## Ruth Nettles

**From:** Ann Bassett [abassett@lawfla.com]
**Sent:** Friday, February 01, 2008 4:19 PM
**To:** Filings@psc.state.fl.us
**Subject:** Docket Nos. 070300-EI and 070304-EI
**Attachments:** 2008-02-01, 070300 and 070304, FPUC's Prehearing Statement.pdf; 2008-02-01, 070300 and 070304, FPUC's Final Prehearing Statement.doc

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The Docket Nos. are:

070300EI - Review of 2007 Electric Infrastructure Storm Hardening Plan filed pursuant to Rule 25-6.0342, F.A.C., submitted by Florida Public Utilities Company

070304-EI Petition of Florida Public Utilities Company for a Rate Increase

This is being filed on behalf of Florida Public Utilities Company

Total Number of Pages is

Florida Public Utilities Company's Prehearing Statement

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February 1, 2008

**<u>VIA ELECTRONIC FILING</u>**
Ms. Ann Cole, Director
Commission Clerk and Administrative Services
Room 110, Easley Building
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Docket Nos. 070300-EI and 070304-EI

Dear Ms. Cole:

Enclosed for filing on behalf of Florida Public Utilities Company is Florida Public Utilities Company's Prehearing Statement in the above referenced dockets. The document is in pdf and MS Word 97 format.

Thank you for your assistance with this filing.

Sincerely yours,

Norman H. Horton, Jr.

NHH/amb
Enclosure
cc: Ms. Cheryl M. Martin
Parties of Record



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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

| | |
|---|---|
| In re: Petition of Florida Public Utilities Company for approval of its 2007 Storm Hardening Plan | Docket No. 070300-EI |
| In re: Petition for rate increase by Florida Public Utilities Company | Docket No. 070304-EI<br>Filed: February 1, 2008 |

**PREHEARING STATEMENT OF FLORIDA PUBLIC UTILITIES COMPANY**

Florida Public Utilities Company (hereinafter "FPUC") pursuant to Order No. PSC-07-0811-PCO-EI issued October 8, 2007 in Docket No. 070300-EI, and Order Nos. PSC-07-0969-PCO-EI issued December 5, 2007 and PSC-07-0804-PCO-EI issued October 3, 2007 in Docket No. 070304-EI, submit the following Prehearing Statement in the above-captioned dockets.

## A. WITNESSES

| Witness | Subject Matter | Issues |
|---|---|---|
| **Docket No. 070300-EI** | | |
| P. Mark Cutshaw | Storm Hardening Plan for the years 2007 through 2009 | 1-15 |
| **Docket No. 070304-EI** | | |
| George M. Bachman | Pension and Insurance Costs | 44, 48-50, 59, 67, 99, 103-106, 115, 121, 128 |
| Cheryl Martin, Mehrdad Khojasteh*, and Jim Mesite, Jr. (Panel-Direct) | Revenue Requirements, NOI and Accounting Adjustments | 17, 29, 30, 31, 34-64; 70-73; 75-79; 84-97 99-106; 109-118; 121-128, 141-144 |
| Robert Camfield and Doreen Cox (Panel-Direct)` | Cost of Equity and Rate of Return Requirements | 30, 65-69, 71-83; 127, 128, 135, 140 |

| | | |
|---|---|---|
| P. Mark Cutshaw and Don Myers (Panel-Direct) | Storm Hardening; Cost of Service and Rates, Quality of Service | 16-30; 32, 33, 35, 36, 45, 46, 53, 60, 77, 80-85, 88, 980, 93, 101, 102, 108, 116-120, 128-139 |
| Mehrdad Khojasteh* (Rebuttal) | Revenue Requirements | |
| Cheryl Martin (Rebuttal) | Audit Findings, Storm Hardening, Compliance Accountant, Executive Salaries, Salary Survey, Unamortized Rate Case Expense, Rate Case Expense, and O & M 2007 | |
| Jim Mesite (Rebuttal) | Rate Base, Working Capital, Plant, and Balance Sheet | |
| Robert J. Camfield (Rebuttal) | Cost of Capital | |
| Doreen Cox (Rebuttal) | Cost of Equity | |
| P. Mark Cutshaw (Rebuttal) | Special Deposits, Temporary Services, Storm Reserve, Advertising, Economic Development, and Rental Expense | |

* The Direct and Rebuttal Testimony of Mr. Khojasteh and his exhibits will be adopted and sponsored by Ms. Martin.

## B. EXHIBITS

| Witness | Proffered By | I.D. No. | Description |
|---|---|---|---|
| **Docket 070304-EI Direct Testimony** | | | |
| C. Martin, M. Khojasteh, and J. Mesite, Jr. | FPUC | ______ CMM-1 | Schedule C-1 (2008) Adjusted Jurisdictional Net Operating Income |
| C. Martin, M. Khojasteh, and J. Mesite, Jr. | FPUC | ______ CMM-2 | Schedule B-1 (2008) Adjusted Rate Base |
| C. Martin, M. Khojasteh, and J. Mesite, Jr. | FPUC | ______ CMM-3 | Schedule G-1 Interim Revenue Requirements Increase Requested |
| R. Camfield and D. Cox | FPUC | ______ Appendix I | Present Value of Investment And Derivation of Constant Growth and Multi-Stage Discounted Cash Flow Model (DCF) |
| R. Camfield and D. Cox | FPUC | ______ Appendix II | Derivation of Capital Asset Pricing Model |
| R. Camfield and D. Cox | FPUC | ______ DC-RC-1 | Overall Rate of Return Requirements |
| R. Camfield and D. Cox | FPUC | ______ DC-RC-2 | Cost of Common Equity and Equity Rate of Return Recommendation |
| R. Camfield and D. Cox | FPUC | ______ DC-RC-3 | Long Term Debt Cost Rate, 2008 |
| R. Camfield and D. Cox | FPUC | ______ DC-RC-4 | Short Term Debt Cost Rate, 2008 |
| R. Camfield and D. Cox | FPUC | ______ DC-RC-5 | Preferred Stock Cost Rate, 2008 |

**Rebuttal Testimony**

| | | | |
|---|---|---|---|
| D. Cox | FPUC | ______ DCR-1 | Comparison of Recently Requested and Approved Return on Equity Rates |
| D. Cox | FPUC | ______ DCR-2 | Consolidated Electric Earnings Surveillance Report |
| D. Cox | FPUC | ______ DCR-3 | Consolidated Electric Rate of Return |
| D. Cox | FPUC | ______ DCR-4 | Consolidated Electric Rate Base |
| D. Cox | FPUC | ______ DCR-5 | Consolidated Electric Net Operating Income |
| P. M. Cutshaw | FPUC | ______ MCR-1 | Summary of Storm Hardening Activities |
| P. M. Cutshaw | FPUC | ______ MCR-2 | Pole Replace Cost Worksheet |
| P. M. Cutshaw | FPUC | ______ MCR-3 | 69kV Line – Stepdown to JLT |
| P. M. Cutshaw | FPUC | ______ MCR-4 | Invoice for Replacement of 3 Wood Poles in 1998 |
| P. M. Cutshaw | FPUC | ______ MCR-5 | Current Pricing on 82 foot poles that will be purchase in January 2008 |
| P. M. Cutshaw | FPUC | ______ MCR-6 | Recent Bids for Installation of Concrete Poles |
| P. M. Cutshaw | FPUC | ______ MCR-7 | Service Agreement for Network Integration Transmission Service with JEA |
| P. M. Cutshaw | FPUC | ______ MCR-8 | Substation Maintenance Plan |

