

Docket No. 140025-EI: Petition for Rate Increase.

Florida Public Utilities Company

Witness: **Direct Testimony of Jeffery A. Small,**

Appearing on behalf of the staff of the Florida Public Service Commission

Date Filed: July 28, 2014

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **COMMISSION STAFF**

3 **DIRECT TESTIMONY OF JEFFERY A. SMALL**

4 **DOCKET NO. 140025-EI**

5 **JULY 28, 2014**

6 **Q. Please state your name and business address.**

7 **A. My name is Jeffery A. Small and my business address is 3625 N.W. 82nd Ave., Suite**
8 **400, Miami, Florida, 33166.**

9 **Q. By whom are you presently employed and in what capacity?**

10 **A. I am employed by the Florida Public Service Commission (FPSC or Commission) as a**
11 **Regulatory Analyst Supervisor in the Office of Auditing and Performance Analysis.**

12 **Q. How long have you been employed by the Commission?**

13 **A. I have been employed by the Commission since January 1994.**

14 **Q. Briefly review your educational and professional background.**

15 **A. I have a Bachelor of Science degree in Accounting from the University of South**
16 **Florida. I am also a Certified Public Accountant licensed in the State of Florida.**

17 **Q. Please describe your current responsibilities.**

18 **A. Currently, I am a Regulatory Analyst Supervisor with the responsibilities of**
19 **administering the District Office and reviewing work load and allocating resources to**
20 **complete field work and issue audit reports when due. I also supervise, plan, and conduct**
21 **utility audits of manual and automated accounting systems for historical and forecasted data.**

22 **Q. Have you presented expert testimony before this Commission or any other**
23 **regulatory agency?**

24 **A. Yes. I have provided testimony in the Duke Energy Florida, Inc., Nuclear Cost**
25 **Recovery Clause filings, Docket Nos. 080009-EI, 090009-EI, 100009-EI, 110009-EI, 120009-**

1 EI, 130009-EI and 140009-EI. I have also testified in the Southern States Utilities, Inc. rate
2 case, Docket No. 950495-WS, the transfer application of Cypress Lakes Utilities, Inc., Docket
3 No. 971220-WS, and the Utilities, Inc. of Florida rate case, Docket No. 020071-WS.

4 **Q. What is the purpose of your testimony today?**

5 A. The purpose of my testimony is to sponsor the staff audit report of Florida Public
6 Utilities Company (FPUC or Utility). The audit report is filed with my testimony and is
7 identified as Exhibit JAS-1.

8 **Q. Was this audit prepared by you or under your direction?**

9 A. Yes.

10 **Q. Please describe the work you performed in both audits.**

11 A. The audit report addresses the Rate Base, Capital Structure and Net Operating Income
12 components as of September 30, 2013, for FPUC:

13 **Rate Base**

- 14 • We verified, based on a sample of plant in service (PIS) additions, retirements and
15 adjustments for selected plant accounts, that the Utility's PIS is properly recorded for
16 the period January 1, 2007 through September 30, 2013. We recalculated a sample of
17 13-month average balances for PIS included in the filing.
- 18 • We verified, based on inquires and examination of rate base asset accounts, that the
19 Utility's general ledger does not reflect a Plant Held for Future Use balance.
- 20 • We verified, based on a sample of construction work in progress (CWIP) projects
21 included in the filing, that the CWIP balance is properly stated as of September 30,
22 2013. We reviewed Utility documents describing each project sampled to determine
23 whether it was eligible to accrue allowance for funds used during construction
24 (AFUDC). No projects sampled accrued AFUDC. We recalculated a sample of 13-
25 month average balances for CWIP included in the filing.

- 1 • We verified, based on a sample of selected accumulated depreciation (AD) accounts,
2 that the AD is properly recorded for the period January 1, 2007 through September 30,
3 2013, and that the Utility used the depreciation rates approved in Commission orders.
4 We recalculated a sample of 13-month average balances for selected AD accounts
5 included in the filing.
- 6 • We verified, based on a sample of selected accounts, that the working capital (WC)
7 balance is properly stated, utility in nature, non-interest bearing and is consistent with
8 Commission orders. We verified, based on a sample of selected accounts, that the
9 accumulated provision accounts year-end balances comply with Commission rules.
10 We recalculated a sample of 13-month average balances for selected WC accounts
11 included in the filing.

