

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 140025-EI
ORDER NO. PSC-14-0372-PCO-EI
ISSUED: July 17, 2014

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISÉ
EDUARDO E. BALBIS
JULIE I. BROWN

ORDER SUSPENDING PROPOSED FINAL RATES
AND APPROVING INTERIM RATES

BY THE COMMISSION:

BACKGROUND

On April 28, 2014, Florida Public Utilities Company (FPUC) filed a petition for a permanent increase in its base rates and charges. FPUC 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 serves more than 31,000 retail customers in four counties, including the Company's Northwest Division (Marianna) and its Northeast Division (Amelia Island). FPUC's base rates for its two divisions are consolidated into a single Electric Division, unlike the Company's fuel rates (i.e., purchased power) which are separate for the two divisions.

FPUC has requested an increase in base rates and charges to generate \$5,852,171 in gross annual revenues. FPUC stated in its petition that the requested test year period ending September 30, 2015, is the most relevant period upon which its operations should be analyzed for purposes of establishing rates for the time period the proposed rates are expected to be in effect. FPUC further stated that this period will be indicative of its actual revenues, expenses, and investment during the first 12 months that the new rates will be in effect.

FPUC has also requested an interim rate increase in its base rates and charges to generate \$2,433,314 in additional gross revenues. FPUC's interim rate increase request is based on a historical test year ended September 30, 2013.

The Office of Public Counsel filed its Notice of Intervention in this docket on February 4, 2014, which was acknowledged by Order No. PSC-14-0179-FOF-EI, issued on April 18, 2014. Pursuant to Order No. PSC-14-0194-PCO-EI, issued on May 1, 2014, pre-trial and post-trial procedures have been established and final hearing has been set for September 15-18, 2014. On

May 5, 2014, FPUC agreed to an extension until our July 10, 2014 Agenda Conference of the 60-day time period established by Section 366.071(2), F.S., in which we are required to act regarding suspension of its proposed permanent rates and its request for interim rate relief. We have jurisdiction over this request for permanent and interim rate increases pursuant to Sections 366.06 and 366.071, F.S.

SUSPENSION OF RATES

FPUC filed its petition, testimony, and minimum filing requirements on April 28, 2014. FPUC has requested a total permanent base rate increase of \$5,852,171 based on a projected test year ending September 30, 2015.

Historically, especially when a projected test year has been involved, we have suspended the requested permanent rate schedules in order to adequately and thoroughly examine the basis for the new rates. The suspension of the rate increase is authorized by Section 366.06(3), F.S., which provides:

Pending a final order by the Commission in any rate proceeding under this section, the commission may withhold consent to the operation of all or any portion of the new rate schedules, delivering to the utility requesting such increase, within 60 days, a reason or written statement for withholding its consent.

Because FPUC's requested permanent rate relief is based on a projected test year, we shall suspend the requested base rate increase and its associated tariff revisions to allow our staff and the parties sufficient time to adequately investigate whether the request for permanent rate relief is appropriate.

INTERIM RELIEF

A prima facie case for interim rate relief has been proven when a public utility demonstrates that it is earning outside the range of reasonableness on its rate of return. Section 366.071(1), F.S. The company's revenue deficiency or excess is determined by calculating the difference between its achieved rate of return and its required rate of return applied to an average or end-of-period investment rate base. Section 366.071(5)(a), F.S. We find that FPUC has met this evidentiary burden and is entitled to interim rate relief as discussed below.

Interim Test Year Rate Base

FPUC's proposed interim historical test year rate base of \$54,511,326 is the year-end amount for the 12-month period ended September 30, 2013. We have reviewed the rate base adjustments made in the current interim filing for consistency with the findings made in FPUC's last rate case order. Based on our preliminary review, FPUC has made the applicable and appropriate adjustments consistent with its previous rate case. Therefore, we find that \$54,511,326 is the appropriate amount of rate base for the 2013 interim historical test year ended September 30, 2013. The calculation is shown on Attachment A.

It should be noted that 2013 is also the historical base year ended September 30, 2013, that was used to develop the 2015 projected test year for the requested permanent base rate increase. The historical test year data is audited as part of the normal ratemaking review process in this docket.

ROE and Overall Cost of Capital

Pursuant to Section 366.071(2)(a), F.S., the appropriate return on equity (ROE) for purposes of determining an interim rate increase is the minimum of FPUC's currently authorized ROE range. FPUC's currently authorized ROE and range is 11.00 percent plus or minus 100 basis points.¹ For its interim request, we find that the Company has appropriately used an ROE of 10.00 percent.