| | | | |
|---|---|---|---|
| P. M. Cutshaw | FPUC | ______ MCR-9 | Substation Maintenance Costs |
| P. M. Cutshaw | FPUC | ______ MCR-10 | Summary of Training Program for Apprentice Lineman |
| P. M. Cutshaw | FPUC | ______ MCR-11 | Job advertisement and description for Engineer for Storm Hardening Position |
| P. M. Cutshaw | FPUC | ______ MCR-12 | Explanation of number of tree trimming crews and requirements |
| M. Khojasteh | FPUC | ______ MKR-1 | Reg. § 240 of the Exchange Act |
| M. Khojasteh | FPUC | ______ MKR-2 | Purchased Power or fuel cost cost increase effect on the write off of bad debts |
| M. Khojasteh | FPUC | ______ MKR-3 | Computation of a four-year average write-off rate for the period 2003-2006 |
| M. Khojasteh | FPUC | ______ MKR-4 | Bad Debt Rate Computation for the most current four year period ending 12/31/07 |
| M. Khojasteh | FPUC | ______ MKR-5 | Revised Schedule C-7 to separate payroll from non-payroll |
| M. Khojasteh | FPUC | ______ MKR-6 | CIS Project Analyst Job Opening Notice |
| C. Martin | FPUC | ______ CMMR-1 | Company Response to FPSC Audit Report dated Dec. 13, 2007 |
| C. Martin | FPUC | ______ CMMR-2 | Comparison of Audit and What Was in FPUC Books |

| | | | |
|---|---|---|---|
| C. Martin | FPUC | ______ CMMR-3 | Company Additional Response to FPSC Audit Report |
| C. Martin | FPUC | ______ CMMR-4 | Notice of Job Opening for Compliance Accountant |
| C. Martin | FPUC | ______ CMMR-5 | Confidential – Minutes of Board of Directors Compensation Committee Meeting |
| C. Martin | FPUC | ______ CMMR-6 | Confidential – FPU Salary Survey 2007 |
| C Martin | FPUC | CMMR-7 | Salary survey adjustment |
| J. Mesite | FPUC | ______ JMR-1 | Information on the Auto and and General Liability Claim Escrow Disbursement Bank Account |
| J. Mesite | FPUC | ______ JMR-2 | FPUC 2007 Accounts Receivable |
| J. Mesite | FPUC | ______ JMR-3 | Detail of Accounts 1650.2 and 1650.5 |

## C. BASIC POSITION

Despite ongoing efforts to control expenses and enhance revenues, FPUC has continued to experience declining rates of return since its last base rate proceeding. The decision to seek additional revenues was not an easy decision to make but was one that was required for FPUC to be able to continue to provide reasonable sufficient, adequate and efficient service to its customers and to maintain the financial integrity of the Company which makes the provision of quality service at reasonable rates possible.

Since the conclusion of the last proceeding, the Company has continued to experience increases associated with insurance, pensions, regulatory compliance, plant and material costs and other costs. The Company projects a need to increase the storm reserve to mitigate the impact of future storm damages, and it is also experiencing continuing increases with uncollectibles. Included in the request are salary adjustments intended to bring or keep Company compensation in line with similar industries. If the Company is unable to attract and maintain a skilled, capable work force the customers will experience a reduction in the overall quality of service. In a similar area, the Company has identified additional positions and training arrangements which will enhance efficiencies in the workforce and in services provided.

The Company has also included projected expenses associated with implementation of storm hardening plans and initiatives directed by the Commission. Although the Company has agreed to implement the initiatives, the additional construction, maintenance and documentation requirements are beyond the scope of what the Company has incurred in the past and requires additional revenues to support these efforts. These efforts are intended to increase overall system reliability and the ability of the system to withstand any future storm.

Using 2008 as the projected test year the Company has determined a need for a permanent increase of $5,249,895 in order to have an opportunity to earn a fair rate of return and provide sufficient service to customers.

Testimony and information which has been provided in this case demonstrates the basis for the increases and the appropriateness of the projections used. The request presented by FPUC provides the Company with the ability to provide sufficiently adequate and efficient service and an opportunity to earn a fair rate of return.

## D. ISSUES

## STORM HARDENING – RULE 25-6.0342

**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(2), F.A.C.? [Rule 25-6.0342(3)(a)]

**FPUC's Position**: Yes, the plan complies with NESC requirements. (Cutshaw, Myers)

**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]

**FPUC's Position**: Yes, the plan complies with NESC requirements. (Cutshaw, Myers)

**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]

**FPUC's Position**: Yes, the plan addresses extreme wind loading standards. (Cutshaw, Myers)

**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]

**FPUC's Position**: Yes, the plan includes projects for upgrading distribution facilities to critical infrastructure and major thoroughfares. (Cutshaw, Myers)

**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)]

**FPUC's Position**: Yes, the plan addresses mitigation of damage to underground and supporting overhead facilities due to flooding and storm surge. (Cutshaw, Myers)

**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)]

**FPUC's Position**: Yes, the plan addresses the placement or replacement of distribution facilities. (Cutshaw, Myers)

**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)]

**FPUC's Position**: Yes, the plan addresses the deployment strategy. There are some additional more detailed design specifications, construction standards and construction methodologies that will be completed when the approval of Dockets are completed. (Cutshaw, Myers)

**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)]

**FPUC's Position**: Yes, the plan addresses the areas affected by infrastructure improvements. (Cutshaw, Myers)

**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)]

**FPUC's Position**: Yes, additional details have been provided to third parties that were not included in the filed Storm Hardening Plan. (Cutshaw, Myers)

**Issue 10**: Does the Company's Plan provide a reasonable estimate of the costs and benefits to the utility of making the electric infrastructure improvements, including the effect on reducing storm restoration costs and customer outages? [Rule 25-6.0342(4)(d)]

**FPUC's Position**: Yes, the reasonable estimate of cost has been provided in the Storm Hardening Plan. Estimates of the benefits have not been provided and will be dependent upon final approval and plan implementation. (Cutshaw, Myers)

**Issue 11**: Does the Company's Plan provide an estimate of the costs and benefits, obtained pursuant to subsection (6) below, to third-party attachers affected by the electric infrastructure improvements, including the effect on reducing storm restoration costs and customer outages realized by the third-party attachers? [Rule 25-6.0342(4)(e)]

**FPUC's Position**: No, information has not been obtained from third party attachers. (Cutshaw, Myers)

**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)]

**FPUC's Position**: Yes, standards are incorporated with the joint use attachment agreements with third parties. Additional details regarding these will be developed at a later date. (Cutshaw, Myers)

**Issue 13**: Based on the resolution of the preceding issues, should the Commission find that the Company'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? [Rule 25-6.0342(1) and (2)]

**FPUC's Position**: Yes, the plan should be approved pending agreed upon changes and the impact of stipulation agreements with third party attachers. (Cutshaw, Myers)

## 10 POINT INITIATIVES

**Issue 14:** Should the Commission approve FPUC's request to implement a 3/6 tree trimming cycle instead of a 3/3 cycle? (S-New)

**FPUC's Position**: Yes, with the exception of any agreed upon changes to the plan or changes to our storm hardening plan, the Commission should approve the 3/6 tree trimming cycle proposed in our latest Storm Hardening Plan. (Cutshaw, Myers)

**Issue 15:** Has FPUC complied with the Commission's 10 point initiatives? (S-New)

**FPUC's Position**: Yes, the Company filed a Storm Hardening Plan in Docket No. 060198-EI which complies with the Commission's 10 point initiatives. This plan was approved by the Commission by Order No 06-0781. These initiatives are part of the plan filed July 3, 2007, pursuant to Rule 25-6-0342. The company requested recovery of incremental costs associated with the storm hardening mandates in a separate petition and in this docket and recovery of these costs will be addressed within this proceeding. Pending cost recovery, the implementation of some of the plans has not yet begun; but, they will be initiated after final approval in this proceeding as well as the Storm Hardening Plan. (Cutshaw, Myers)

## COSTS FOR STORM HARDENING AND 10 POINT INITIATIVES

**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? (O-7)

**FPUC's 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 and the associated annual cost should be approved for recovery. (Cutshaw, Myers)

**Issue 17:** Should amortization expense be increased by $354,600 annually to offset the projected $7,092,000 total cost of FPUC's proposed 20 year storm hardening project to replace its wood transmission poles with concrete poles? (S-66)

**FPUC's Position:** Yes, with the exception of any agreed upon changes to this program or changes to the storm hardening plan, the annual amortization of $ 354,600 should be approved for recovery as a contribution toward the capital storm hardening project of replacing wood transmission poles with concrete poles. This program will allow concurrent recovery of costs associated with these capital projects and provide immediate benefit the customers. (Cutshaw, Mesite)

**Issue 18:** Should Account 593, Maintenance of Overhead Lines, be increased by $352,260 for three additional tree trimming crews? (S-60 & S-62)