12 **Capital Structure**

- 13 • We traced the equity account balances to the general ledger. We recalculated the 13-
14 month average balance for equity included in the filing.
- 15 • We reconciled the long term debt (LTD) balance to the general ledger. We traced the
16 LTD obligations and the unamortized loss on reacquired debt balance to the original
17 documents and verified the terms, conditions, redemption provisions and interest rates
18 for each bond or note payable. We sampled and verified the cost of LTD. We
19 recalculated the average cost rate and the 13-month average balance for LTD included
20 in the filing.
- 21 • We reconciled the short term debt (STD) balance to the general ledger. We traced the
22 STD obligations to the supporting documents. We verified the average cost of STD.
23 We recalculated the average cost rate and the 13-month average balance for STD
24 included in the filing.
- 25 • We reconciled the customer deposit (CD) balance to the general ledger. We inquired

1 and verified that the Utility is collecting, refunding and paying interest on CD pursuant
2 to Rule 25-6.097, Florida Administrative Code (F.A.C.). We recalculated the average
3 cost rate and the 13-month average balance for CD included in the filing.

- 4 • We reconciled the accumulated deferred income tax (ADIT) balances to the general
5 ledger. We recalculated the 13-month average balance for ADIT included in the filing.
- 6 • We reconciled the investment tax credit (ITC) balances to the general ledger. We
7 recalculated the average cost rate and the 13-month average balance for ITC included
8 in the filing.

9 **Net Operating Income**

- 10 • We reconciled revenues to the general ledger. We reviewed Commission audits of the
11 Utility's cost recovery clauses, which included recalculations of a sample of customer
12 bills, to ensure that the utility was using the base rates authorized in its approved tariff.
13 We verified that unbilled revenues were calculated correctly.
- 14 • We verified, based on a sample of utility transactions for select operation and
15 maintenance (O&M) expense accounts, that O&M expense balances are adequately
16 supported by source documentation, utility in nature and do not include non-utility
17 items and are recorded consistent with the Uniform System of Accounts (USOA). We
18 reviewed samples of utility advertising expenses, legal fees, outside service expenses,
19 sales expenses, customer service expenses and administrative and general service
20 expenses to ensure that amounts supporting non-utility operations were removed. We
21 reviewed a sample of intercompany allocations and charges to determine if expenses
22 were allocated pursuant to Rule 25-6.1351, F.A.C.
- 23 • We recalculated a sample of depreciation expense accruals for 2011 and the test year
24 to verify that the utility is using the correct depreciation rates.
- 25 • We verified that taxes other than income expenses are adequately supported by source

1 documentation.

- 2 • We traced federal and state income taxes to the general ledger. We reviewed bonus
3 depreciation treatment for asset additions. We verified that adjustments to income tax
4 expense are consistent with the USOA.

5 **Other**

- 6 • We developed a three-year (2010 -2012) analytical review that compared the annual
7 percentage change for the FERC account balances. Accounts that exhibited significant
8 activity or percentage change, as determined by the auditor, were randomly selected
9 for additional review.
- 10 • We reviewed the 2010-2013 FERC independent audit reports for FPUC, issued on
11 August 12, 2011, July 30, 2012 and June 20, 2013, respectively. We reviewed selected
12 correspondences and communications between the Chesapeake Utility
13 Company(CUC)/FPUC Audit Committee and its external auditors for the above audit
14 engagements.
- 15 • We reviewed the respective Board of Directors meeting minutes for FPUC and CUC
16 through June 2014, for activities or issues that could affect FPUC in the instant
17 proceeding.

18 **Q. Were there any audit findings in the audit report, JAS-1.**

19 **A.** Yes.

20 **Q. Please review the audit findings in the audit report, JAS-1.**

21 **A. Audit Finding No. 1**

22 Provides information that corrects the Utility's adjustments to Rate Base and Net
23 Operating Income for non-regulated operations. This adjustment was needed because the
24 Utility's adjustment in the filing was not supported by adequate documentation. Our
25 subsequent correcting adjustment, which was provided by the Utility and verified by audit

1 staff, increased average Rate Base by \$9,053, increased Depreciation Expense by \$389, and
2 reduced Income Tax Expense by \$150.

3 **Audit Finding No. 2**

4 Provides information that corrects the Utility's adjustment to Rate Base and Net
5 Operating Income. This adjustment was needed because the Utility used incorrect rates when
6 calculating depreciation accruals for two transportation plant-in-service accounts. However,
7 audit staff's recalculation of depreciation accruals for the two transportation plant-in-service
8 accounts using Commission authorized rates and supplemental information provided by the
9 Utility during the audit showed that an additional adjustment was needed. Our correcting
10 adjustment increased average Rate Base by \$33,831, increased Depreciation Expense by
11 \$17,401, and reduced Income Tax Expense by \$6,713.