FPUC's proposed overall cost of capital of 6.37 percent includes a cost rate of 20.83 percent for long-term debt directly assigned to FPUC (FPUC legacy debt) and a cost rate of 5.84 percent for long-term debt allocated to FPUC from its parent, Chesapeake Utilities Corporation (CUC). The FPUC legacy debt included three separate secured first mortgage bonds that were issued by FPUC prior to CUC's acquisition of FPUC in 2009. In May 2013, CUC redeemed two of the three bonds leaving only one bond with a coupon rate of 9.08 percent as of the end of the interim test year. The cost rate of 20.83 percent assigned to the FPUC legacy debt in the capital structure is not reflective of the company's actual cost of the remaining bond. FPUC inappropriately included the interest expense for the two redeemed bonds with the interest expense for the remaining bond which increased the effective cost rate of the FPUC legacy debt.

To calculate the cost rate of long-term debt for both the FPUC legacy debt and the CUC allocated debt, FPUC divided the total accumulated interest expense for the 12-month interim test year ended September 30, 2013, by the one-month outstanding debt balance as of September 30, 2013. We find that this method is not appropriate and violates the matching principal by using the cumulative annual balance in the numerator and using the end of period monthly balance in the denominator. We find that a more appropriate method to calculate the embedded cost of debt for the interim cost of capital is to use the one-month ending balance as of September 30, 2013, for both the interest expense (numerator) and outstanding amount of debt (denominator) and annualize the result. This method results in a cost rate of 13.09 percent for the FPUC legacy debt ($\$70,352 \div \$6,450,270 \times 12 = 13.09\%$), and a cost rate of 6.05 percent for the CUC allocated debt ($\$505,936 \div \$100,285,726 \times 12 = 6.05\%$).

After adjusting the cost rates for long-term debt in FPUC's proposed capital structure in MFR Schedule G-19a, we find that the appropriate overall cost of capital for purposes of determining interim rates is 6.13 percent. Attachment B details the calculation of the overall cost of capital.

¹ Order No. PSC-08-0327-FOF-EI, issued May 19, 2008, in Docket No. 070304-EI, In re: Petition for rate increase by Florida Public Utilities Company.

Net Operating Income

FPUC's proposed interim test year net operating income of \$1,981,784 is the year end amount for the 12-month period ended September 30, 2013. We have reviewed the net operating income adjustments made in the current interim filing for consistency with the findings made in FPUC's last rate case. Based on our preliminary review, FPUC has made all of the applicable and appropriate adjustments to its net operating income for the interim test year consistent with its previous rate case. Therefore, we find that the interim test year net operating income is \$1,981,784. The calculation is shown on Attachment A.

Net Operating Income Multiplier

On MFR Schedule G-18, FPUC calculated a net operating income multiplier of 1.6335 using a 35.00 percent federal income tax rate and a 5.50 percent state income tax rate. Additionally, FPUC applied a .072 percent factor for regulatory assessment fees and a .266 percent bad debt rate. We have reviewed FPUC's calculation of the net operating income multiplier and find that no adjustments are necessary. Therefore, we find that 1.6335 is the appropriate net operating income multiplier. The calculation is shown below.

Calculation of Net Operating Income Multiplier		
Line	Description	
1	Revenue Requirement	100.000%
2	Regulatory Assessment Fee	(0.072%)
3	Bad Debt Rate	(0.266%)
4	Net Before Income Taxes	99.662%
5	Combined State/Federal Income Tax @ 38.44	(38.444%)
6	Revenue Expansion Factor	61.217%
7	Net Operating Income Multiplier (100% / Line 6)	1.6335

Interim Rates

FPUC requested interim rate relief of \$2,433,314 for the historical test year ended September 30, 2013, is based upon its jurisdictional year-end rate base of \$54,511,326. When calculating the requested interim rate relief, FPUC used an adjusted rate of return of 6.37 percent. As discussed above, after adjusting the cost rates for long-term debt in FPUC's proposed capital structure in MFR Schedule G-19a, the appropriate overall cost of capital for purposes of determining interim rates is 6.13 percent.

We find that an increase of \$2,221,168 for the September 30, 2013 year end interim test year will allow FPUC the opportunity to earn an overall rate of return of 6.13 percent and the minimum of the range of return on equity of 10.00 percent. This interim increase results in a percentage increase factor of 13.61 percent. After a determination of the permanent rate increase has been made, the interim rate increase will be reviewed to determine if any portion should be refunded to the ratepayers.