**FPUC's Position:** Yes, with the exception of any agreed upon adjustments or changes to our storm hardening plan, the maintenance of overhead lines should be increased by $352,260 for three additional tree trimming crews. One proposed change involves the company's modification of the original request based upon a revised vegetation management plan that changed the trim cycle from 3 years for all lines to 3 years for main lines and 6 years for laterals. Based upon this new plan, this account may be modified for an increase of $234,840 to allow for implementation of this plan. The Company has properly estimated and supported their projection for this annual cost and full annual recovery of this cost should be allowed. (Cutshaw)

**Issue 19**: Should Account 593, Maintenance of Overhead Lines, be increased by $219,833 for pole inspections? (S-63)

**FPUC's Position**: Yes, with the exception of any agreed upon adjustments or changes to our storm hardening plan, the maintenance of overhead lines should be increased by $219,833 for increased pole inspections to allow for full annual recovery of the requirements of our storm hardening plan. (Cutshaw)

**Issue 20**: Should Account 593, Maintenance of Overhead Lines, be increased by $27,000 for the development and implementation for Post Storm Data Collection and Forensic Review? (S-64)

**FPUC's Position**: Yes, with the exception of any agreed upon adjustments or changes to our storm hardening plan, the maintenance of overhead lines should be increased by $27,000 to allow for the Post Storm Data Collection and Forensics review which will allow for full annual recovery of the requirements of our storm hardening plan. Should approval be granted for this to be included in the storm reserve or amortized over a period of time, the adjustments can be made accordingly. (Cutshaw)

**Issue 21**: What is the appropriate amount of annual NERC expense for transmission access? (O-57)

**FPUC's Position**: The appropriate amount of annual NERC expense included for recovery in our rate proceeding is $17,109 based on 2008 costs. Since 2007, due to changes in wholesale power contracts and other national regulations, the Company has been required to comply with NERC requirements and is also responsible for annual assessments. The Company has appropriately supported this projection and it is valid for recovery in this rate proceeding. (Cutshaw)

**Issue 22**: Should the company's requested additional expense for transmission inspections be approved? (O-61)

**FPUC's Position**: Yes, the Company has properly supported the additional expense for transmission inspections and these are appropriate for recovery. The storm initiatives require the inspection of the transmission system on a six year basis. This work is in addition to work performed by the company and a contractor will be utilized to perform the inspections. This amount included is $18,450 per year which represents one sixth of the total inspection cost. This cost should be approved for recovery in this rate proceeding. (Cutshaw)

**Issue 23**: Should the company's request for an additional employee to handle joint-use audits be approved? (O-63)

**FPUC's Position**: Yes, the additional employee to handle joint-use audits should be approved as projected in the Company's rate proceeding. The Company included an additional position whose primary responsibilities will be to coordinate the pole inspection and joint use audit requirements. This position will also be used to coordinate the other storm hardening initiatives in order to ensure documentation and reporting is completed and submitted accurately. (Cutshaw)

**Issue 24**: Should the company's request for contractor expense to handle joint pole inspections be approved? (O-64)

**FPUC's Position**: Yes, the contractor expense to handle joint pole inspections should be approved as projected in the Company's rate proceeding. (Cutshaw)

**Issue 25**: Should the company's request for recovery of additional expense to inspect and test substation equipment costs be approved? (O-59)

**FPUC's Position**: Yes, the additional expense to inspect and test substation equipment costs should be approved as projected in the Company's rate proceeding. The Company has provided information regarding the increased level of substation maintenance required to increase the reliability of substation equipment and the associate reduction of repair cost that will result from the increased level of maintenance. The total result is an overall increase of $73,050 for the increase in transmission and distribution substation maintenance. (Cutshaw)

**Issue 26**: Should the company's request for recovery of an additional expense to provide personnel for the county emergency operating centers be approved? (O-67)

**FPUC's Position**: Yes, the additional expense associated with providing Company employees for county emergency operating centers should be approved as projected in the Company's rate proceeding MFRs for the 2008 projected test year with one modification. The amount of $19,991 should be decreased to a total of $9,991 to cover the necessary expense. These costs are necessary to provide adequate storm coverage at the emergency centers. If the Commission feels that these costs would be more appropriately charged to the storm reserve, an adjustment would be necessary. (Cutshaw)

**<u>Issue 27</u>**: Should the company's request for an additional expense for maintenance of the automated mapping/facilities mapping (AM/FM) systems software be approved? (O-68)

**<u>FPUC's Position</u>**: Yes, the additional expense for maintenance of the automated mapping systems software should be approved as projected in the Company's rate proceeding MFRs for the 2008 projected test year. This software and the ongoing maintenance will allow the Company information necessary as it relates to our system. (Cutshaw)

**<u>Issue 28</u>:** Should the company's request for increased travel and PURC costs be approved? (O-62)

**<u>FPUC's Position</u>**: Yes, the Company's increased travel and PURC costs should be approved. Although the amount projected in the Company's rate proceeding MFRs for the 2008 projected test year was overestimated, the amount of $2,870 should be included based on information provided. These costs are necessary to comply with the storm hardening initiatives. (Cutshaw)

**<u>Issue 29</u>:** What adjustments, if any, should be made to rate base associated with <u>the</u> storm hardening <u>Rule 25-6.0342 and 10 point initiatives</u> requirements? (S-26)

**<u>FPUC's Position</u>**: Unless the Commission determines that the Company's storm initiatives should change based on other information, or if there are any other agreed upon adjustments relating to rate base, no adjustments should be made. (Mesite, Cutshaw)

**Issue 30:** What adjustments, if any, should be made to operating expenses associated with the storm hardening Rule 25-6.0342 and 10 point initiatives requirements? (S-61)

**FPUC's Position:** Unless the Commission determines that the Company's storm initiatives should change based on other information, or if there are any other agreed upon adjustments relating to operating expenses, no adjustments should be made. (Cox, Martin, Cutshaw)

## TEST PERIOD

**Issue 31:** 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? (S-New)

**FPUC's Position:** Yes, 2008 is the appropriate projected year for use as the test year in this rate proceeding. The calendar year serves also as our fiscal year for accounting purposes. The new rates developed in this rate case will be effective on or after January 1, 2008. 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. 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. The most recent historical year is 2006 and this is appropriately used in our MFRs as the most recent historical year. (Martin)

**Issue 32**: Are FPUC's forecasts of Customers, KWH and KW by Rate Class for the projected 2008 test year appropriate? (S-1)

**FPUC's Position**: Yes, the forecasts of billing determinants of Customers, KWH and KW by rate class projected for 2008 are appropriate as filed in our MFRs.

Forecasts of sales by service classification were developed by building up from separate forecasts for sales per customer and number of customers. We first examined the historical relationship between sales per customer and cooling degree days (CDD), heating degree days (HDD), and a time trend. Sales per customer for 2007 and 2008 were forecast using 10-year average CDD and HDD, and the time trend. Forecasts of the number of customers in each service classification were developed using a time trend based on 4/2004 to 3/2007 data. Sales by service classification were forecast as the product of the sales per customer forecast and the number of customer forecast for each service classification. We also adjusted projected consumption for the decrease in usage due to the recent large fuel rate increases.

Forecasts of billing demands by service classification were based on the historical relationship of billing demand per customer with CDD, HDD, and a time trend, combined with the forecast of the number of customers by class. This method was only used for the GSD and GSLD classes.

Because the class contains only two customers and these are large industrial customers, the Fernandina Beach GSLD1 class was forecast using a direct forecast for KWH, billed demand, and kVar adjusted for the impact of the recent fuel increases on their demand.

Determinants for outdoor lighting and street lighting classes were forecast using the customer growth from their respective service territories. Recent growth in lighting revenues is not expected to be matched in the future, so the growth rate of the number of customers was used as a proxy for the expected growth of lighting determinants. The determinants for CSL, OL, SL1, and SL2 were frozen at 2006 levels because the rates are closed to new enrollment.

