REQUEST TO ESTABLISH DOCKET
(Please Type)

Date:	5/9/2007	**Docket No.:**	070304-EI

1. Division Name/Staff Name:	Economic Regulation/Slemkewicz JS
2. OPR:	ECR
3. OCR:	GCL, RCA
4. Suggested Docket Title:	Petition for rate increase by Florida Public Utilities Company

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5. Suggested Docket Mailing List (attach separate sheet if necessary)

A. Provide NAMES OR ACRONYMS ONLY if a regulated company.

B. Provide COMPLETE NAME AND ADDRESS for all others. (Match representatives to companies.)

1. Parties and their representatives (if any):

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

Office Of Public Counsel	

6. Check one:

☒ **Documentation is attached.**

☐ ***Documentation will be provided with recommendation.***

DOCUMENT NUMBER-DATE
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UTILITIES

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FLORIDA PUBLIC SERVICE COMMISSION
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DIVISION OF
ECONOMIC REGULATION

CHAIRMAN EDGAR
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APR 30 2007
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P O Box 3395
West Palm Beach, FL 33402-3395
(561) 838-1725

April 27, 2007

The Honorable Lisa Polak Edgar, Chairman
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Dear Chairman Edgar:

After considerable review and analysis, Florida Public Utilities Company ("FPUC" or the "Company") now finds it necessary to file with the Florida Public Service Commission ("Commission") for an increase in our rates and charges in order that we may have the opportunity to earn a fair rate of return on our investment in utility plant and working capital. Earning a fair rate of return will enable us to continue our high quality of service and maintain financial integrity, which are in the best interest of our customers. The Company has experienced and is expecting to experience continued increases in expenses, and despite efforts to keep expenses down, many are beyond the control of the Company and we expect a significant declining rate of return in our electric operations. Our last Electric Rate Case for both Marianna (Northwest Florida Division) and Fernandina Beach (Northeast Florida Division), was Docket No. 030438-EI, authorized an increase in revenues, which went into effect in April 2004.

In accordance with Rule 25-6.140, F.A.C., Test Year Notification, we have selected the twelve-month period ending December 31, 2008 as the projected test year for our petition for a permanent increase in our rates and charges. We offer the following reasons for selecting this period:

1. The calendar year serves also as our fiscal year for accounting purposes.

2. The new rates developed in this rate case will be effective on or after January 1, 2008.

3. The Company believes the proposed 2008 test year will accurately reflect the economic conditions in which the Consolidated Electric Division will be operating during the first twelve months the new rates will be in effect.

4. The overall rate of return for the twelve-month periods ending December 31, 2007 and 2008 will decline further below our allowable rate of returns based on our projections for 2007 and 2008.

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

1. Historical events had a significant unfavorable impact to earnings since our last rate proceeding. The value of the pension plan assets significantly increased pension expense from the amount recovered in our rate proceeding in 2004. Current actuarial estimates show pension expense increasing by approximately $600,000 in 2007 over the cost recovered in our rate proceeding in 2004 and the estimated annual impact to the Consolidated Electric Division is $200,000.

2. Insurance costs continue to greatly increase. Management believes that medical costs will also increase approximately $500,000 in 2007 over 2004 and even further in 2008. The Company made revisions to the medical plan to help minimize the effect on operating income. The estimated annual impact to the Consolidated Electric Division in 2007 is $300,000 over the amount recovered in our most recent rate proceeding.

3. Accounting and audit service expenses are expected to increase by an estimated $500,000 annually in 2008 over 2004. This is due to additional work requirements of regulations on the external auditors including Sarbanes-Oxley Act as well as the effects of becoming an accelerated filer for SEC purposes. The estimated annual impact to the Consolidated Electric Division is $100,000 over the amounts recovered in our most recent rate proceeding.

4. In 2006 the Company entered into new fuel agreements in both divisions, one effective January 1, 2007 and one effective January 1, 2008. The fuel cost to our customers is expected to increase significantly as a result of these new contracts. The Company expects a decline in demand due to the overall increase to the customer's bill as a result of the fuel rate increase, which will further impact the Company's earnings. We are unable at this time to estimate the annual impact.

5. Based on a review of the adequacy of storm reserves, the reserves are believed to be currently deficient. The reserves need to be brought to an adequate level over a period of ten years. The estimated annual impact to the Consolidated Electric Division is unknown at this time.