12 **Q. Does this conclude your testimony?**

13 **A.** Yes, it does.

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State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Miami District Office

Auditor's Report

Florida Public Utilities Company
Petition for Rate Increase

Twelve Months Ended September 30, 2013

Docket No. 140025-EI
Audit Control No. 14-119-4-1
July 6, 2014

Handwritten signature of Jeffery A. Small in blue ink.

Jeffery A. Small
Audit Manager

Handwritten signature of Donna Brown in blue ink.

Donna Brown
Audit Staff

Handwritten signature of Gabriela Leon in blue ink.

Gabriela Leon
Audit Staff

Handwritten signature of Bety Maitre in blue ink.

Bety Maitre
Audit Staff

Handwritten signature of Iliana Piedra in blue ink.

Iliana Piedra
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Economics in its audit service request dated April 29, 2014. We have applied these procedures to the attached schedules prepared by Florida Public Utilities Company in support of its filing for rate relief in Docket No. 140025-EI.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

FPUC/Utility refers to Florida Public Utilities Company.

CUC/Parent refers to Chesapeake Utilities Corporation.

FERC refers to the Federal Energy Regulatory Commission.

USoA refers to the FERC Uniform System of Accounts as adopted by Commission Rule 25-6.014 – Records and Reports in General, Florida Administrative Code. (F.A.C.).

Background

FPUC filed a petition for a permanent rate increase on April 28, 2014. The Utility is engaged in business as a public utility providing electric service as defined in Section 366.02, Florida Statutes (F.S.), and is subject to our jurisdiction. FPUC provides transmission and distribution service to approximately 31,000 retail customers in portions of Jackson and Nassau counties.

The Utility's last petition for rate relief was granted in Docket No. 070304-EI, in Order No. PSC-08-0327-FOF-EI, Petition for Rate Increase, issued May 19, 2008 which established historical rate base and capital structure balances for the Utility as of December 31, 2006.

Rate Base

Plant in Service

Objectives: The objectives were to determine whether Plant in Service (PIS) exists and is owned by the utility, additions are authentic and recorded at original cost, proper retirements were made when a replacement asset was put in service, PIS is properly classified in compliance with the USoA, and to recalculate the 13-month average balance for PIS as of September 30, 2013.

Procedures: We verified, based on a sample of PIS additions, retirements and adjustments for selected plant accounts, that the Utility's PIS is properly recorded for the period January 1, 2007 through September 30, 2013. We recalculated a sample of 13-month average balances for PIS included in the filing. Finding 1 discusses our recommended adjustment to the average PIS balance as of September 30, 2013.

Property Held for Future Use

Objectives: The objectives were to determine the nature and purpose of utility properties recorded as Plant Held for Future Use (PHFU), to disclose material additions or changes to the Utility's planned use for such properties, and to recalculate the 13-month average balance for PHFU as of September 30, 2013.

Procedures: We verified, based on inquires and examination that the Utility's general ledger does not reflect a PHFU balance.

Construction Work in Progress

Objectives: The objectives were to determine the nature and purpose of utility projects recorded as Construction Work in Process (CWIP), whether projects that are eligible to accrue Allowance for Funds Used During Construction (AFUDC) are excluded from rate base pursuant to Commission Rule 25-6.0141, F.A.C. – Allowance for Funds Used During Construction, and to recalculate the 13-month average balance for CWIP as of September 30, 2013.

Procedures: We verified, based on a sample of CWIP projects included in the filing, that the CWIP balance is properly stated as of September 30, 2013. We reviewed utility documents describing each project sampled to determine whether it was eligible to accrue AFUDC. No projects accrued AFUDC. We recalculated a sample of 13-month average balances for CWIP included in the filing. No exceptions were noted.

Accumulated Depreciation

Objectives: The objectives were to determine whether accruals, retirements and adjustments to Accumulated Depreciation (AD) are properly recorded in compliance with the USoA, to verify that the Utility used the depreciation rates established in Commission Order Nos. PSC-08-0094-PAA-EI, issued February 14, 2008 and PSC-12-0106-PAA-EI – 2011, issued February 13, 2012, and to recalculate the 13-month average balance for AD as of September 30, 2013.

Procedures: We verified, based on a sample of selected AD accounts, that the AD is properly recorded for the period January 1, 2007 through September 30, 2013, and the Utility properly restated and used the depreciation rates approved in the order cited above. We recalculated a sample of 13-month average balances for selected AD accounts included in the filing. Findings 1 and 2 discuss our recommended adjustments to average and year end AD balances as of September 30, 2013.