FPUC has included the appropriate repression adjustment in their billing determinant projections included in MFR schedule E15b and E15c. Due to the extremely high overall customer bills in part as a result of the recent fuel increases in 2007 and 2008, as well as this rate proceeding, customers are expected to conserve their use of electricity. We have provided the support within our testimony and filing regarding the expected impact to our usage, and feel it is appropriate to include this factor for our billing determinant projections. (Cutshaw)

## QUALITY OF SERVICE

**Issue 33**: Is the quality of electric service provided by FPUC adequate? (S-2)

**FPUC's Position**: Yes, FPUC continues to provide quality safe and reliable electric service to our customers. (Cutshaw)

## RATE BASE

**Issue 34:** Has the Company removed all non-utility activities from rate base? (S-3)

**FPUC's Position**: Yes, FPUC has adjusted for nonutility activities and removed these from rate base. MFR Schedule B2 provides a summary of these adjustments. (Mesite)

**Issue 35**: Should the company's request to receive a full 13-month average recovery for a transformer that is to be placed in service in the 2008 test year be approved? (O-2)

**FPUC's Position**: Yes, FPUC has demonstrated that this replacement transformer has been delayed beyond our control, but is expected to be in full service by the spring of 2008. Since the period of time this transformer will be placed in service will match the period of time of the final rates, and it is a necessary, long-lived, and materially large capital expenditure, it is appropriate to include the full 13 month average amount of this transformer in the test year for rate making purposes. (Cutshaw, Mesite)

**Issue 36**: Has the company provided sufficient support for its projected plant additions for the 2008 test year? (O-1)

**FPUC's Position**: Yes, FPUC has provided adequate support for all of their additions to the test year for 2008. (Mesite, Cutshaw)

**Issue 37**: Is FPUC's requested level of Plant in Service in the amount of $79,641,581 for the December 2008 projected test year appropriate? (S-4)

**FPUC's Position**: Yes, the requested level of projected test year 2008 Plant in service balances are appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues which are still under consideration. The effect of these adjustments has not been calculated. (Mesite)

**Issue 38**: Is the FPUC's requested level of Common Plant Allocated in the amount of $1,853,396 for the December 2008 projected test year appropriate? (S-5)

**FPUC's Position**: Yes, the requested level of projected test year 2008 Common Plant allocated is appropriate, with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues still under consideration. The effect of these adjustments has not been calculated. (Mesite)

**Issue 39**: Should an adjustment be made for Plant Retirements for the projected test year? (S-7)

**FPUC's Position**: No. The projected test year 2008 Plant retirements as filed in the Company's MFRs are appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues which are still under consideration. The effect of these adjustments has not been calculated. (Mesite)

**Issue 40**: What adjustments, if any, should be made to accumulated depreciation to reflect the Commission's decision in Docket No. 070382-EI? (S-8) (O-3)

**FPUC's Position**: Both the 2008, 13-month average accumulated depreciation and 2008 depreciation expense should be adjusted to reflect the impact of the depreciation study, Docket No. 070382-EI for the final rates and adjustments required and approved as a result of this study. (Mesite)

**Issue 41**: Is FPUC's requested level of accumulated depreciation for Plant in Service in the amount of $35,667,257 for the December 2008 projected test year appropriate? (S-9)

**FPUC's Position**: Yes. The projected test year 2008 Accumulated Depreciation is appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, depreciation study, Docket No. 070382-EI, and other issues, which are still under consideration. At this time we do not know the effects of all of these adjustments. (Mesite)

**Issue 42**: 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? (S-10)

**FPUC's Position**: Yes. The projected test year 2008 accumulated depreciation for common plant is appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues, which are still under consideration. At this time we do not know the effects of all of these adjustments. (Mesite)

**Issue 43**: Is FPUC's requested level of Construction Work in Progress in the amount of $75,000 for December 2008 projected test year appropriate? (S-11)

**FPUC's Position**: Yes, the construction work in progress for 2008 is appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues which are still under consideration. The effect of these adjustments has not been calculated. Our construction work in progress balance should be included in rate base. Our construction is short-term, in the normal course of business, and appropriate. Construction work in progress has been included in rate base in our past rate proceedings, and is still appropriate to be included in rate base. (Mesite)

**Issue 44**: What is the appropriate projection methodology and balance of cash to be included in the 2008 working capital requirement? (O-10)

**FPUC's Position**: The appropriate Cash to be included in working capital is $70,678. The treatment of cash should be the same as other typical balance sheet accounts when computing Working Capital: 13-month average. FPUC has continually demonstrated responsible cash management practices and maintains adequate and necessary balances.

If this 13 month average is not applied consistently to all working capital components, the balance sheet would not balance. Adhering to double entry accounting and a proper balance sheet, if an adjustment is made to reduce (credit) one account, it is necessary and proper accounting treatment to increase (debit) another account.

To use a reduced level of cash as the normal balance, would require an offsetting adjustment for the same amount to an account such as accounts payable; thus negating any effect to working capital. (Mesite, Bachman, Martin)

**Issue 45**: What is the appropriate balance of special deposits to be included in the 2008 working capital requirement? (O-9)

**FPUC's Position**: The special deposits that should be included in working capital for 2008 are $317,836. These funds represent a portion of cash that is on deposit with the two purchased fuel suppliers and should be included in working capital as cash for 2008. If the deposits should not be included in rate base, then it would not be appropriate to include interest associated with these deposits in the regulated account. (Mesite, Cutshaw)

**Issue 46**: Has the company taken all appropriate actions to reduce the amount of uncollectible accounts that currently exist? (O-54)

**FPUC's Position**: Yes. The Company takes appropriate actions to collect outstanding receivables, and write them off as appropriate and the accumulated provision for uncollectibles for the projected test year 2008 is appropriate. (Mesite, Cutshaw)

**Issue 47**: Has the Company estimated an appropriate balance in its accumulated provision for uncollectible accounts? (S-14)

**FPUC's Position**: Yes. The accumulated provision for uncollectibles for the projected test year 2008 is appropriate. The Company has properly accounted for the expected increase in bad debts due to both the significant fuel rate increases, as well as economic impacts to the required reserve. (Mesite)

**Issue 48**: Should an adjustment be made to pension liability expense in the calculation of working capital? (S-15)

**FPUC's 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. (Bachman, Martin)

**Issue 49**: What is the appropriate balance of regulatory assets retirement plan to be included in working capital? (O-14)

**FPUC's 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 our regulated natural gas and electric segments. (Bachman, Mesite, Martin)

**Issue 50**: What is the appropriate balance for prepaid insurance which should be included in working capital? (S-16)

**FPUC's Position**: The Company has properly included $195,194 as the 2008 13-month average for the prepaid insurance account. This account represents Liability, Property and Workmen's Compensation insurance; where workmen's compensation represents only 18% of the balance in the account. The use of a gross profit allocation factor is appropriate for the nature of the items within this account. We have applied the allocation factors on a consistent basis with the methods used for purposes of prior rate making in both electric and natural gas. (Bachman, Mesite)

**Issue 51**: What is the appropriate balance of accounts receivable to be included in working capital? (O-12)

**FPUC's Position**: Accounts receivable of $5,015,473 for the projected test year 2008 is appropriate. The Company has properly escalated these balances to reflect the impact of the recent significant fuel rate increases. (Mesite)

**Issue 52**: What is the appropriate balance of unbilled revenue to be included in working capital? (O-19)

**FPUC's Position**: The Company has used proper escalation factors to project the balance for unbilled revenue and the appropriate balance included in working capital for 2008 is $548,394. (Mesite)

**Issue 53**: What is the appropriate balance of temporary services to be included in working capital? (O-15)

**FPUC's Position**: The Company has included the appropriate amount of temporary facilities of $26,961 in working capital. (Mesite, Cutshaw)

**Issue 54**: Is the Company's working capital treatment of over and under recovery of fuel and conservation costs appropriate? (S-19)

**FPUC's Position**: Yes, the Company has appropriately included the balance of deferred debits, fuel under recovery in working capital. Although the appropriate adjustment was made to remove all of the effects from the income statement that related to the cost recovery clauses; there should be an adjustment made to working capital to either include or remove the effects of both over and under recoveries of fuel and conservation costs. These are handled through separate dockets and provide for interest in those separate proceedings. The over and under recoveries should be either included or removed since interest has been provided and accumulated on these balances and will either be returned to customers or paid to the company as appropriate.

The method of including only over recoveries in working capital double penalizes the company by requiring them to in effect pay double the interest to customers on the over recovery balances.

