BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

REVIEW OF 2007 ELECTRIC INFRASTRUCTURE STORM HARDENING PLAN FILED PURSUANT TO RULE 25-6.0342, F.A.C., SUBMITTED BY FLORIDA PUBLIC UTILITIES COMPANY. — DOCKET NO. 070300-EI

PETITION FOR RATE INCREASE BY FLORIDA PUBLIC UTILITIES COMPANY. — DOCKET NO. 070304-EI

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VOLUME 4
Pages 568 through 724

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PROCEEDINGS:	HEARING
BEFORE:	CHAIRMAN MATTHEW M. CARTER, II COMMISSIONER LISA POLAK EDGAR COMMISSIONER KATRINA J. McMURRIAN COMMISSIONER NANCY ARGENZIANO COMMISSIONER NATHAN A. SKOP
DATE:	Thursday, February 28, 2008
TIME:	Commenced at 9:33 a.m. Concluded at 11:35 a.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	LINDA BOLES, CRR, RPR Official FPSC Reporter (850) 413-6734
APPEARANCES:	(As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

P R O C E E D I N G S

(Transcript follows in sequence from Volume 3.)

CHAIRMAN CARTER: Good morning. We are back on the record with our hearing. The last time we had a break we had just completed with Ms. Merchant and we just introduced exhibits.

Ms. Christensen, you're recognized.

MS. CHRISTENSEN: Commissioners, I believe the Office of Public Counsel has concluded their last witness and it is time for Mr. Horton's rebuttal witnesses.

CHAIRMAN CARTER: Okay. Who's on first?

MR. HORTON: I'd like to call Ms. Cheryl Martin first for rebuttal.

CHAIRMAN CARTER: Cheryl Martin in rebuttal. Give us a chance to switch out on our books here. One second.

MR. HORTON: And, Commissioner, she will also be adopting the rebuttal testimony of Mr. Khojasteh, so both pieces of testimony.

CHAIRMAN CARTER: I'm sorry. I didn't hear you.

MR. HORTON: She will be adopting the testimony of Mr. Khojasteh as well.

CHAIRMAN CARTER: Mr. Khojasteh?

MR. HORTON: Yes, sir.

CHAIRMAN CARTER: That's how you say that. Oh, thank you. Okay. Are we -- everybody ready?

Mr. Horton, you're recognized.

CHERYL MARTIN

was called as a witness on behalf of Florida Public Utilities Company and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. HORTON:

Q Ms. Martin, you were sworn yesterday, were you not?
A Yes, I was.
Q Okay. Would you please state your name and address?
A Cheryl Martin, 401 South Dixie Highway, West Palm Beach, Florida 33401.
Q And, Ms. Martin, did you cause to be prepared and prefiled in this docket rebuttal testimony?
A Yes, I did.
Q And are you also adopting the rebuttal testimony that was filed by Mr. Mehrdad Khojasteh?
A Yes, I am.
Q And do you have any changes or corrections to make to either piece of that, pieces of testimony at this time?
A No, I do not.

MR. HORTON: Mr. Chairman, I'd request that the prefiled testimony of, rebuttal testimony of Mr. Khojasteh and Ms. Martin be inserted in the record as though read.

CHAIRMAN CARTER: The prefiled rebuttal testimony will be accepted into the record as though read.

BY MR. HORTON:

Q And, Ms. Martin, did you prepare or attach exhibits to your testimony and that of the testimony that you are adopting?

A Yes, I did.

MR. HORTON: And those have been premarked, Mr. Chairman, as Exhibits 73 through 86, I believe.

BY MR. HORTON:

Q Do you have any corrections or additions to make to those exhibits at this time?

A No, I do not.

REBUTTAL TESTIMONY
OF
CHERYL MARTIN

IN

FLORIDA PUBLIC UTITITIES COMPANY
DOCKET NO. 070304-EI

IN RE: PETITION OF
FLORIDA PUBLIC UTILITIES COMPANY
FOR AN ELECTRIC RATE INCREASE

Q. Please state your name, affiliation, business address and summarize your academic background and professional experience.

