identify and perform

the necessary trimming," and "actively address danger trees located outside the normal trim zone and located near main feeders." The modification is based upon using the current tree trimming crew level and that the Company will make reasonable efforts if and when tree trimming crews become available to address annual inspection of main feeders and address danger trees.

STIPULATED
ISSUE 21: Should FPUC's request to increase Account 593, Maintenance of Overhead Lines, by $27,000 for the development and implementation for Post Storm Data Collection and Forensic Review be approved?

POSITION: No, Test year O&M expenses in Account 593, Maintenance of Overhead Lines, should be decreased by $27,000. Any additional expense associated with post-storm data collection and forensic review should be accounted for in compliance with Rule 25-6.0143(1), Florida Administrative Code.

STIPULATED
ISSUE 25: Should FPUC's request for recovery of an additional expense to provide personnel for county emergency operating centers be approved?

POSITION: No, the additional expense associated with providing Company employees for county emergency operating centers should removed. The amount of 19,991 should be reduced from the Company's rate proceeding MFRs for the 2008 projected test year. Any incremental storm-related expense incurred to provide personnel for county emergency operating centers prior to or during a storm should be accounted for in compliance with Rule 25-6.0143(1), Florida Administrative Code.

TEST PERIOD

STIPULATED
ISSUE 29: Are the historical test year ended December 31, 2006, and the projected test year ending December 31, 2008, the appropriate test years to be utilized in this docket?

POSITION: Yes, with appropriate adjustments.

STIPULATED
ISSUE 30: Are FPUC's forecasts of Customers, KWH and KW by Rate Class for the projected 2008 test year appropriate?

POSITION: Yes, FPUC's forecasts for the projected test year are appropriate.

QUALITY OF SERVICE

STIPULATED
ISSUE 31: Is the quality of electric service provided by FPUC adequate?

POSITION: Yes. Expert and customer testimony, as well as FPUC's annual distribution report and the Commission's service reliability review show that the quality of electric service provided by FPUC is adequate.

RATE BASE

STIPULATED
ISSUE 35: Should Plant in Service, Accumulated Depreciation and Depreciation Expense be reduced to reflect missing invoices?

POSITION: Supporting documentation was provided by FPUC subsequent to the audit. No adjustments are necessary.

STIPULATED
ISSUE 36: Should Plant in Service, Accumulated Depreciation, Depreciation Expense and Operation and Maintenance Expense be adjusted to capitalize construction of an office wall?

POSITION: Yes. Plant in Service should be increased by $1,707 for 2006 and by $2,219 for 2008. Depreciation expense should be increased by $36 for 2006 and by $44 for 2008. The 13-month average accumulated depreciation should be increased by $15 for 2006 and by $102 for 2008. Maintenance expense should be reduced by $2,219 for 2006 and by $2,375 for 2008, as reflected in issue 79.

STIPULATED
ISSUE 37: Should Plant in Service, Accumulated Depreciation, Depreciation Expense and Operation and Maintenance Expense be adjusted to capitalize construction of a transformer pad?

POSITION: A transformer pad is not a retirement unit. The company properly accounted for the change-out as an expense. No adjustment is necessary.

STIPULATED
ISSUE 40: Should an adjustment be made for Plant Retirements for the projected test year?

POSITION: No adjustment for 2008 retirements is needed.

STIPULATED
ISSUE 41: Should Accumulated Depreciation and Depreciation Expense be adjusted for trucks transferred from FPUC's Water Division?

POSITION: Yes. The Plant in Service 13-month average balance for both 2006 and 2008 should be increased by $22, due to booking of transferred vehicles at incorrect amounts. Accumulated Depreciation should be decreased by $14,531 for 2006 and increased by $1,373 for 2008. Depreciation expense should be increased by $4,465 for 2006. Using the rates set in Docket No. 070382-EI, depreciation expense for 2008 should be increased by $1,936.

STIPULATED
ISSUE 44: Is FPUC's requested level of accumulated depreciation for Common Plant Allocated in the amount of $660,224 for the December 2008 projected test year appropriate?

POSITION: Yes, subject to any adjustments necessary to reflect the Commission's decision in Docket No. 070382-EI.

STIPULATED
ISSUE 47: What is the appropriate balance of special deposits to be included in the 2008 working capital requirement?