Working Capital

Objectives: The objectives were to determine whether the Working Capital (WC) account balances are properly stated based on Commission adjustments in the prior rate case in Order No. PSC-08-0327-FOF-EI, and the provisions of Commission Rule 25-6.0143, F.A.C. – Use of Accumulated Provision Accounts, and to recalculate the 13-month average balance for WC as of September 30, 2013.

Procedures: We verified, based on a sample of selected accounts, that the WC balance is properly stated, utility in nature, non-interest bearing and is consistent with the order cited above. We verified, based on a sample selected accounts, that the accumulated provision accounts year end balances comply with the Commission rule cited above. We recalculated a sample of 13-month average balances for selected WC accounts included in the filing. No exceptions were noted.

Capital Structure

Equity

Objectives: The objectives were to determine whether equity account balances represent actual equity, are properly recorded in compliance with the USoA and to recalculate the 13-month average balance for equity as of September 30, 2013.

Procedures: We traced the equity account balances to the general ledger. We recalculated the 13-month average balance for equity included in the filing. No exceptions were noted.

Long Term Debt

Objectives: The objectives were to determine whether Long-Term Debt (LTD) balances represent actual obligations of the utility, are properly recorded in compliance with the USoA, and to recalculate the 13-month average balance for LTD as of September 30, 2013.

Procedures: We reconciled the LTD balance to the general ledger. We traced the LTD obligations and the unamortized loss on reacquired debt balance to the original documents and verified the terms, conditions, redemption provisions and interest rates for each bond or note payable. We sampled and verified the cost of LTD. We recalculated the average cost rate and the 13-month average balance for LTD included in the filing. No exceptions were noted.

Short Term Debt

Objectives: The objectives were to determine whether Short Term Debt (STD) balances represent actual obligations of the utility, that they are properly recorded in compliance with the USoA, and to recalculate the 13-month average balance for STD as of September 30, 2013.

Procedures: We reconciled the STD balance to the general ledger. We traced the STD obligations to the supporting documents. We verified the average cost of STD. We recalculated the average cost rate and the 13-month average balance for STD included in the filing. No exceptions were noted.

Customer Deposits

Objectives: The objectives were to determine whether Customer Deposit (CD) balances represent actual obligations of the utility, are properly recorded in compliance with the USoA, and to recalculate the 13-month average balance for CD as of September 30, 2013.

Procedures: We reconciled the CD balance to the general ledger. We inquired and verified that the Utility is collecting, refunding and paying interest on CD based on Commission Rule 25-6.097 – Customer Deposits. We recalculated the average cost rate and the 13-month average balance for CD included in the filing. No exceptions were noted.

Accumulated Deferred Taxes

Objectives: The objectives were to determine whether Accumulated Deferred Income Tax (ADIT) balances are properly stated, are calculated based on the recorded differences between utility book and taxable income, and to recalculate the 13-month average balance for ADIT as of September 30, 2013.

Procedures: We reconciled the ADIT balances to the general ledger. We recalculated the 13-month average balance included in the filing. No exceptions were noted.

Investment Tax Credits

Objectives: The objectives were to determine whether Investment Tax Credits (ITC) are properly stated, reflect realized tax credits, and to recalculate the 13-month average balance for ITC as of September 30, 2013.

Procedures: We reconciled the ITC balances to the general ledger. We recalculated the average cost rate and the 13-month average balance for ITC included in the filing. No exceptions were noted.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether test year revenues are properly calculated and recorded in compliance with the USoA and are based on approved tariff rates.

Procedures: We reconciled revenues to the general ledger. We reviewed Commission audits of the Utility's cost recovery clauses, which included recalculations of a sample of customer bills, to ensure that the utility was using the base rates authorized in its approved tariff. We verified that unbilled revenues were calculated correctly. No exceptions were noted.

Operating Expense (O&M)

Objectives: The objectives were to determine whether test year O&M expenses are properly recorded in compliance with the USoA and were reasonable for ongoing utility operations.

Procedures: We verified, based on a sample of utility transactions for select O&M expense accounts, that O&M expense balances are adequately supported by source documentation, utility in nature and do not include non-utility items and are recorded consistent with the USoA. We reviewed samples of utility advertising expenses, legal fees, outside service expenses, sales expenses, customer service expenses and administrative and general service expenses to ensure that amounts supporting non-utility operations were removed. We reviewed a sample of intercompany allocations and charges to determine if expenses were allocated pursuant to Commission Rule 25-6.1351 – Cost Allocation and Affiliate Transactions, F.A.C. No exceptions were noted.