A. My name is Cheryl Martin. I am the Controller for Florida Public Utilities Company (FPU), which has business offices at 401 South Dixie, West Palm Beach, Florida 33401. I have been employed by FPU since 1985 and performed numerous accounting functions until I was promoted to Corporate Accounting Manager in 1995 with responsibilities for managing the Corporate Accounting Department including regulatory accounting (Fuel, PGA, conservation, rate cases, surveillance reports, reporting), tax accounting, external reports, and special projects. In January 2002 I was promoted to my current position of Controller where my responsibilities are the same as above with additional responsibilities in the purchasing and general accounting areas and Security and Exchange Commission (SEC) filings. I have been an expert witness for numerous proceedings before the Florida Public Service Commission (FPSC) including rate relief in Docket Numbers 881056-EI, 930400-EI and 030438-EI for electric and 900151-GU, 940620-GU and 040216-GU for natural gas. I graduated from Florida State University in 1984 with a BS degree in Accounting. Also, I am a Certified Public Accountant in the state of Florida.

Q. What is the purpose of your testimony in this proceeding?

A. This testimony is to provide additional testimony in support of our rate proceeding, in part, in response to the testimony provided by the Office of Public Counsel witnesses, Patricia Merchant and Hugh Larkin, as well as testimony provided by the Florida Public Service Commission witness, Kathy Welch.

Audit Findings

Q. The Office of Public Counsel and the Florida Public Service Commission are proposing adjustments to your filing with respect to the recent audit report filed by the FPSC, Kathy Welch. Do you agree with her testimony, findings and recommendations?

A. No. We have previously provided responses to most of the findings by the FPSC, and accordingly, the proposed adjustments recommended by the PSC Staff related to this audit report are not all appropriate. We offer a copy of our responses and exhibits as additional testimony in support of our filing. Please see Exhibits CMMR1 and CMMR3.

Q. Audit Finding 16 suggests that the allocations for payroll related expenses was not appropriate, do you agree with this finding?

A. No. The Audit finding is not correct. In addition to our support provided in Exhibit CMMR1 the Company is also providing a summary of the actual expense allocation for 2006 compared to the findings of the PSC auditor. See Exhibit CMMR2. This shows a comparison of what the PSC auditor found, and what was actually done on our books. This exhibit as well as the information provided in Exhibit CMMR1 provides support that the proposed adjustment is not accurate or appropriate. I believe the auditor did not have all of the information necessary to properly analyze the allocation of the expense and this testimony provides additional information. The payroll journal entry is complex, and some of the allocations are done within the journal entry itself. The payroll program is designed and written to do the allocations within the program, and the program uses actual payroll by account number to allocate certain benefits including those covered by this audit finding. Expenses related to payroll benefits including pension and medical, should and do directly follow how the payroll dollars are actually charged. We take the actual benefit expense amount and divide it by total payroll to get the overhead rate factor. We use that factor to apply these costs directly to capital and nonregulated operations. The remaining expense is appropriately expensed to regulated operations. This method applies these expenditures to the appropriate utility and account number based on actual payroll and matches the benefit related expense to payroll on a real-time basis. This approach is the best method and is most appropriate as a basis for allocating payroll related benefits. Since these costs follow actual payroll it is a better method to allocate costs than a simple allocation done at a higher level. No adjustment is necessary for this audit finding since the audit finding is incorrect and incomplete and the actual benefits were allocated appropriately. In addition, we have used this method to allocate payroll related benefits for at least twenty years including our most recent rate proceedings. Accordingly, this method has been previously reviewed by these same parties numerous times and has been approved by the Commission as a valid basis for allocation and recovery in base rates.