The calculation of the interim rate increase and the percentage increase factor are shown below.

Calculation of Interim Rate Relief and Percentage Increase	
Jurisdictional Adjusted Rate Base	\$54,511,326
Overall Rate of Return Recommended	x 6.13%
Jurisdictional Net Operating Income Recommended	\$3,341,544
Jurisdictional Adjusted Net Operating Income	\$1,981,784
Income Deficiency/(Excess)	\$1,359,760
Net Operating Income Multiplier	x 1.6335
Interim Revenue Increase/(Decrease)	\$2,221,168
Base Rate Revenues	\$16,320,819
Percentage Increase Factor	13.61%

Interim Revenue Increase Among Rate Classes

Rule 25-6.0435, Florida Administrative Code, requires that any percentage increase factor be applied uniformly to all existing base rates and charges to derive interim base rates and charges. Attachment C shows the interim revenue increase to the various rate classes. FPUC shall file revised tariff sheets for administrative approval that reflect the Commission-approved percentage increase factor and resulting interim rates.

Attachment D contains present rates and interim rates for the major rate classes based on the approved interim increase. Attachment E contains monthly residential bills showing the impact of the approved interim rates.

The interim rates shall be effective for all meter readings made on or after 30 days from the date of our vote approving any interim increase. FPUC shall be required to give appropriate notice to customers commencing with the first bill for service that reflects the approved interim increase explaining the nature, purpose, and effect of the increase. A copy of the notice shall be submitted to our staff for approval prior to its issuance.

Security to Guarantee Interim Increase

FPUC has requested that all funds collected subject to refund be secured by a corporate undertaking through its parent, CUC. The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. We have reviewed CUC's 2011, 2012, and 2013 financial statements in its Form 10K Annual Reports filed with the United States Securities and Exchange Commission to determine if CUC can support a corporate undertaking in the amount of \$2,221,168. Our analysis shows CUC has sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund of the requested interim revenue increase. For all three years, CUC's working capital has been positive, and the current ratio has been greater than one, demonstrating that is

has sufficient liquidity. CUC's equity ratio was 61 percent in 2011, 60 percent in 2012, and 54 percent in 2013, indicating significant equity ownership. In addition, CUC has a strong and improving interest coverage ratio over the three-year period. Finally, CUC's net income has been on average 13 times greater than the requested corporate undertaking amount, indicating good profitability.

We find that FPUC, through its parent, has adequate financial resources to support a corporate undertaking in the amount requested. Based on this analysis, we find that a corporate undertaking in the amount of \$2,221,168 is acceptable contingent on receipt of a written guarantee by CUC. We caution that this initial financial analysis is only appropriate for deciding if FPUC can support a corporate undertaking in the amount requested and not should not be considered a finding with regard to any other issue in this proceeding.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Public Utilities Company's requested permanent rate increase is suspended pending further review. It is further

ORDERED that Florida Public Utilities Company's request for interim rates is granted as set forth in the body of this order effective for all meter readings made on or after 30 days from the date of the vote approving any interim increase, August 10, 2014. It is further

ORDERED that all matters contained in the schedules and attachments to this order are incorporated herein by reference. It is further


ORDERED that Florida Public Utilities Company shall file revised tariff sheets to reflect our decision herein. It is further

ORDERED that the interim revenues shall be collected subject to refund with interest. Additionally, Florida Public Utilities Company shall file a corporate undertaking in the amount of \$2,221,168, along with a written guarantee by its parent Chesapeake Utilities Corporation, to guarantee any potential refunds of revenues collected under interim conditions. It is further

ORDERED that FPUC shall be required to give appropriate notice to customers commencing with the first bill for service that reflects the approved interim increase explaining the nature, purpose, and effect of the increase. A copy of the notice shall be submitted to our staff for approval prior to its issuance. It is further

ORDERED that this docket shall remain open pending our final decision on Florida Public Utilities Company's requested rate increase.

By ORDER of the Florida Public Service Commission this 17th day of July, 2014.