The purpose of the fuel and conservation cost recovery clauses is to allow for the direct pass through of costs, and to be revenue neutral to the company. Over and under recoveries are theoretically estimated to be $0 at the end of each projection period. Fluctuations from the projections result from differences for customer demand, market pricing, and weather fluctuations which are out of the control of the company and can result in either over or under recoveries, but they are part of the normal course of business.

It may be more appropriate to exclude both over and under recoveries from working capital, since the interest is provided to the customers on over recoveries within the fuel clause, and all other components are removed for base rate making purposes. (Mesite)

**Issue 55**: Should Accounts Payable be increased to correct a posting error? (S-20)

**FPUC's Position**: No, accounts payable is appropriate as projected with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues which are still under consideration. (Mesite)

**Issue 56**: What is the appropriate balance of deferred debit rate case expense to be included in working capital? (O-16)

**FPUC's Position**: It is appropriate to include the 13-month average 2008 unamortized rate case expense of $608,236 in working capital as it relates to reasonable and prudent expenses and it is a valid component of working capital. The offset to working capital for this item is accounts payable or cash. Excluding unamortized rate case expense from working capital would unfairly penalize the Company and does not follow appropriate working capital computations. It is also consistent with the treatment of Unamortized Rate Case expense in our rate proceeding in our Marianna division, Docket 930400-EI. The commission found that rate case expense was a necessary expense of doing business in the regulated arena; and as such, a utility should be allowed to earn a return on its unamortized balance. (Mesite, Martin)

**Issue 57**: What is the appropriate balance of deferred debits other to be included in working capital? (O-18)

**FPUC's Position**: The appropriate balance of the account deferred debits-other to be included in working capital is $50,954. (Mesite)

**Issue 58**: What is the appropriate balance of materials and supplies inventory? (S-21)

**FPUC's Position**: The appropriate balance of material and supplies inventory to be included in working capital is $940,015. (Mesite)

**Issue 59**: What is the appropriate balance of injuries and damage reserve included in working capital? (S-22)

**FPUC's Position**: The appropriate balance of injury and damage reserve to be included in working capital is $63,110. As with most insurance, the risk is spread out over the customer base. We share the risk of our injuries and damages with our other utilities and divisions within our Company. This method is also consistent with our past rate proceedings, and has been used to set rates in both our natural gas and electric segments. (Mesite, Bachman)

**Issue 60**: Is FPUC's request to increase its storm damage reserve and annual accrual appropriate? (S-23)

**FPUC's Position**: The Company has requested an increase to its storm damage accrual to an appropriate level. The reserve and annual accrual is appropriate as projected in our projected test year 2008. This increase should be approved for rate recovery. It is like insurance costs, and spreads the risk of storm damage costs to our two electric operating segments. This will reduce any future large impact to our customers that may result from a major storm or hurricane. (Martin, Cutshaw)

**Issue 61**: Has FPUC properly included Taxes Accrued - Gross Receipts Tax in working capital? (S-24)

**FPUC's Position**: The Company has properly included Taxes Accrued - Gross Receipts Tax of $109,896 in working capital. (Mesite)

**Issue 62**: 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? (S-25)

**FPUC's Position**: No, although the Company's projection of working capital is appropriate, the Company inadvertently did not make the required adjustment to bring working capital to $0, if negative, for the 2008 test year. An adjustment should be made to working capital and rate base to bring working capital to $0, once other remaining agreed upon adjustments to working capital have been completed. (Mesite)

**Issue 63:** What is the test year balance of working capital? (O-20)

**FPUC's Position:** The projected test year 2008 Working Capital level is ($1,310,654) and is appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues, which are still under consideration. The effect of these adjustments has not been calculated. If working capital remains negative after all agreed upon adjustments are made, an additional adjustment should be made to make the balance $0. (Mesite)

**Issue 64:** Is FPUC's requested rate base in the amount of $43,020,996 for the December 2008 projected test year appropriate? (S-27)

**FPUC's Position:** Yes, the projected test year 2008 requested rate base is appropriate as filed with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues which are still under consideration. The effect of these adjustments has not been calculated. (Mesite)

## COST OF CAPITAL

**Issue 65:** What is the appropriate return on common equity for the projected test year? (S-28)

**FPUC's Position:** The appropriate mid-point return for common equity is 11.50%. (Camfield, Cox)

**Issue 66**: Is the Company's proposed year end capital structure with the use of a 13-month average rate base appropriate? (O-21)

**FPUC's Position**: Yes, although the Company utilized an average capital structure and use of 13-month average rate base in their MFRs and in the request for rate recovery; a year end capital structure is more appropriate. The Company provided additional testimony and exhibits to support use of a yearend capital structure. The yearend capital structure and rate base is more appropriate as they are more reflective of the timeframe in which rates will be in effect. If the Commission agrees with the Company's suggested use of an alternative yearend capital structure, then an adjustment would be required to the requested base rate increase and the 13 month average rate base would have to be updated to be the yearend rate base. (Cox, Camfield)

**Issue 67**: What is the appropriate interest coverage ratio to be used in calculating the cost of long-term debt for the test year? (O-22)

**FPUC's Position:** The interest coverage ratio is not used in the calculation of the cost of long-term debt. Rather, interest coverage ratio is a measure of risk associated with debt and, consistent with Fair Rate of Return criteria, needs to be adequate to ensure financial viability and to also provide a basis for the Company to raise capital at reasonable terms when needed. (Camfield, Cox, Bachman)

**Issue 68:** What is the appropriate projected cost rate for long-term debt? (O-23)

**FPUC's Position**: The appropriate cost rate for long-term debt is 7.96%. (Cox, Camfield)

**Issue 73**: Does the Company's 2008 projected capital structure reflect deferred taxes resulting from common plant? (S-31)

**FPUC's Position**: No. The past practice in rate proceedings included allocating common plant deferred taxes only to the natural gas divisions. This is because the common plant items are located within the South Florida gas division of the Company.

To allocate common plant deferred taxes to electric would result in double allocation since they were already included in the prior natural gas proceeding. (Martin, Cox)

**Issue 74**: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ending December 31, 2008? (S-32)

**FPUC's Position**: The overall cost of capital for regulatory purposes is 8.07%, which would be increased by any performance award. This is subject to any agreed upon change to cost rates, rate base or capital components. In addition, if the Commission feels it is more appropriate to use the year end capital components, then the impact to the overall cost of capital should be changed as well. (Camfield, Cox)

## NET OPERATING INCOME

**Issue 75**: Should an adjustment be made to remove Franchise Fees from operating revenues and taxes other than income? (S-33)

**FPUC's Position**: Yes, the Company has properly excluded franchise fees from both revenues and expenses as this is a direct pass through expenditure. (Martin, Cox)

**Issue 76**: Should an adjustment be made to remove the gross receipts tax from operating revenues and taxes other than income? (S-34)

**FPUC's Position**: Yes the Company has properly excluded gross receipts tax from both revenues and expenses as this is a direct pass through expenditure. (Martin, Cox)

**Issue 77:** Has the Company properly estimated an appropriate amount of forfeited discounts in calculating the revenues for 2008? (S-35)

**FPUC's Position**: **FPUC's Position**: Yes. The Company has properly projected forfeited discounts (late fees) of $342,133 for 2008. The actual results for 2007 (unaudited $347,773) compared to 2006 ($354,696) show a downward trend in late fee revenues for the Electric Division. This may be attributable to customers conserving due to the higher fuel costs and FPU expects this trend to continue. (Cox, Cutshaw)

**Issue 78:** Has FPUC made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Adjustment Clause? (S-36)

**FPUC's Position**: Yes, the Company has appropriately excluded fuel revenue and expenses recoverable through the Fuel Adjustment clause. (Cox, Martin)

**Issue 79**: Has FPUC made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Conservation Cost Recovery Clause? (S-37)

**FPUC's Position**: Yes, the Company has appropriately excluded conservation revenue and expenses recoverable through the Conservation Cost recovery clause. (Cox, Martin)

**Issue 80**: What is the appropriate projected test year miscellaneous service revenue? (O-30)

**FPUC's Position**: The appropriate projected test year miscellaneous service revenues are $225,209. (Cox, Cutshaw)

**Issue 81**: What is the appropriate projected test year temporary service revenue? (O-31)

**FPUC's Position**: The appropriate projected test year temporary service revenue are $6,688.00 as projected with the exception of any agreed upon adjustments. (Cox, Cutshaw)