Depreciation & Amortization Expense

Objectives: The objectives were to determine whether test year depreciation expense is properly recorded in compliance with the USoA and to determine that depreciation expense accruals are calculated using the depreciation rates established in Commission Order No. PSC-12-0106-PAA-EI.

Procedures: We recalculated a sample of depreciation expense accruals for 2011 and the test year to verify that the utility is using the correct depreciation rates. Findings 1 and 2 discuss our recommended adjustments to the year end depreciation expense balance as of September 30, 2013.

Taxes Other than Income

Objective: The objective was to determine whether test year Taxes Other Than Income (TOTI) is properly recorded in compliance with the USoA.

Procedures: We verified that TOTI expenses are adequately supported by source documentation. No exceptions were noted.

Income Taxes

Objective: The objective was to determine whether test year Income Tax expense is properly recorded in compliance with the USoA.

Procedures: We traced federal and state income taxes to the general ledger. We reviewed bonus depreciation treatment for asset additions. We verified that adjustments to income tax expense are consistent with the USoA. Findings 1 and 2 discuss our recommended adjustments to the year end income tax balance as of September 30, 2013.

Other

Analytical Review

Objectives: The objective was to perform an analytical review of the Utility's rate case filing using prior years FERC Form 1 filings with the Commission.

Procedures: We developed a three-year (2010 -2012) analytical review that compared the annual percentage change for the FERC account balances. Accounts that exhibited significant activity or percentage change, as determined by the auditor, were randomly selected for additional review. No exceptions were noted.

External Audits

Objectives: The objective was to determine whether there were any exceptions or disclosures in the Parente Beard , LLC external audits of the Utility's FERC Form 1 filing.

Procedures: We reviewed the 2010-2013 FERC independent audit reports for FPUC, that were issued on August 12, 2011, July 30, 2012 and June 20, 2013, respectively. We reviewed selected correspondences and communications between CUC/FPUC Audit Committee and its external auditors for the above audit engagements. No issues affecting the instant proceeding or exceptions were noted.

Internal Audits

Objectives: The objective was to determine whether there were any exceptions or disclosures in CUC/FPUC internal audits of utility operations.

Procedures: We reviewed a summary index of audits performed by the Utility's internal audit group for the period 2010 through June 2014. We selected and reviewed a sample of internal audit reports based on the subject matter of the investigation and its relevance to our audit work. No issues affecting the instant proceeding or exceptions were noted.

Board of Director Meetings

Objectives: The objective was to review the minutes of the FPUC and CUC Board of Directors (BOD).

Procedures: We reviewed the respective BOD meeting minutes for FPUC and CUC through June 2014, for activities or issues that could affect FPUC in the instant proceeding. No issues affecting the instant proceeding or exceptions were noted.

Audit Findings

Finding 1: Adjustments to the Filing – Non-Regulated Operations

Audit Analysis: The Utility's filing includes adjustments to Rate Base on Schedule B-1 and Net Operating Income (NOI) on Schedule C-2 to remove the non regulated use of common assets attributed to FPUC's gas propane operations.

The supporting documentation provided by the Utility to audit staff did not reconcile to the amounts the Utility removed for non regulated operations. The Utility subsequently provided to audit staff an updated schedule that shows the correct adjustments to the filing. The corrected adjustment is consistent with the non-utility calculation that was approved in Order No. PSC-08-0237-FOF-EI.

| September 30, 2013 - Rate Base Adjustments Debit(Credit) | | | |
|---|--------------------------|-------------------------|-----------------------------|
| Non Regulated | Adjustment to MFR | Utility Revision | Correction to Filing |
| 13-Month Avg. | | | |
| Plant In Service | (\$350,667) | (\$352,858) | (\$2,191) |
| Acc. Dep. | <u>127,930</u> | <u>139,174</u> | <u>11,244</u> |
| Net Adjustment | (\$222,737) | (\$213,684) | \$9,053 |

| September 30, 2013 -NOI Adjustments Debit(Credit) | | | |
|--|--------------------------|-------------------------|-----------------------------|
| Non Regulated | Adjustment to MFR | Utility Revision | Correction to Filing |
| Test Year | | | |
| Depreciation Expense | (\$10,768) | (\$10,379) | \$389 |

Effect on the General Ledger: None.

Effect on the Filing: Average Rate Base should be increased by \$9,053, Depreciation Expense should be increased by \$389, and Income Tax Expense should be reduced by \$150 (\$389 x 38.575% tax rate) as of September 30, 2013.