DOROTHY B. MENASCO
Commission Deputy Clerk II
Florida Public Service Commission
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Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

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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 this order, which is non-final in nature, may request (1) reconsideration within 10 days pursuant to Rule 25-22.0376, 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 or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.0376, Florida Administrative Code. Citizens of the State of Florida v. Mayo, 316 So.2d 262 (Fla. 1975), states that an order on interim rates is not final or reviewable until a final order is issued. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

FLORIDA PUBLIC UTILITIES COMPANY, INC.
ELECTRIC DIVISION
DOCKET NO.140025-EI
INTERIM TEST YEAR
SEPTEMBER 30, 2013

	As Filed by <u>Company</u>	<u>Adjustments</u>	Total Adjusted <u>Rate Base</u>
<u>RATE BASE</u>			
Plant in Service	\$99,867,655	\$0	\$99,867,655
Accumulated Depreciation	(50,707,813)	0	(50,707,813)
Net Plant in Service	49,159,842	0	49,159,842
Property Held for Future Use	0	0	0
Construction Work in Progress	4,831,630	0	4,831,630
Net Utility Plant	53,991,472	0	53,991,472
Working Capital	519,854	0	519,854
 Total Rate Base	 \$54,511,326	 \$0	 \$54,511,326
 <u>INCOME STATEMENT</u>			
Operating Revenues	\$17,017,891	\$0	\$17,017,891
Operating Expenses:			
Operation & Maintenance - Fuel	0	0	0
Operation & Maintenance - Other	10,580,760	0	10,580,760
Depreciation & Amortization	2,893,320	0	2,893,320
Taxes Other Than Income	947,994	0	947,994
Income Taxes - Current	(602,119)	0	(602,119)
Deferred Income Taxes (Net)	1,218,774	0	1,218,774
Investment Tax Credit (Net)	(2,622)	0	(2,622)
(Gain)/Loss on Disposition	0	0	0
Total Operating Expenses	15,036,107	0	15,036,107
 Net Operating Income	 \$1,981,784	 \$0	 \$1,981,784
 OVERALL RATE OF RETURN	 <u>3.64%</u>		 <u>3.64%</u>

FLORIDA PUBLIC UTILITIES COMPANY
Historical Test Year Ended 09/30/2013

COMPANY AS FILED (MFR Schedule G-19a)							ADJUSTMENTS					
Class of Capital	Company Total Per Books	Adjustments		System Adjusted	Pro-Rata Factor	Jurisdictional	Adjustments		Commission Adjusted	Ratio	Cost Rate	Weighted Cost
		Specific	Pro Rata				Specific	Pro Rata				
-												
Common Equity	\$269,788,479	\$4,902,898	\$0	\$274,691,377	9.01%	\$24,741,850	\$0	\$0	\$24,741,850	45.39%	10.00%	4.54%
Long-term Debt	\$100,387,699			\$100,387,699	9.01%	\$7,705,266			\$7,705,266	14.14%	6.05%	0.86%
Long-term Debt - FPU Only	\$6,450,270	0	0	\$6,450,270	29.73%	\$1,917,785	0	0	\$1,917,785	3.52%	13.09%	0.46%
Short-term Debt	\$91,297,347	0	0	\$91,297,347	9.01%	\$8,223,284	0	0	\$8,223,284	15.09%	0.84%	0.13%
Preferred Stock	\$0	0	0	\$0	9.01%	\$0	0	0	\$0	0%	0%	0.00%
Customer Deposits	\$3,375,525	0	0	\$3,375,525		\$3,375,525	0	0	\$3,375,525	6.19%	2.33%	0.14%
Deferred Income Taxes	\$8,547,616			\$8,547,616		\$8,547,616			\$8,547,616	15.68%	0%	0%
Tax Credits - Zero Cost	\$0	0	0	\$0		\$0	0	0	\$0	0%	0%	0%
Tax Credits - Weighted Cost	\$0	0	0	\$0		\$0	0	0	\$0	0%	8.69%	0%
TOTAL	\$479,846,936	\$4,902,898	\$0	\$484,749,834		\$54,511,326	\$0	\$0	\$54,511,326	100.00%		6.13%