**Issue 82**: What is the appropriate amount for projected rent revenue from electric property? (O-33)

**FPUC's Position**: The appropriate projected test year rent revenue from electric property is $119,269 as projected with the exception of any agreed upon adjustments. (Cox, Cutshaw)

**Issue 83**: Is FPUC's projected level of Total Operating Revenues in the amount of $17,186,965 for the December 2008 projected test year appropriate? (S-38)

**FPUC's Position**: Yes. Revenue before a base rate increase of $17,186,965 projected for the December 2008 test year is appropriate with the exception of any agreed upon adjustments. (Cutshaw, Cox)

**Issue 84**: What are the appropriate escalation factors for use in forecasting the test year budget? (S-39)

**FPUC's Position**: The escalation factors are appropriate as used. The results after application of these factors produce anticipated and expected results for our 2008 operation and maintenance expenses, and accordingly the end results of the applied factors are reasonable. Annualizing the 2007 expenses or reviewing the results compared to the trended numbers, does not produce an accurate picture of the expected expenses as they relate to the 2008 projected amounts. The Company had some delays in 2007 relating to storm hardening initiatives, salary survey implementation, accelerated filer status delay and related audit fees as well as other budgetary delays that contributed to the result differences in 2007. These would not be appropriate as adjustments to 2008 projections. (Martin, Cutshaw)

**Issue 85:** Are the trend rates used by FPUC to calculate projected O&M expenses appropriate? (S-40)

**FPUC's Position**: Yes, the trend rates are appropriate as used. The results after application of these factors produced anticipated and expected results for our 2008 operation and maintenance expenses, and accordingly the end results of the applied factors are reasonable. Annualizing the 2007 expenses or reviewing the results compared to the trended numbers, does not produce an accurate picture of the expected expenses as they relate to the 2008 projected amounts. The Company had some delays in 2007 relating to storm hardening initiatives, salary survey implementation, accelerated filer status delay and related audit fees as well as other budgetary delays that contributed to result differences in 2007. These would not be appropriate as adjustments to 2008 projections. (Martin, Cutshaw)

**Issue 86**: Should the company's requested additional cost for the audit of inventory, cash and other processes be approved? (O-38)

**FPUC's Position**: Yes, the travel costs associated with increases to the internal audit functions of the Company and the new Compliance position should be approved. These costs are necessary and appropriate to insure the Company is in compliance with the SEC rules and section 404, as well as to enhance internal operating efficiencies and effectiveness. (Martin)

**Issue 87**: Should the company's request for an additional new position for internal control and the Sarbanes Oxley compliance costs be approved? (O-39)

**FPUC's Position**: Yes, the new position for Compliance is justified and needed and should be allowed full annual recovery of the position. Although there is a slight delay in the timing of hiring this position, it will coincide with the implementation of the final rates and is appropriate for full recovery. We fully anticipate this position will be filled at the latest by April 2008. (Martin)

**Issue 88**: Is the company's requested increase in lock box expense reasonable? (O-40)

**FPUC's Position**: Yes, the lock box expense is appropriate and reasonable as projected. (Martin, Cutshaw)

**Issue 89**: What is the appropriate amount of test year internal and external audit fees? (O-42)

**FPUC's Position**: The appropriate internal and external audit fees for the projected 2008 test year should be $161,355 for the electric segment. The total accounting fees including external and internal auditing fees as well as other accounting fees for account 9233 allocated to the electric segment is $240,243. These costs are appropriate for recovery, prudent, and necessary and should be allowed. (Martin)

**Issue 90**: Should the company's requested increase in janitorial, elevator, air conditioning and landscaping expense be approved (O-43)

**FPUC's Position**: Yes, the Company should be allowed full recovery of their expected costs associated with recurring maintenance expenses. Although specific maintenance projects may not recur annually, the Company does expect the maintenance levels to be what is projected as different maintenance projects will occur on an annual basis. (Cutshaw, Martin)

**Issue 91**: Should the company's requested increase in supervisory training expense be approved? (O-44)

**FPUC's Position**: Yes, the Company should be allowed full recovery of expected supervisory training costs. It is important to maintain ongoing training for our supervisors. Although levels have increased over historic levels, we need to enhance the training to include items such as ethics, harassment, hiring practices, and on-going other supervisory training. (Martin)

**Issue 92**: Should an adjustment be made to Other Professional Services for the December 2008 projected test year? (S-41)

**FPUC's Position**: No adjustments are necessary, the Company has included appropriate test year other professional services. These are recurring in nature, and are appropriate for recovery. (Martin)

**Issue 93**: Should an adjustment be made to advertising Expense for the December 2008 projected test year? (S-42)

**FPUC's Position**: No. The Company has included appropriate test year advertising expense. The Company has increased its level of advertising, in part, to inform and educate our customers on expected fuel increases. This level of advertisement will be continued to keep our customer informed of future fuel increases, storm hardening initiatives, tree replacement programs, and other information as deemed appropriate and necessary on an ongoing basis. (Martin, Cutshaw)

**Issue 94**: Should the company's requested increase in customer information expense be approved? (O-53)

**FPUC's Position**: Yes. The Company has included the appropriate level of customer information expense in their test year expenses. (Martin)

**Issue 95**: Has FPUC made the appropriate adjustments to remove Lobbying expenses, Other Political Expenses and Charitable expenses from the December 2008 projected test year? (S-43)

**FPUC's Position**: Yes. The Company has appropriately excluded lobbying, charitable and political expenses from their test year expenses. (Martin)

**Issue 96**: Should an adjustment be made to FPUC's requested level of Salaries and Employee Benefits for the December 2008 projected test year? (S-44)

**FPUC's Position**: No. The Company has properly included salaries and wages in their 2008 test year. The salary survey adjustments are appropriate for including in 2008 for recovery as well as expected salary increases for executives. All salaries are reasonable, supported, necessary and appropriate for recovery. (Martin)

**Issue 97**: Note: This is part of Issue 96

**Issue 98**: Should an adjustment be made to Account 920, Administrative and General Salaries, to reflect the appropriate allocation factor? (S-45)

**FPUC's Position**: No, Account 920 was properly allocated, and no adjustment is necessary. (Martin)

**Issue 99:** Is the Company's 2008 projection for medical expense appropriate? (S-46)

**FPUC's Position:** Yes, the Company has included the appropriate medical expense in their 2008 test year. Medical cost is a necessary benefit for the employees, and the Company has taken their best measures to manage the increasing costs.

Also the allocation methodology is appropriate. Allocations for these benefit expenses are based on the actual payroll dollars and the account numbers related to those same dollars. It is the most accurate method of matching the benefits with the payroll. It is actually more of a direct method to distribute the expenses. The allocation is done within the Company's payroll journal entry by a program. The Company takes the total benefit expense and divide it by the total payroll dollars. That rate is then used to allocate the benefit expense within our payroll journal entry and applied to the actual payroll dollars.

The findings and analysis included in the audit report is not accurate since it did not take into account the portion of these expenditures that are allocated within our payroll journal entry and it does not contain all of the pieces necessary including direct expenses to properly analyze the allocations.

These expenses are directly related to employees and compensation, and allocation on a payroll basis is most appropriate. FPUC is also consistent in our application of allocation methodology and this allocation method has been used in our prior rate proceedings for both electric and natural gas. (Bachman, Martin)

**Issue 100**: Should an adjustment be made to Other Post Employment Benefits Expense for the December 2008 projection for medical expense? (S-47)

**FPUC's Position**: No, the Company has properly included Other Post Employment Benefits expense in their 2008 test year. (Martin)

**Issue 101**: What is the appropriate amount of annual storm expense accrual? (O-56)

**FPUC's Position**: The Company has requested an increase to its storm damage accrual to approximately $ 17,000 per month, or for a total storm reserve of $3,338,800 over an eight year time period. This increase should be approved for rate recovery. It is like insurance costs, and spreads the risk of storm damage costs to our two electric operating segments. This will reduce any future large impact to our customers that may result from a major storm or hurricane. (Martin, Cutshaw)

**Issue 102**: Should an adjustment be made to the accrual for property damage for the December 2008 projected test year? (S-48)

**FPUC's Position**: No. The Company has requested an increase to its storm damage accrual to approximately $ 17,000 per month, or for a total storm reserve of $3,338,800 over an eight year time period. This increase should be approved for rate recovery. It is like insurance costs, and spreads the risk of storm damage costs to our two electric operating segments. This will reduce any futurc large impact to our customers that may result from a major storm or hurricane. (Martin, Cutshaw)

**Issue 103**: What is the appropriate amount for projected general liability expense? (O-45)

**FPUC's Position**: The Company has included the appropriate general liability expense of $354,586. This type of insurance allows the Company to spread the risk associated with potential general liability claims to our entire customer base. This is the most beneficial method to spread the cost and risk to our customers for these types of potential claims and is appropriate for recovery as projected. This method has also been used in our past electric and natural gas rate proceedings.