6. The recent storm hardening requirements have increased annual expenses significantly. Expenses relating to these have increased over $700,000 annually. We

may receive temporary recovery for these expenses in an upcoming storm hardening hearing; however, once a rate proceeding is completed this temporary surcharge would be discontinued, as recovery of these expenditures would be rolled into base rates.

7. Additional capital expenditures and maintenance increases are required to increase the reliability of our system during storms. We do not have the estimated annual impact to the Consolidated Electric Division at this time.

8. The cost of transformers and substations have increased significantly in recent years. We have required significant upgrades in these facilities starting in 2004 that were not recovered in our last rate proceeding. We have recently placed an order for additional upgrades and these are expected to be completed in early 2008. The estimated total cost of these assets since 2004 will increase plant in the Consolidated Electric Division by approximately $2,800,000. This will increase the revenue requirement by the return on these assets, the related deprecation expense and property taxes. The estimated annual impact to the Consolidated Electric Division is unknown at this time.

9. Inflationary effect on new and replacement utility plant and on operating expenses over the 5-year period since our last rate case. The estimated annual impact to the Consolidated Electric Division is unknown at this time.

10. Adjustments in annual depreciation expense will result from revised new depreciation rates effective with the finalization of our consolidated electric depreciation study to be filed in conjunction with this rate proceeding. The estimated annual impact to the Consolidated Electric Division is unknown at this time.

11. The Northeast division is building a new operations center on land we currently own. This is necessary due to the deteriorated condition of the existing facility and the need to provide additional space in the operations center for operations and engineering personnel currently located in the main office. Moving the operations and engineering personnel will provide additional efficiency for customer service personnel and will help us better serve our customers. The building is expected to be complete in early 2008. The estimated total cost of the building is expected to range from $750,000 to $1.0 million. The estimated annual impact to the Consolidated Electric Division is unknown at this time.

12. We have not achieved our allowable rate of return with the rates approved in the last rate proceeding in any calendar year since those were put into effect. The projections for variables used in our test year to set rates during that last proceeding compared to the actual results negatively impacted our rate of return. Billing determinants achieved were lower that those used in our test year, approved rate base projections were lower

than actual, and actual expenses were higher than those used in our approved projections. The table below shows the actual average rate base, the actual net operating income (NOI), the allowable rate of return (ROR) ranges and the actual achieved rates of returns for each of the calendar years after our last electric rate increase.

Year	Rate Base	NOI	Allowable ROR Range	Actual Achieved ROR
2004	$36,852,417	$2,643,312	7.82 – 8.55	7.17
2005	$38,086,999	$2,760,006	7.70 – 8.44	7.25
2006	$38,418,889	$2,470,613	7.71 – 8.45	6.43

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

1. Managing capital expenditures to stay in line with expected increases in customer growth and inflation. Reviewed capital expenditures to try and ensure the increase in net plant per customer amount was kept consistent.

2. Improved productivity in the construction crews by ensuring efficient equipment is available and actively monitoring actual and estimated cost to identify areas in which productivity can be improved.

3. Improved purchasing functions in order to reduce costs and achieve better inventory control.

4. Issuance of short-term debt with favorable interest rates to assist in the financing requirements of capital and operating expenditures.

5. To hold down rising medical insurance costs we have made changes in medical programs, premiums and deductibles over the years including 2006.

6. The Company historically has been able to manage costs. Steps are taken to budget and find ways to keep costs down on a continual basis.

7. Modified our pension plan to help in managing benefit costs. We now offer a matching 401K for new hires instead of a pension plan.

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

FPUC will be filing MFR schedules consistent with current Commission minimum filing requirements and similar to those filed in our last rate case. We also will be requesting interim relief pursuant to Section 366.071, Florida Statutes, utilizing calendar year 2006 as the test period. Interim relief is necessary in order to allow the Company an opportunity to earn within its authorized range. Finally, the calendar year 2008 will be presented as the projected test year, calendar year 2007 will be presented as the projected prior year and the calendar year 2006 will be presented as the historic year and interim test year.

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

We plan to file the petition and the minimum filing requirements (MFRs) for rate relief on or before September 17, 2007 and will advise you if this date cannot be met.

Finally, pursuant to Rule 25-6.140, Florida Administrative Code, the Company is not requesting that this petition be processed pursuant to Section 366.06(4), Florida Statutes.

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

Sincerely,

Cheryl M. Martin

Cheryl M. Martin
Controller

CC:
Office of Public Counsel
Norman Horton, Esq.
George Bachman
Mark Cutshaw
Don Myers
Jack English
Chuck Stein