Finding 2: Adjustments to the Filing – Depreciation Expense and Accumulated Depreciation

Audit Analysis: The Utility’s filing includes adjustments to Rate Base on Schedule B-1 and Net Operating Income (NOI) on Schedule C-2.

The Utility stated that the adjustment was needed because incorrect depreciation rates for two plant in service accounts (Account No. 101.3922 - Light Duty Trucks and Vans and Account No. 101.3923 - Heavy Duty Trucks and Bobtails) were used from January 1, 2012 through September 30, 2013.

We recalculated depreciation accruals for Accounts 101.3922 and 101.3923 using depreciation rates authorized in Order No. PSC-12-0065-PAA-EI. Our calculations indicate that additional adjustments are needed to correct the Utility adjustment because the depreciation rates that the Utility used to calculate its adjustment differed from those authorized in the Order. In addition, the Utility’s adjustment did not include an adjustment to Depreciation Expense for the two Fernandina Division transportation accounts.

The audit staff’s adjustment to test year depreciation expense on Schedule C-2 is shown below.

Table 1

| September 30, 2013 - Rate Base Adjustments Debit(Credit) | | | | | |
|---|-----------------|---------------------------|-------------------------|-------------------------|------------------|
| Vehicle Depreciation | As Filed | Utility Adjustment | Adjusted Utility | Audit Adjustment | Per Audit |
| 13 Month Avg. | | | | | |
| Accumulated Depreciation | (\$1,870,360) | (\$78,363) | (\$1,948,723) | \$33,831 | (\$1,914,892) |
| As of September 30, 2013 | | | | | |
| Accumulated Depreciation | (\$1,963,034) | (\$113,312) | (\$2,076,346) | \$11,468 | (\$2,064,878) |
| September 30, 2013 - NOI Adjustments Debit(Credit) | | | | | |
| Vehicle Depreciation | As Filed | Utility Adjustment | Adjusted Utility | Audit Adjustment | Per Audit |
| Test Year | | | | | |
| Depreciation Expense | \$195,509 | \$66,818 | \$262,327 | \$27,857 | \$290,184 |
| Less Overhead Capital Accrual (a) | (73,381) | (25,079) | (98,460) | (10,456) | (108,916) |
| Net Depreciation Expense | \$122,128 | \$41,739 | \$163,867 | \$17,401 | \$181,268 |

Our supporting calculations are reflected in Table 2.

Table 2

| Per Utility Adjustment to Transportation Accumulated Depreciation & Depreciation Expense | | | | |
|--|-------------|--------------------|------------------|---------------------|
| Month | Net Change | Current AD End Bal | Dep Expense Adj. | Adjusted AD End Bal |
| Dec-11 | | (\$ 1,870,785) | | (\$ 1,870,785) |
| Jan-12 | (\$ 45,857) | (1,916,642) | (\$ 5,166) | (1,921,808) |
| Feb-12 | (35,442) | (1,952,084) | (5,166) | (1,962,416) |
| Mar-12 | 54,020 | (1,898,063) | (5,166) | (1,913,561) |
| Apr-12 | (21,257) | (1,919,321) | (5,166) | (1,939,985) |
| May-12 | (2,924) | (1,922,245) | (5,166) | (1,948,075) |
| Jun-12 | 218,037 | (1,704,207) | (5,166) | (1,735,203) |
| Jul-12 | (65,900) | (1,770,107) | (5,166) | (1,806,269) |
| Aug-12 | (21,727) | (1,791,834) | (5,166) | (1,833,162) |
| Sep-12 | (30,641) | (1,822,475) | (5,166) | (1,868,969) |
| Oct-12 | 54,916 | (1,767,558) | (5,166) | (1,819,218) |
| Nov-12 | (37,922) | (1,805,480) | (5,166) | (1,862,306) |
| Dec-12 | (18,143) | (1,823,623) | (5,166) | (1,885,615) |
| Jan-13 | (14,077) | (1,837,700) | (5,166) | (1,904,858) |
| Feb-13 | (14,077) | (1,851,777) | (5,166) | (1,924,101) |
| Mar-13 | (14,077) | (1,865,855) | (5,166) | (1,943,345) |
| Apr-13 | (14,077) | (1,879,932) | (5,166) | (1,962,588) |
| May-13 | (22,499) | (1,902,431) | (5,166) | (1,990,253) |
| Jun-13 | (14,305) | (1,916,736) | (5,166) | (2,009,724) |
| Jul-13 | (14,305) | (1,931,041) | (7,902) | (2,031,931) |
| Aug-13 | (15,996) | (1,947,038) | (6,211) | (2,054,139) |
| Sep-13 | (15,996) | (1,963,034) | (6,211) | (2,076,346) |
| Total Adjustment (Dec 11 to Sep 13) | | | (\$ 113,312) | |
| Depreciation Expense Adjustment (Oct 12 to Sep 13) | | | (\$ 66,818) | |
| 13-Month Average Adjustment (Sep 12 to Sep 13) | | | (\$ 78,363) | (\$ 1,948,722) |