POSITION: For Account 1340 Special Deposits-Electric, the appropriate balance is zero. These deposits totaling $317,836, and the associated interest, should be removed from working capital. The Company earns interest on the deposits; therefore it is not appropriate to include them in working capital.

STIPULATED
ISSUE 49: Has the Company estimated an appropriate balance in its accumulated provision for uncollectible accounts?

POSITION: No. The balance of the accumulated provision for uncollectibles in Account 1440 should be increased by $7,986.

STIPULATED
ISSUE 50: Should an adjustment be made to pension liability in the calculation of working capital?

POSITION: No, The Company has properly included the pension liability reserve as it pertains to the electric division in working capital. This is directly related to employee benefits, and is appropriate for recovery in working capital.

STIPULATED
ISSUE 51: What is the appropriate balance of regulatory assets retirement plan to be included in working capital?

POSITION: The Company has properly included $450,155 as the regulatory asset associated with Pensions and FASB 158 as it pertains to the electric division in working capital. They have also filed a petition with the FPSC similar to other investor owned utility companies in the state of Florida, for regulatory treatment of pension as it relates to FASB 158 and this regulatory asset. Since this account only represents regulated amounts, the appropriate allocation factors have been used to allocate between the regulated natural gas and electric segments.

STIPULATED
ISSUE 52: What is the appropriate allocation methodology and amount for prepaid insurance to be included in working capital for electric operations?

POSITION: The appropriate allocation methodology should be based on payroll instead of gross profit. Allocating the 2008 test year prepaid insurance of $629,658 by the payroll allocation factor of 25% results in electric operations prepaid insurance for Working Capital purposes of $157,415. The electric operations allocation of prepaid insurance included in Working Capital should be reduced by $37,779.

STIPULATED
ISSUE 56: Should FPUC's requested level of Other Property and Investments/Other Special Funds in the amount of $3,100 for the projected test year be approved?

POSITION: Yes, this item was appropriately included in working capital in the MFR. The $3,100 represents consolidated electric's share of a $10,000 deposit held in escrow by the Company's insurance carrier to cover auto and general liability insurance claims against FPUC.

STIPULATED
ISSUE 60: Is FPUC's requested level of Working Capital in the amount of a negative $1,310,654 for the December 2008 projected test year appropriate?

POSITION: The appropriate level of working capital is subject to the resolution of the issues impacting working capital (a fall-out issue).

COST OF CAPITAL

STIPULATED
ISSUE 64: What is the appropriate projected cost rate for long-term debt?

POSITION: The appropriate projected cost rate for long-term debt is 7.96%.

NET OPERATING INCOME

STIPULATED
ISSUE 72: Has FPUC made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Adjustment Clause?

POSITION: Yes, the Company has appropriately excluded fuel revenue and expenses recoverable through the Fuel Adjustment clause. (Cox, Martin)

STIPULATED
ISSUE 73: Has FPUC made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Conservation Cost Recovery Clause?

POSITION: Yes, the Company has appropriately excluded conservation revenue and expenses recoverable through the Conservation Cost recovery clause. (Cox, Martin)

STIPULATED
ISSUE 79: Should any adjustments be made to Account 935, Maintenance of General Plant, related to office renovation costs?

POSITION: Yes an adjustment is necessary to reduce Account 935, Maintenance of General Plant by $2,219 for 2006 and by $2,375 for 2008. The corresponding adjustments are addressed in Issue 36.

STIPULATED
ISSUE 80: Should the company's request for recovery of salaries for vacant information technology positions be approved, and if so, what are the appropriate test year expenses?

POSITION: Yes, the Company has supported the need for the addition of the fourth programmer for its IT department. The net over and above adjustment necessary to add to the 2008 test year expenses for the electric divisions is $38,026. The

updated actual data through 2007 projected to 2008 supports a reduction to the Company's adjustment of $548 for a net over and above adjustment of $37,478.

STIPULATED
ISSUE 81: Should an adjustment be made to test year expenses to Account 916, Miscellaneous Sales Expenses related to a customer survey?