FLORIDA PUBLIC UTILITIES COMPANY
ALLOCATION OF INTERIM RATE INCREASE
DOCKET NO. 140025-EI

	(1)	(2)	(3)	(4)	(5)
		TOTAL BASE REVENUE AT PRESENT RATES	\$ INTERIM INCREASE	% INCREASE	TOTAL BASE REVENUE AT INTERIM RATES
RATE CODE	RATE SCHEDULE				
RS	RESIDENTIAL	\$9,194,257	\$1,251,285	13.61%	\$10,445,542
GS	GENERAL SERVICE	\$1,899,170	\$258,466	13.61%	\$2,157,636
GSD	GENERAL SERVICE DEMAND	\$2,465,678	\$335,564	13.61%	\$2,801,242
GSLD	GENERAL SERVICE LARGE DEMAND	\$935,244	\$127,281	13.61%	\$1,062,525
GSLD-1	GENERAL SERVICE LARGE DEMAND	\$233,605	\$31,792	13.61%	\$265,397
SB	STANDBY	\$169,003	\$23,000	13.61%	\$192,003
OL	OUTDOOR LIGHTING	\$1,045,071	\$142,228	13.61%	\$1,187,299
SL	STREET LIGHTING	\$378,791	\$51,551	13.61%	\$430,342
	TOTAL	<u>\$16,320,819</u>	<u>\$2,221,168</u>	<u>13.61%</u>	<u>\$18,541,987</u>

FLORIDA PUBLIC UTILITIES COMPANY
PRESENT AND INTERIM RATES
DOCKET NO. 040025-EI

RATE CODE	RATE SCHEDULE	PRESENT RATES	INTERIM INCREASE	INTERIM RATES
RS	<u>RESIDENTIAL SERVICE</u>			
	CUSTOMER CHARGE	\$12.00	\$1.63	\$13.63
	ENERGY CHARGE (cents/kWh)	1.958	0.27	2.224
GS	<u>GENERAL SERVICE</u>			
	CUSTOMER CHARGE	\$18.00	\$2.45	\$20.45
	ENERGY CHARGE (cents/kWh)	1.927	0.26	2.189
GSD	<u>GENERAL SERVICE DEMAND</u>			
	CUSTOMER CHARGE	\$52.00	\$7.08	\$59.08
	ENERGY CHARGE (cents/kWh)	0.340	0.05	0.386
	DEMAND CHARGE (\$/kW)	\$2.80	\$0.38	\$3.18
GSLD	<u>GENERAL SERVICE LARGE DEMAND</u>			
	CUSTOMER CHARGE	\$100	\$13.61	\$113.61
	ENERGY CHARGE (cents/kWh)	0.145	0.02	0.165
	DEMAND CHARGE (\$/kW)	\$4.00	\$0.54	\$4.54

FLORIDA PUBLIC UTILITIES COMPANY
BILL COMPARISONS - PRESENT VS. INTERIM RATES
DOCKET NO. 140025-EI

RESIDENTIAL SERVICE

PRESENT RATES

Customer Charge

\$12.00

Energy Charge (c/kWh)

1.958

Fuel - Northwest Division (c/kWh)

9.74 (first 1,000 kWh)

10.99 (above 1,000 kWh)

Fuel - Northeast Division (c/kWh)

8.975 (first 1,000 kWh)

10.225 (above 1,000 kWh)

Conservation Factor (c/kWh)

0.1

INTERIM RATES

Customer Charge

\$13.63

Energy Charge (c/kWh)

2.224

Fuel - Northwest Division (c/kWh)

9.74

10.99

Fuel - Northeast Division (c/kWh)

8.975

10.225

Conservation Factor (c/kWh)

0.1

NORTHWEST DIVISION

NORTHEAST DIVISION

kwh Usage	Present	Interim	Percent Increase	Dollar Increase	Present	Interim	Percent Increase	Dollar Increase
	Monthly Bill	Monthly Bill			Monthly Bill	Monthly Bill		
800	\$109.11	\$112.97	3.53%	\$3.85	\$102.83	\$106.69	3.75%	\$3.85
900	\$121.21	\$125.34	3.40%	\$4.13	\$114.15	\$118.28	3.62%	\$4.13
1,000	\$133.31	\$137.71	3.30%	\$4.40	\$125.47	\$129.87	3.51%	\$4.40
1,100	\$159.52	\$164.19	2.93%	\$4.67	\$150.89	\$155.56	3.10%	\$4.67
1,200	\$172.90	\$177.84	2.86%	\$4.95	\$163.48	\$168.43	3.03%	\$4.95
1,300	\$186.28	\$191.50	2.80%	\$5.22	\$176.08	\$181.30	2.96%	\$5.22
1,500	\$213.05	\$218.81	2.71%	\$5.76	\$201.28	\$207.04	2.86%	\$5.76
2,000	\$279.96	\$287.09	2.55%	\$7.13	\$264.27	\$271.39	2.70%	\$7.13

Bills include Gross Receipts Taxes