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December 29, 2003

BY HAND DELIVERY

Ms. Blanca Bayó, Director
Commission Clerk and Administrative Services
Room 110, Easley Building
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Docket No. 030438-EI

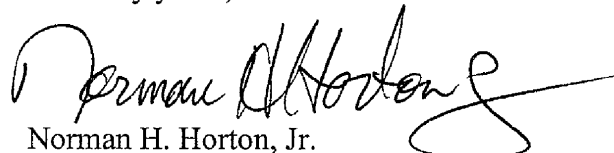
Dear Ms. Bayó:

Enclosed for filing in the captioned docket are revised pages and exhibits for the prefiled direct testimony of Dr. Robert Camfield and Mr. George Bachman. These pages replace those filed with the initial submission and correct calculations made in that testimony. There are no changes in data or the recommendations offered by Dr. Camfield and Mr. Bachman.

Please acknowledge receipt of these documents by stamping the extra copy of this letter "filed" and returning the same to me.

Thank you for your assistance with this filing.

Sincerely yours,


Norman H. Horton, Jr.

NHH/amb
Enclosures

cc: Office of Public Counsel
Dr. Robert Camfield
Mr. George Bachman
Ms. Cheryl Martin

1 The DCF analyses suggest that the underlying cost of common equity capital of
2 shareholders of Florida Public Utilities is within the range of 11.1 – 13.0%, as
3 shown on Exhibits 8A and 8B. These analysis results are reflected for the
4 simple and weighted average of the sample companies. While DCF analyses
5 can incorporate some nettlesome details such as quarterly dividends, issuance
6 costs, and market pressure, the essential components of the DCF model are the
7 dividend yield and expected growth. The analyses, and the resulting estimates
8 of the opportunity cost of capital, reveal yields of 6.3% - 6.7%, with
9 corresponding estimates of expected growth in cash flows of 4.8% - 6.3%.
10 Market capitalization of the sample utility is the basis to develop weighted-
11 average DCF results.

12 As discussed, the essential element of DCF analysis is appropriately assessing
13 investor expectations of growth of capitalization and dividends. The analyses
14 rely upon the historical experience of the sample companies to develop
15 reasonable estimates of growth of internal cash and earnings along with the
16 views of security analysts, as the basis for future expectations of growth.
17 Historical cash flow and earnings per share growth are measured in two ways.
18 First, growth is assessed over successive five-year periods and then averaged.
19 Second, historical cash flow and earnings growth are estimated with a
20 logarithmic trend-based analysis.

21 Finally, the DCF analyses incorporate an adjustment for issuance costs of 3%
22 into the yield component; however, we incorporate no allowance for market
23 pressure or quarterly dividends. Adjustment for quarter payment of dividends

1 the estimates are drawn from the historical market returns over the 1993 – 2002
2 timeframe. This timeframe includes years of exceptionally low and
3 exceptionally high rates of return that, overall, are fairly well balanced. The
4 analyses are shown on Exhibits 11A and 11B. As can be seen, the historical
5 realized returns, and thus the implied cost of equity capital, are within the range
6 of 9.1% - 14.1% for the Utility sample, and 6.1% - 10.3% for the sample of
7 comparable risk Non-Utility companies. These historical returns essentially
8 conform with the formal DCF and CAPM analyses, though the range of
9 percentage realized rate of return is fairly wide, an empirical characteristic
10 inherent to capital markets. Also, excluding the experience of 2002, where
11 significant reductions in rate of market returns were realized, suggests
12 substantially higher returns for the Utility sample.

13 The analysis of the opportunity cost incurred by common shareholders of
14 Florida Public Utilities Company is summarized on Exhibit 2. The analyses
15 suggest that, for common shareholders of Florida Public Utilities Company to
16 be adequately compensated on the capital committed to public service, and to
17 fully satisfy the statutory requirements defined by the U.S. Supreme Court, the
18 rate of return on common equity must be set at level equal to 12.0% or higher.

19 **Q. Please review structural changes in the electricity markets, and how such**
20 **changes and process have affected the cost of equity and rate of return.**

21 A. It is perhaps useful to begin with a review of events, changes and ultimately
22 challenges that confront the electricity services industry. Generally, structural
23 change refers to changes in government policy, technology, and market rules.