Also the allocation methodology is appropriate. Allocations for these benefit expenses are based on the actual payroll dollars and the account numbers related to those same dollars. It is the most accurate method of matching the benefits with the payroll. It is actually more of a direct method to distribute the expenses. The allocation is done within our payroll journal entry by a program. The Company takes the total benefit expense and divide it by the total payroll dollars. That rate is then used to allocate the benefit expense within our payroll journal entry and applied to the actual payroll dollars.

The findings and analysis included in the audit report is not accurate since it did not take into account the portion of these expenditures that are allocated within our payroll journal entry and it does not contain all of the pieces necessary including direct expenses to properly analyze the allocations.

These expenses are directly related to employees and compensation, and allocation on a payroll basis is most appropriate. FPUC is also consistent in our application of allocation methodology and this allocation method has been used in our prior rate proceedings for both electric and natural gas. (Martin, Bachman)

**<u>Issue 104</u>:** What is the appropriate amount of test year property insurance? (O-46)

**<u>FPUC's Position</u>**: The Company has included the appropriate property insurance expense of $263,498. (Martin, Bachman)

**<u>Issue 105</u>:** Is the Company's 2008 projection for Insurance Costs appropriate? (S-49)

**<u>FPUC's Position</u>**: Yes. The Company has appropriately projected all insurance costs in their respective accounts. (Martin, Bachman)

**<u>Issue 106</u>:** Should an adjustment be made to the accrual for the Injuries & Damages Reserve for the December 2008 projected test year? (S-50)

**<u>FPUC's Position</u>**: No adjustment is necessary and the Company has appropriately projected injuries and damages expense for $143,989. (Martin, Bachman)

**<u>Issue 107</u>**: Note: This is part of Issue 108

**<u>Issue 108</u>**: Is the amount projected for 2008 economic development expense reasonable? (S-52)

**<u>FPUC's Position</u>**: Yes. The Company has properly projected and included appropriate economic development expenses. Although these cannot be precisely estimated for each year, the Company will continue to place any unused economic development costs in its storm reserve. This allows the Company the ability to use these only as needed, yet protects the customers and allows them the benefit of either the use of economic development costs or protection from future storm damage. (Cutshaw)

**Issue 109**: Is the level of overhead cost allocation for the 2008 projected test year appropriate? (S-53)

**FPUC's Position**: Yes. The Company has appropriately included cost allocation factors for their 2008 projected test year with the exception of any agreed upon adjustments. The effect of these adjustments has not been calculated. (Martin)

**Issue 110**: Are the amounts in Account 903, Customer Records and Collection Expenses, appropriate? (S-54)

**FPUC's Position**: Yes. The Company has appropriately projected Account 903 for their 2008 projected test year with the exception of any agreed upon adjustments. The effect of these adjustments has not been calculated. (Martin)

**Issue 111**: Should Account 903, Customer Records and Collection Expenses, be reduced to remove costs related to propane, merchandising and jobbing, and conservation? (S-55)

**FPUC's Position**: No. The Company has appropriately projected Account 903 for their 2008 projected test year with the exception of any agreed upon adjustments. The effect of these adjustments has not been calculated. (Martin)

**Issue 112**: What is the appropriate total amount, amortization period and test year expense for Rate Case Expense for the December 2008 projected test year? (S-56)

**FPUC's Position**: The Company has appropriately included rate case expense of $ 182,000 in the projected 2008 test year. All costs charged to the rate case are either directly related to the rate case and necessary or required as a result of the rate case. The Company efficiently utilized some additional internal audit services above the annual recurring amount to allow company employees the ability to perform rate case related work. The total rate case expense including the unamortized balance of the prior rate case expenses is $728,000. The amortization period is four years which is the expected duration of time between rate proceedings. Our last electric rate proceeding was four years earlier, with a projected test year of 2004. See Docket 030438-EI. (Martin)

**Issue 113:** What is the appropriate period for the amortization of rate case expense? (S-57)

**FPUC's Position**: The amortization period is four years which is the expected duration of time between rate proceedings. Our last electric rate proceeding was four years earlier, with a projected test year of 2004. See Docket 030438-EI. (Martin)

**Issue 114:** Should an adjustment be made to uncollectible expense in Account 904, Uncollectible Accounts, for the December 2008 projected test year? (S-58)

**FPUC's Position**: No, the Company has appropriately projected uncollectible expense in account 904 for the 2008 test year with the exception of any agreed upon adjustments. With the recent increases in both fuel and base revenue and the economic slow-down, the expected rate of bad debts will be increasing over historical years. We have appropriately accounted for both the rate of bad debts and the increase in the revenues to project our uncollectible expense. (Martin)

**Issue 115:** Should an adjustment be made to Pension Expense for the December 2008 projected test year? (S-59)

**FPUC's Position:** No, the Company has appropriately projected pension expense for December 2008 projected test year. Pension expense is a necessary benefit and part of compensation to employees.

Also the allocation methodology is appropriate. Allocations for these benefit expenses are based on the actual payroll dollars and the account numbers related to those same dollars. It is the most accurate method of matching the benefits with the payroll. It is actually more of a direct method to distribute the expenses. The allocation is done within our payroll journal entry by a program. The Company takes the total benefit expense and divide it by the total payroll dollars. That rate is then used to allocate the benefit expense within our payroll journal entry and applied to the actual payroll dollars.

The findings and analysis included in the audit report is not accurate since it did not take into account the portion of these expenditures that are allocated within our payroll journal entry and it does not contain all of the pieces necessary including direct expenses to properly analyze the allocations.

These expenses are directly related to employees and compensation, and allocation on a payroll basis is most appropriate. FPUC is also consistent in our application of allocation methodology and this allocation method has been used in our prior rate proceedings for both electric and natural gas. (Martin, Bachman)

**Issue 116:** Should an adjustment be made to other distributions expense, account 5882 for the December 2008 projected test year?

**FPUC's Position:** Yes, originally the Company included an adjustment above the trended amounts of $54,254 for training of apprentices and charged this to account 4010.5882. The total projected for this account was $166,109. This has since been revised due to factors outside of our control, and the required training costs or adjustment required above the trended amount should be increased to $127,134. The total projected expense for account 5882 for 2008 should be $238,989. The Company has provided the appropriate support for this projection in response to OPC interrogatory number 45 as well as within the Company's rebuttal testimony. (Cutshaw)

**Issue 117:** What is the appropriate amount of test year maintenance of station equipment? (O-49)

**FPUC's Position:** The appropriate amount of test year maintenance of distribution and transmission substation equipment is $78,096 and $ 106,015, respectively, for the 2008 projected test year with the exception of any agreed upon adjustments. (Martin, Cutshaw)

**Issue 118:** What is the appropriate amount of test year maintenance of poles and towers? (O-50)

**FPUC's Position:** The appropriate amount of 2008 tcst ycar maintenancc of poles and towers is $267,489. (Martin, Cutshaw)

**Issue 119**: What is the appropriate amount of test year maintenance of overhead conductors? (O-51)

**FPUC's Position**: The appropriate amount of 2008 test year maintenance of overhead conductors is $1,452,986. (Martin, Cutshaw)

**Issue 120**: Should the company's request for recovery of tree replacement costs be approved? (O-58)

**FPUC's Position**: Yes, the costs associated with tree replacement should be approved. Although there will not be any noticeable short term benefits, this cost of $31,050 will begin to reduce both the tree trimming costs and outages associated with storms on a long term basis. (Cutshaw)