POSITION: Yes, an adjustment of $27,397 to test year expenses to Account 916, Miscellaneous Sales Expenses, related to a customer survey is necessary. Even thought the Company had stated that it plans on conducting surveys in the future, the survey will not be as extensive and costly as the 2006 survey. Thus, the 2006 survey costs may be non-recurring costs which should be removed from the test year.

STIPULATED
ISSUE 82: Should an adjustment be made to Other Post Employment Benefits Expense for the December 2008 projection for 401k benefits expense?

POSITION: No adjustment is necessary. In response to Interrogatory No. 135, the utility explained how benefit allocations are done within multiple steps in the payroll journal entry. The reasons that amounts cannot be reconciled within the clearing accounts is that some benefit allocation credits the division expense accounts directly and do not pass through the clearing accounts. Therefore, 401k benefits expense should not be reduced by $975.

STIPULATED
ISSUE 83: Should any adjustments be made to Account 923.1, Outside Services Expense for postage and printing expenses?

POSITION: Yes, expenses should be reduced by $6,250 for 2008 to allow for a ten year amortization.

STIPULATED
ISSUE 84: Should any adjustments be made to Account 928, Regulatory Commission Expense for legal fees?

POSITION: Yes, an adjustment is necessary to reduce expenses by $32,383 for 2008 to allow for a ten year amortization.

STIPULATED
ISSUE 85: Should the Company's requested increase related to the vacant position for the Northwest Florida Division operations manager be approved?

POSITION: Yes. Late-filed Deposition Exhibit 12 (Martin, Khojasteh, and Mesite Panel), reflects that the Company agrees that its original estimate based on the former manager's salary was overstated for 2008 by $5,310.

STIPULATED
ISSUE 87: Should an adjustment be made to the Company's requested increase for benefits for the Northeast Florida Division Safety coordinator?

POSITION: Yes. Consistent with FPUC witness Martin's statement, the Company's payroll benefits overhead factor adjustment is overstated. For the NE division, the overhead factor applied was 38% of which 12% should be removed for the vacation/leave component which was included by error. Backing out the 12% erroneous factor, leaves a proper overhead adjustment of $6,842 ($10,000/ 38% x 26%). The necessary adjustment is a reduction to expenses of $3,158, which should be allocated 100% to electric.

STIPULATED
ISSUE 92: Should an adjustment be made to Account 595.3, Maintenance of Transformers, to remove the 2008 test year expense related to the escalated cost of a new transformer added in 2006?

POSITION: No adjustment is necessary. The conclusions reached in this finding are incorrect and no adjustment should be made. This is the change-out of a transformer: removing the existing transformer (to be tested and rebuilt) and installing a previously installed transformer (not a "new" transformer as stated in the audit analysis). Unless the removed transformer is to be retired, and/or the installed transformer is being installed for the first time, the entire process is maintenance expense.

The transformer pad is not a retirement unit, and is part of the transformer installation. The accounting treatment of the transformer pad therefore follows the treatment of the installation. In this case it is maintenance expense, which is how it was recorded.

STIPULATED
ISSUE 93: Should the test year outside audit fees be approved?

POSITION: No. The company's over and above increase for external and internal audit fees of $90,675 is overstated and should be reduced by $42,800. This results in an over and above increase to Account 4020.9233 of 47,875 for the 2008 test year.

STIPULATED
ISSUE 94: Should the company's requested increase in janitorial, elevator, air conditioning and landscaping expense be approved?

POSITION: No. Account 935 should be reduced by $6,223 for the 2008 electric allocation.

STIPULATED
ISSUE 95: Should the company's requested increase in supervisory training expenses "to keep managers informed on various issues" be approved?

POSITION: No. FPUC has requested $21,100 supervisor training expense with $5,486 allocated to the electric division. The utility has spent $7,350 for supervisory training through September, 2007. It is important for supervisors to continue their training in ethics, harassment, hiring practices and other necessary supervisory training. Therefore, the utility should be allowed to recover the annualized supervisory training expense based on the $7,350 spent in 2007. The annualized expenditure for 2007 is $9,800 ($7,350/9 x 12) with $2,548 allocated to the electric division. Therefore, Account 921.6 should be reduced by $2,938

STIPULATED
ISSUE 100: Should an adjustment be made to Other Post Employment Benefits Expense for the December 2008 projection for medical expense?