COST OF COMMON EQUITY AND EQUITY RATE OF RETURN RECOMMENDATION

<u>Methodology</u>	<u>Comparative Sample</u>		
	<u>Electric Utilities</u>	<u>Moderate-Risk Non-Utilities Companies</u>	
Discounted Cash Flow	11.1 - 11.6%		w/o Analysts' Expectations of Earnings
	12.6 - 13.0%		with Analysts' Expectations of Earnings
Capital Asset Pricing Model	10.1 - 11.6%	10.1 - 11.2%	
Risk Premium Analysis	11.8 - 12.3%	11.8 - 12.3%	
Realized Market Returns	9.3 - 14.1%	6.1 - 10.3%	

Equity Rate of Return Recommendation: 12.0%

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DISCOUNTED CASH FLOW ANALYSIS

Sample of Comparable Electric Utilities

ELECTRIC UTILITY	Dividends Declared	Market Price	Yield	Adjusted Yield	Estimate of Expected Growth*	DCF-Based Estimate of Cost of Equity Capital
CH Energy Group	\$2.160	\$43.49	4.97%	5.24%	2.33%	7.57%
Cleco Corp.	\$0.890	\$12.99	6.85%	7.46%	5.62%	13.08%
DPL Inc.	\$0.940	\$13.73	6.84%	7.48%	6.03%	13.51%
Florida Public Utilities	\$0.570	\$14.39	3.96%	4.36%	6.71%	11.07%
IDACORP Inc.	\$1.860	\$22.68	8.20%	8.89%	5.15%	14.04%
MGE Energy	\$1.340	\$26.57	5.04%	5.39%	3.58%	8.96%
Otter Tail Corp.	\$1.060	\$25.68	4.13%	4.47%	5.11%	9.58%
PNM Resources	\$0.860	\$21.92	3.92%	4.32%	6.81%	11.13%
UIL Holdings	\$2.880	\$32.51	8.86%	9.28%	1.60%	10.88%
Sample Average:			5.86%	6.32%	4.77%	11.09%
Weighted Sample Average:			6.14%	6.64%	4.99%	11.63%

* Expected Growth includes Analysts' expectations of '02 - '06 growth in cash flow per share. This exhibit page, 8-A, is comparable to the original exhibit page 8, though restated and corrected.

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DISCOUNTED CASH FLOW ANALYSIS

Sample of Comparable Electric Utilities

ELECTRIC UTILITY	Dividends Declared	Market Price	Yield	Adjusted Yield	Expected Growth,* with Analysts' Expectations of Earnings	DCF-Based Estimate of Cost of Equity Capital
CH Energy Group	\$2.160	\$43.49	4.97%	5.29%	3.30%	8.59%
Cleco Corp.	\$0.890	\$12.99	6.85%	7.48%	5.81%	13.28%
DPL Inc.	\$0.940	\$13.73	6.84%	7.65%	8.41%	16.06%
Florida Public Utilities	\$0.570	\$14.39	3.96%	4.43%	8.56%	12.99%
IDACORP Inc.	\$1.860	\$22.68	8.20%	8.92%	5.48%	14.40%
MGE Energy	\$1.340	\$26.57	5.04%	5.41%	4.14%	9.55%
Otter Tail Corp.	\$1.060	\$25.68	4.13%	4.47%	5.00%	9.47%
PNM Resources	\$0.860	\$21.92	3.92%	4.32%	6.71%	11.03%
UIL Holdings	\$2.880	\$32.51	8.86%	9.86%	7.97%	17.83%
Sample Average:			5.86%	6.42%	6.15%	12.58%
Weighted Sample Average:			6.14%	6.74%	6.30%	13.04%

* Expected Growth includes Analyst' expectations of '02 - '06 growth in cash flow and earnings per share. Analysts' expectations of earnings assigned a weight of one eighth. This Exhibit page, 8-B, was not in the original filing

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HISTORICAL MARKET RETURNS

Sample of Comparable Electric Utilities

Cumulative Market Returns, Beginning 1993						
UTILITY	Through 1999	Through 2000	Through 2001	Through 2002		
CH Energy Group	6.5%	10.4%	9.4%	9.7%		
Cleco Corp	9.6%	16.2%	11.8%	6.1%		
DPL Inc	9.4%	17.6%	11.7%	6.0%		
Florida Public Utilities	12.9%	10.9%	11.1%	11.9%		
IDACORP Inc	4.6%	12.6%	9.3%	3.6%		
Otter Tail Corp.	4.9%	10.5%	10.3%	8.7%		
PNM Resources	6.8%	13.3%	4.5%	2.7%		
UIL Holdings	10.3%	9.2%	9.2%	4.8%	<u>Average,</u> <u>Through '01</u>	<u>Average,</u> <u>Including '02</u>
Sample Average:	8.1%	12.6%	9.7%	6.7%	10.1%	9.3%
Weighted Average:	7.6%	13.6%	9.6%	5.8%	10.3%	9.2%