**Issue 121**: Should the company's request for recovery of an additional expense to promote growth within the community be approved? (O-60)

**FPUC's Position**: Yes. The Company has properly projected and included appropriate economic development expenses. Although these cannot be precisely estimated for each year, the Company will continue to place any unused economic development costs in its storm reserve. This allows the Company the ability to use these only as needed, yet protects the customers and allows them the benefit of either the use of economic development costs or protection from future storm damage. (Cutshaw)

**Issue 122**: Is FPUC's requested level of O&M Expense - Other in the amount of $10,081,391 for the December 2008 projected test year appropriate? (S-65)

**FPUC's Position**: Yes. The appropriate amount of O &M expense is $10,081,391, adjusted for any effects of agreed upon adjustments. The effect of these adjustments has not been calculated. (Martin, Bachman)

**<u>Issue 123</u>:** What adjustments, if any, should be made to the December 2008 projected test year depreciation expense to reflect the Commission's decisions regarding the depreciation study filed in Docket No. 070382-EI? (S-68)

**<u>FPUC's Position</u>:** Depreciation expense shown in the MFR for the December 2008 projected test year was $3,418,847. This amount will be adjusted based on the rates approved in the Company Depreciation study, Docket No. 070382-EI, and any additional agreed upon adjustments. The adjustment due to the approved depreciation study is an increase to depreciation expense of $286,368. (Mesite)

**<u>Issue 124</u>:** What is the appropriate amount of Depreciation Expense for the December 2008 projected test year? (S-67)

**<u>FPUC's Position</u>:** Depreciation expense shown in the MFR for the December 2008 projected test year was $3,418,847. This amount will be adjusted based on the rates approved in the Company Depreciation study, Docket No. 070382-EI, and any additional agreed upon adjustments. The adjustment due to the approved depreciation study is an increase to depreciation expense of $286,368. (Mesite)

**<u>Issue 125</u>:** Should an adjustment be made to Taxes Other Than Income Taxes for the December 2008 projected test year? (S-70)

**<u>FPUC's Position</u>:** Adjustments should be made to Taxes Other than income taxes for the effects of any agreed upon adjustments. The effect of these adjustments has not been calculated. (Martin)

**Issue 126:** Should an adjustment be made to Income Tax expense for the December 2008 projected test year? (S-71)

**FPUC's Position:** Adjustments should be made to Income Taxes Expense for the effects of any agreed upon adjustments. The effect of these adjustments has not been calculated. (Martin)

**Issue 127:** Is FPUC's projected Net Operating Income in the amount of $206,341 for the December 2008 projected test year appropriate? (S-72)

**FPUC's Position:** Adjustments should be made to Income Taxes Expense for the effects of any agreed upon adjustments. The effect of these adjustments has not been calculated. (Martin)

## REVENUE REQUIREMENTS

**Issue 128:** What is the appropriate net operating income multiplier for FPUC? (S-73)

**FPUC's Position:** The appropriate net operating income multiplier is 1.6077. (Martin, Cox)

**Issue 129:** Is FPUC's requested annual operating income increase of $5,249,895 for the December 2008 projected test year appropriate? (S-74)

**FPUC's Position:** The appropriate net operating increase is $5,249,895 for the projected test year 2008 with the effects of any agreed upon adjustments. The effect of these adjustments has not been calculated. (Martin, Cox, Mesite, Cutshaw, Bachman)

## COST OF SERVICE AND RATE DESIGN

**Issue 130:** Are FPUC's estimated revenues from sales of electricity by rate class at present rates for the projected test year appropriate? (S-75)

**FPUC's Position:** Yes. The estimated revenues from the Sales of Electricity at the present rates are correct as filed for the test year 2008. (Cutshaw)

**Issue 131:** What is the appropriate cost of service methodology to be used in designing FPUC's rates? (S-76)

**FPUC's Position:** The methodology of using a fully allocated embedded cost of service study is appropriate and was performed in order to determine the appropriate rates for each rate class. The FPSC requirement concerning the maximum increase to any rate class of 1.5 times the system average increase was also considered in the development of the rates by rate class. (Cutshaw)

**Issue 132:** If a revenue increase is granted, how should the increase be allocated to rate classes? (S-77)

**FPUC's Position:** The revenue increase granted should be allocated to the rate classes using the factors determined in the cost of service study, adjusted for the effects of any agreed upon adjustments. (Cutshaw)

**Issue 133:** What are the appropriate customer charges? (S-78)

**FPUC's Position:** The appropriate customer charges should be approved using the factors determined in the cost of service study, adjusted for the effects of any agreed upon adjustments. (Cutshaw)

**Issue 134:** What are the appropriate demand charges? (S-79)

**FPUC's Position:** The appropriate demand charges should be approved using the factors determined in the cost of service study, adjusted for the effects of any agreed upon adjustments. (Cutshaw)

**Issue 135**: What are the appropriate energy charges? (S-80)

**FPUC's Position**: The appropriate energy charges should be approved using the factors determined in the cost of service study, adjusted for the effects of any agreed upon adjustments. (Cutshaw)

**Issue 136**: What are the appropriate service charges? (S-81)

**FPUC's Position**: The appropriate service charges should be approved using the factors determined and shown on schedule E7 in the MFR, adjusted for the effects of any agreed upon adjustments. (Cutshaw, Cox)

**Issue 137**: What are the appropriate transformer ownership discounts? (S-82)

**FPUC's Position**: The appropriate transformer ownership discounts should be approved as proposed. (Cutshaw)

**Issue 138**: What are the appropriate Street and Outdoor Lighting rates? (S-83)

**FPUC's Position**: The appropriate street and outdoor lighting rates should be approved using the factors determined and shown in the cost of service study, adjusted for the effects of any agreed upon adjustments. (Cutshaw)

**Issue 139**: Should FPUC's Transitional Rate of non-profit sports fields be eliminated? (S-84)

**FPUC's Position**: No, the impact to these non-profit sports fields, which are governmental in nature, would be excessive and should not be eliminated at this time. (Cutshaw)

**Issue 140**: What are the appropriate standby rates? (S-85)

**FPUC's Position**: The appropriate standby rates should be approved as proposed. (Cutshaw)

**Issue 141**: What is the appropriate adjustment to account for the increase in unbilled revenues due to the recommended rate increase? (S-86)

**FPUC's Position**: Unbilled revenues should be approved as projected adjusted for the effects of any agreed upon adjustments. (Cox)

**Issue 142**: What is the appropriate effective date for FPUC's new rates and charges? (S-87)

**FPUC's 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. (Martin)

## OTHER ISSUES

**Issue 143**: Should any of the $790,784 interim rate increase granted by Order No. PSC-07-0897-PCO-EI be refunded to the ratepayers? (S-88)

**FPUC's Position**: No, the interim rate increase granted was appropriate and does not need to be refunded to ratepayers. (Martin)

**Issue 144**: 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? (S-89)

**FPUC's Position**: The Company is in agreement to file the information required as a result of this rate proceeding in the agreed upon time frame. (Martin)

**Issue 145**: Should this docket be closed? (S-90)

**FPUC's Position**: Yes. (Martin)

## E. STIPULATED ISSUES

Stipulation dated January 29, 2008 in Docket 070300-EI between BellSouth Telecommunications, Inc. d/b/a AT&T Florida, Embarq Florida, Inc., the Florida Cable Telecommunications Association and Florida Public Utilities Company

Stipulation dated January 31, 2008 in Docket 070300-EI between Florida Cable Telecommunications Association and Florida Public Utilities Company

## F. PENDING MOTIONS

Florida Public Utilities Company's Motion for Temporary Protective Order and Protective Order filed November 8, 2007

Florida Public Utilities Company's Revised Request for Protective Order and Temporary Protective Order filed November 15, 2007

Florida Public Utilities Company's Request for Confidential Treatment of Audit Workpapers filed January 7, 2008

Florida Public Utilities Company's Request for Protective Order and Temporary Protective Order filed January 8, 2008

Florida Public Utilities Company's Request for Confidential Treatment filed January 22, 2008

## G. OTHER MATTERS

There are no other matters.

RESPECTFULLY SUBMITTED this 1st day of February, 2008.

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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that true and correct copies of the foregoing have been served by Electronic Mail and/or U. S. Mail this 1st day of February, 2008 upon the following:

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