POSITION: No adjustment is necessary. In response to Interrogatory No. 135, the utility explained how benefit allocations are done within multiple steps in the payroll journal entry. The reasons that amounts cannot be reconciled within the clearing accounts is that some benefit allocation credits the division expense accounts directly and do not pass through the clearing accounts. Therefore, medical expense should not be reduced by $120,339.

STIPULATED
ISSUE 103: What is the appropriate amount for projected general liability expense?

POSITION: No adjustment is necessary. In response to Interrogatory No. 135, the utility explained how benefit allocations are done within multiple steps in the payroll journal entry. The reasons that amounts cannot be reconciled within the clearing accounts is that some benefit allocation credits the division expense accounts

directly and do not pass through the clearing accounts. Therefore, general liability insurance expense should not be reduced by $52,628.

STIPULATED
ISSUE 106: Should the increase to Account 903, Customer Records and Collection Expenses, to reflect an increase in postage expense, be approved?

POSITION: Yes. The Company has appropriately projected Account 903 for their 2008 projected test year with the exception of any agreed upon adjustments. They have included $20,100 for postage increases with $6,030 allocated to the electric division.

STIPULATED
ISSUE 108: What is the appropriate period for the amortization of rate case expense?

POSITION: The appropriate period for the amortization of rate case expense is four years.

STIPULATED
ISSUE 110: Should an adjustment be made to Pension Expense for the December 2008 projected test year?

POSITION: No adjustment is necessary. In response to Interrogatory No. 135, the utility explained how benefit allocations are done within multiple steps in the payroll journal entry. The reasons that amounts cannot be reconciled within the clearing accounts is that some benefit allocation credits the division expense accounts directly and do not pass through the clearing accounts.

COST OF SERVICE AND RATE DESIGN

STIPULATED
ISSUE 121: Are FPUC's estimated revenues from sales of electricity by rate class at present rates for the projected test year appropriate?

POSITION: The revenues from sales of electricity by rate class at present rates for the projected 2008 test year shall be adjusted upward by a total of $10,089. Specifically, revenues for the GS rate class shall be adjusted upward by $10,089 that results when the Non-profit Sports Fields Transitional Rate customers are billed under the correct rate. With that adjustment, FPUC has correctly calculated revenues from sales of electricity at present rates for the test year.

STIPULATED
ISSUE 122: What is the appropriate cost of service methodology to be used in designing FPUC's rates?

POSITION: The appropriate cost of service methodology to be used in designing FPUC's rates is the fully allocated embedded cost of service study contained in MFR Schedule E-1, as adjusted for changes to rate base, revenues, expenses, and return approved by Commission.

STIPULATED
ISSUE 123: If a revenue increase is granted, how should the increase be allocated to rate classes?

POSITION: The increase should be allocated to the rate classes in a manner that moves the class rate of return indices as close to parity as practicable based on the approved cost allocation methodology, subject to the following constraints: (1) no class should receive an increase greater than 1.5 times the system average percentage increase in total, and (2) No class should receive a decrease.

STIPULATED
ISSUE 124: What are the appropriate customer charges?

POSITION: The appropriate customer charges shall be approved as follows:

Rate Schedule	Customer Charge
Residential Service	$12.00
General Service – Non-Demand	$18.00
General Service – Demand	$52.00
General Service – Large Demand	$100.00
General Service – Large Demand -1	$600.00

STIPULATED
ISSUE 127: What are the appropriate service charges?

POSITION: The appropriate service charges shall be approved as follows:

Type of Charge	Service Charge
Initial establishment of service	$53.00
Re-establish service or change existing account	$23.00
Temporary disconnect then reconnect	$33.00
Reconnect after rule violation (during normal hours)	$44.00
Reconnect after rule violation (after hours)	$95.00

Temporary Service connect and disconnect	$51.00
Installing and removing temporary service (overhead)	$200.00
Installing and removing temporary service (underground)	$170.00
Additional Temporary Service Pole	$200.00
Collection Charge	$14.00

The present charge for bills paid electronically shall be eliminated since customers who choose to pay by credit card will be assessed a transfer fee directly from the third party vendor.

STIPULATED
ISSUE 128: What are the appropriate transformer ownership discounts?