Average Annual Market Returns, Beginning March '93						
UTILITY	Through 1999	Through 2000	Through 2001	Through 2002		
CH Energy Group	8.2%	12.2%	11.1%	11.2%		
Cleco Corp	9.7%	17.5%	13.8%	9.1%		
DPL Inc.	10.2%	20.4%	15.3%	10.5%		
Florida Public Utilities	13.5%	11.6%	11.8%	12.5%		
IDACORP Inc	6.6%	16.4%	13.1%	8.3%		
Otter Tail Corp.	4.9%	11.4%	11.1%	9.6%		
PNM Resources	7.8%	15.4%	8.8%	6.8%		
UIL Holdings	12.6%	11.3%	11.1%	7.2%	<u>Average,</u> <u>Through '01</u>	<u>Average,</u> <u>Including '02</u>
Sample Average:	9.2%	14.5%	12.0%	9.4%	11.9%	11.3%
Weighted Average:	8.6%	15.9%	12.5%	9.2%	12.3%	11.6%

Average 5-year Market Returns						
UTILITY	Ending '99	Ending '00	Ending '01	Ending '02		
CH Energy Group	13.8%	16.7%	15.3%	7.9%		
Cleco Corp.	13.3%	23.1%	18.0%	6.5%		
DPL Inc.	11.9%	24.7%	19.0%	7.3%		
Florida Public Utilities	23.0%	17.8%	17.1%	15.9%		
IDACORP Inc.	11.2%	20.8%	16.1%	3.4%		
Otter Tail Corp.	9.0%	17.2%	20.1%	14.3%		
PNM Resources	9.6%	16.1%	4.6%	-2.9%		
UIL Holdings	22.6%	15.5%	19.2%	1.8%	<u>Average,</u> <u>Through '01</u>	<u>Average,</u> <u>Including '02</u>
Sample Average:	14.3%	19.0%	16.2%	6.8%	16.5%	14.1%
Weighted Average:	12.5%	20.0%	16.0%	5.6%	16.2%	13.5%

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HISTORICAL MARKET RETURNS

Sample of Comparable Non-Utility Companies

<u>Cumulative Market Returns, Beginning 1993</u>						
<u>Company</u>	<u>Through 1999</u>	<u>Through 2000</u>	<u>Through 2001</u>	<u>Through 2002</u>		
Amer. Pacific	-14.5%	-17.6%	-11.5%	-8.9%		
Bone Care Intl Inc	11.3%	20.1%	14.4%	-0.5%		
COMARCO Inc	25.2%	19.4%	18.6%	9.9%		
Hector Communications	11.5%	6.0%	11.0%	6.7%		
Patriot Transportation Holdir	10.3%	1.8%	5.1%	8.1%		
Prime Medical Services	19.7%	8.6%	7.1%	13.0%	<u>Average,</u>	<u>Average,</u>
SEMCO Energy	-0.7%	3.7%	-0.4%	-5.5%	<u>Through '01</u>	<u>Including '02</u>
Sample Average:	9.0%	6.0%	6.3%	3.3%	7.1%	6.1%

<u>Average Annual Market Return, Beginning April '93</u>						
<u>Company</u>	<u>Through 1999</u>	<u>Through 2000</u>	<u>Through 2001</u>	<u>Through 2002</u>		
Amer. Pacific	-11.5%	-14.4%	-7.0%	-4.5%		
Bone Care Intl Inc	11.3%	20.8%	15.3%	3.6%		
COMARCO Inc	26.8%	21.8%	20.9%	14.4%		
Hector Communications	15.7%	10.7%	16.0%	12.0%		
Patriot Transportation Holdir	12.1%	5.6%	8.7%	11.7%		
Prime Medical Services	29.8%	20.6%	18.0%	24.1%	<u>Average,</u>	<u>Average,</u>
SEMCO Energy	0.8%	5.5%	1.9%	-2.3%	<u>Through '01</u>	<u>Including '02</u>
Sample Average:	12.2%	10.1%	10.5%	8.4%	10.9%	10.3%

<u>Average 5-year Market Returns</u>						
<u>Company</u>	<u>Ending '99</u>	<u>Ending '00</u>	<u>Ending '01</u>	<u>Ending '02</u>		
Amer. Pacific	5.3%	2.6%	9.0%	13.3%		
Bone Care Intl Inc	11.3%	20.8%	15.3%	3.6%		
COMARCO Inc	25.3%	8.1%	5.5%	-7.3%		
Hector Communications	17.2%	10.6%	24.0%	13.6%		
Patriot Transportation Holdir	7.2%	-3.9%	-2.1%	1.0%		
Prime Medical Services	34.7%	-3.6%	-8.4%	2.0%	<u>Average,</u>	<u>Average,</u>
SEMCO Energy	0.5%	6.9%	-1.0%	-10.6%	<u>Through '01</u>	<u>Including '02</u>
Sample Average:	14.5%	5.9%	6.0%	2.2%	8.8%	7.2%

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