| Per Audit Adjustment to Transportation Accumulated Depreciation & Depreciation Expense | | | | |
|--|-------------|--------------------|------------------|---------------------|
| Month | Net Change | Current AD End Bal | Dep Expense Adj. | Adjusted AD End Bal |
| Dec-11 | | (\$ 1,870,785) | | (\$ 1,870,785) |
| Jan-12 | (\$ 45,857) | (1,916,642) | (\$ 1,157) | (1,917,799) |
| Feb-12 | (35,442) | (1,952,084) | (1,892) | (1,955,133) |
| Mar-12 | 54,020 | (1,898,063) | 125 | (1,900,988) |
| Apr-12 | (21,257) | (1,919,321) | (925) | (1,923,170) |
| May-12 | (2,924) | (1,922,245) | (3,733) | (1,929,828) |
| Jun-12 | 218,037 | (1,704,207) | 1,891 | (1,709,899) |
| Jul-12 | (65,900) | (1,770,107) | (259) | (1,776,058) |
| Aug-12 | (21,727) | (1,791,834) | (674) | (1,798,458) |
| Sep-12 | (30,641) | (1,822,475) | (544) | (1,829,643) |
| Oct-12 | 54,916 | (1,767,558) | 61 | (1,774,666) |
| Nov-12 | (37,922) | (1,805,480) | (163) | (1,812,751) |
| Dec-12 | (18,143) | (1,823,623) | (5,168) | (1,836,061) |
| Jan-13 | (14,077) | (1,837,700) | (9,233) | (1,859,371) |
| Feb-13 | (14,077) | (1,851,777) | (9,233) | (1,882,682) |
| Mar-13 | (14,077) | (1,865,855) | (9,233) | (1,905,992) |
| Apr-13 | (14,077) | (1,879,932) | (9,347) | (1,929,417) |
| May-13 | (22,499) | (1,902,431) | (9,233) | (1,961,419) |
| Jun-13 | (14,305) | (1,916,736) | (10,601) | (1,986,055) |
| Jul-13 | (14,305) | (1,931,041) | (11,969) | (2,012,330) |
| Aug-13 | (15,996) | (1,947,038) | (10,278) | (2,038,604) |
| Sep-13 | (15,996) | (1,963,034) | (10,278) | (2,064,878) |
| Total Adjustment (Dec 11 to Sep 13) | | | (\$ 101,844) | |
| Depreciation Expense Adjustment (Oct 12 to Sep 13) | | | (\$ 94,675) | |
| 13-Month Average Adjustment (Sep 12 to Sep 13) | | | (\$ 44,532) | (\$ 1,914,892) |

| Accumulated Depreciation Adjustment | Per Utility | Per Audit | Correction |
|-------------------------------------|--------------|--------------|------------|
| Year End Correction | (\$ 113,312) | (\$ 101,844) | \$ 11,468 |
| 13-Month Average Correction | (\$ 78,363) | (\$ 44,532) | \$ 33,830 |

| Depreciation Expense Adjustment | Per Utility | Per Audit | Correction |
|---|-------------|-------------|-------------|
| Depreciation Expense Correction | (\$ 66,818) | (\$ 94,675) | (\$ 27,857) |
| Less Dep. Exp. OH Capital Accruals of 37.5% | 25,079 | 35,535 | 10,456 |
| Net Depreciation Correction | (\$ 41,739) | (\$ 59,141) | (\$ 17,402) |

(Small differences are due to rounding)

Effect on the General Ledger: The Utility should determine the appropriate adjustments to the general ledger.

Effect on the Filing: Average Rate Base should be increased by \$33,831, Depreciation Expense should be increased by \$17,401, and Income Tax Expense should be reduced by \$6,713 (\$17,401 x 38.575% tax rate) as of September 30, 2013.