POSITION: The appropriate primary transformer ownership discount for the GSD and GSLD rate classes shall be $0.55 per KW per month.

STIPULATED
ISSUE 130: Should FPUC's Transitional Rate of non-profit sports fields be eliminated?

POSITION: FPUC's Transitional Rate for Non-Profit Sports Fields shall not be eliminated. Elimination of the transitional rate would constitute a burdensome rate increase for sports field customers. Both the customer and non-fuel energy charges for the transitional rate shall be increased by the same percentage revenue increase approved for the GS rate class.

STIPULATED
ISSUE 131: What are the appropriate standby rates?

POSITION: The appropriate monthly Local Facilities Charges of the standby service rate are as follows:

$2.00 per kW for customers who have contracted for standby service of less than 500kW.

$0.53 per kW for customers who have contracted for standby service capacity of 500kW or greater.

STIPULATED
ISSUE 132: What is the appropriate adjustment to account for the increase in unbilled revenues due to the recommended rate increase?

POSITION: The adjustment by rate class to account for the increase in unbilled revenues should be made by applying the methodology shown in MFR Schedule E-12 to the Commission-approved revenue increase.

STIPULATED
ISSUE 133: What is the appropriate effective date for FPUC's new rates and charges?

POSITION: The revised rates shall become effective for meter readings on or after 30 days following the date of the Commission vote approving the rates and charges.

OTHER ISSUES

STIPULATED
ISSUE 135: 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, earnings surveillance reports, and books and records which will be required as a result of the Commission's findings in this docket?

POSITION: Yes, FPUC should 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, earnings surveillance reports, and books and records which will be required as a result of the Commission's findings in this docket.

STIPULATED
ISSUE 136: Should this docket be closed?

POSITION: Yes.

**PROCESS TO ENGAGE
THIRD PARTY ATTACHERS**

1. The electric utility and third-party attachers will engage in a continuous dialogue on the status of the electric utility's storm hardening plans. A third-party attacher that wishes to be part of this process ("Participant") shall provide notification in writing to the electric utility, providing the name and address of the person designated to receive communications from the electric utility. The electric utility may, no more than once a year, request that Participants confirm that they wish to continue being part of the process and update the name and address of the person designated to receive communication.

2. By September 5 of each year, the electric utility shall provide the Participants with a list of the projects identified in the electric utility's approved storm hardening plan on file with the Commission ("Plan") that the electric utility proposes to undertake in the following calendar year, pending internal budget approval. The electric utility shall provide the Participants with a list of such projects receiving final budget approval promptly as it becomes available.

3. Prior to engineering a job relative to a storm hardening project identified in its Plan, the electric utility shall initiate a meeting with Participants to discuss the electric utility's preliminary ideas for the scope of work ("Pre-Design Meeting"). At the Pre-Design Meeting, the electric utility shall (a) identify the poles involved; (b) identify whether the electric utility plans to

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replace poles, change from wood poles to poles of another material (*e.g.*, steel or concrete), place poles in locations different from the existing poles, relocate overhead facilities or underground existing aerial facilities, and; (c) provide the projected commencement date, and; (d) upon request by a Participant, provide other available information that would enable the Participants to make necessary preparations and evaluate whether to seek dispute resolution pursuant to Rule 25-6.0342(7). During this pre-design phase of a project, the electric utility shall also seek input from Participants as required by Rule 25-6.0342(6).

4. The electric utility shall provide Participants with final engineering plans promptly upon completion. Prior to beginning construction, the electric utility shall initiate a meeting with Participants to discuss coordination of work and a construction schedule.

5. Information submitted to Participants pursuant to section 2, 3 or 4 above regarding projects identified in the electric utility's Plan will not be docketed unless a protest is filed in accordance with Rule 25-6.0342(7), or it is otherwise deemed necessary by the Commission.

6. If the electric utility seeks to amend its Plan by, for example, adding a project not previously identified in its Plan, it shall file a petition with the Commission requesting that the Plan be modified in accordance with Rule 25-6.0342(2).

7. The electric utility will file with the Director of Division of Economic Regulation by March 1 each year a status report of its implementation of

its Plan. Included in this status report shall be the name of storm hardening projects commenced and/or completed by the electric utility, the routes and circuits affected, and any comments on the project received from third-party attachers.