Exhibits

Exhibit 1: Rate Base

Schedule B-1

ADJUSTED RATE BASE

Page 1 of 3

FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: Florida Public Utilities Company
 Consolidated Electric Division
 DOCKET NO.: 140025-EI

EXPLANATION:

Provide a schedule of the 13-month average adjusted rate base for the test year, the prior year and the most recent historical year. Provide the details of all adjustments on Schedule B-2.

Type of Data Shown:

____ Projected Test Year Ended 9/30/15
 ____ Prior Year Ended 9/30/14
 ____ Historical Test Year Ended 9/30/13
 Witness: Marlon

| Line No | (1) Plant in Service | (2) Accumulated Provision for Depreciation and Amortization | (3) Net Plant in Service (1 + 2) | (4) CWIP - No AFUDC | (5) Plant Held For Future Use | (6) Nuclear Fuel - No AFUDC (Net) | (7) Net Utility Plant | (8) Working Capital Allowance | (9) Other Rate Base Items | (10) Total Rate Base |
|---------|-------------------------|--|-------------------------------------|------------------------|----------------------------------|--------------------------------------|--------------------------|----------------------------------|------------------------------|-------------------------|
| 1 | 99,496,911 | (49,358,084) | 47,138,827 | 3,102,154 | 0 | 0 | 50,240,981 | 931,653 | | 51,172,835 |
| 2 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| 3 | 99,496,911 | (49,358,084) | 47,138,827 | 3,102,154 | - | - | 50,240,981 | 931,653 | - | 51,172,835 |
| 4 | Adjustments: | | | | | | | | | |
| 5 | (350,667) | 127,690 | (222,977) | | | | (222,977) | | | (222,977) |
| 6 | | (78,363) | (78,363) | | | | (78,363) | | | (78,363) |
| 7 | | | | | | | | | | - |
| 8 | | | | | | | (227,971) | | | (227,971) |
| 9 | | | | | | | 4,248 | | | 4,248 |
| 10 | | | | | | | (723,059) | | | (723,059) |
| 11 | | | | | | | 815,365 | | | 815,365 |
| 12 | | | | | | | 114,114 | | | 114,114 |
| 13 | | | | | | | (103,150) | | | (103,150) |
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Exhibit 3: Net Operating Income

Schedule C-1 (2013)

ADJUSTED JURISDICTIONAL NET OPERATING INCOME

Page 1 of 3

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Provide the calculation of jurisdictional net operating income for the test year, the prior year and the most recent historical year.

Type of Data Shown:
 ___ Projected Test Year Ended 9/30/15
 ___ Prior Year Ended 9/30/14
 ___ Historical Test Year Ended 9/30/13
 Witness: Martin

COMPANY: FLORIDA PUBLIC UTILITIES
 Consolidated Electric Division
 DOCKET NO.: 140025-EI

| Line No. | (1) Total Company Per Books | (2) Non- Electric Utility | (3) Total Electric (1)+(2) | (4) Jurisdictional Factor | (5) Jurisdictional Amount (3)x(4) | (6) Jurisdictional Adjustments (Schedule C-2) | (7) Adjusted Jurisdictional Amount (5)+(6) |
|----------|-----------------------------------|------------------------------------|-------------------------------------|---------------------------------|--|--|--|
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Supporting Schedules: C-2 (2013), C-4 (2013), C-5 (2013), C7 (2013)

Recap Schedules:

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate increase by Florida
Public Utilities Company.

DOCKET NO. 140025-EI

DATED: July 28, 2014

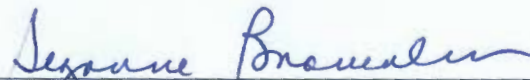
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the testimony of Jeffrey A. Small on behalf of the Florida Public Service Commission was filed with the Office of Commission Clerk, Florida Public Service Commission, and copies were furnished to the following, by electronic mail, on this 28th day of July, 2014.

J.R. Kelly/ P. Christensen/ E.Sayler
c/o The Florida Legislature
111 W. Madison Street, Room 812
Tallahassee, FL 32399-1400
Kelly.jr@leg.state.fl.us
Christensen.patty@leg.state.fl.us
Sayler.Erik@leg.state.fl.us

Beth Keating
215 South Monroe Street,
Suite 601,
Tallahassee, Florida, 32301
bkeating@gunster.com

Cheryl Martin
1641 Worthington Road
Suite 220
West Palm Beach, FL 33409-6703
cheryl_martin@fpuc.com



Suzanne Brownless
SENIOR ATTORNEY

FLORIDA PUBLIC SERVICE COMMISSION
Gerald L. Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850
Telephone: (850) 413-6218
Sbrownle@psc.state.fl.us