Q. Is the adjustment proposed in Audit Finding number 1 appropriate regarding missing voucher support?

No it is not appropriate. We had a delay in retrieving some of the voucher related support from our file storage and other locations until after the audit was finalized. We have since supplied all of the voucher support and documentation that is necessary to review these expenditures in response to the initial audit report. No adjustment is necessary as a result of the vouchers. All of these amounts are proper and valid for inclusion in our rate base. Please see CMMR-3 and CMMR-1 for copies of this support.

Q. Do you have any issues or rebuttal testimony in response to the testimony and proposed adjustments suggested by the OPC, Patricia Merchant in her testimony?

A. Yes. I will provide some additional testimony in response to her testimony. Other witnesses of Florida Public Utilities Company will also provide testimony as it relates to their areas of expertise. In addition, please see our original testimony and MFR filing as well as the exhibits provided in response to the PSC audit report. These items also support our positions and filing for a base rate increase.

<u>Storm Hardening</u>

Q. Do you agree with the findings on the storm hardening mandates and the related issues discussed by Patricia Merchant in her testimony?

A. No, our division manager Mark Cutshaw will discuss the various issues addressed by Patricia Merchant and her proposed adjustments in greater detail. It appears that the OPC has taken some positions and made proposed adjustments that are arbitrary in nature and unduly penalizes the Company without factual basis or support for their proposed adjustments. The Company has repeatedly offered support for our projections and used expert estimates and has bids to support those estimates used in projections. A few changes have occurred in the estimates of some storm related costs, but the Company has supplied the revised estimates as supplemental exhibits and rebuttal testimony. See Mark Cutshaw's rebuttal testimony for more information on our storm hardening costs.

If the Commission determines that revisions are required to our storm hardening initiatives, then the related costs will also need to be revised. The Company is in agreement that the final approved storm hardening initiatives and the associated annual costs of those mandates, would be the appropriate amount to be included in our base rate proceeding for cost recovery. In addition, we have requested additional storm reserve expenses to provide for an adequate storm reserve as well as a special storm hardening amortization to allow for future storm related improvements, and to delay the need for additional rate recovery on those capital expenditures. See Mark Cutshaw's and Jim Mesite's rebuttal testimony as well as our original testimony filed with the MFRs and our Storm Hardening Initiatives for more information on these expenditures.

Q. Does the Company feel the Storm Hardening Initiatives and the related expenditures should be allowed for recovery in base rates?

A. Yes, the total annual cost of the Storm Hardening initiatives should be included for recovery in the Company's test year and be allowed for determining base rates. This will allow a proper matching of revenues and expenses associated with storm hardening initiatives and their costs. The expenses will occur during the same time frame that the final base rates will be effective. The Company has provided support for all storm hardening requirements and their costs.

Compliance Accountant

Q. Is the Company planning to hire the new Compliance Accountant to perform Internal Audit functions for the Corporate office, and is it proper for recovery in the Company's base rate proceeding?

A. Yes, the Company is planning to hire this position and it is proper for recovery in this rate proceeding. The Company has previously provided data that supports the amount included in the rate proceeding for this position, as well as, information detailing why this position is necessary. The Company has determined that based on the requirements of Sarbanes Oxley Act of 2002, and Section 404 Management Assessment of Internal Controls, we will continue to be faced with increasing internal control requirements. We have also determined that it will be prudent and necessary to hire an internal auditor to assist with the documentation requirements of 404, the internal controls testing, and overall internal controls necessary for the Company. Along with the internal audit requirements, the overall workload continues to increase within the accounting department on a whole, and an increase in staff is required at this time to meet the work load of the department on a whole.

This position will be responsible to coordinate all of our internal control activities including risk assessment, control documentation, testing, and coordination of efforts of our external internal control subcontractor. We have incurred costs associated with internal control efforts; however, the overall work load of the accounting department continues to increase, in addition to the efforts required for internal control functions. Taking both of these factors into consideration, the increase above and beyond our 2006 historic year will require this additional position and expenditure beginning in 2008.

At this time we have begun the hiring process for this position. It is posted both internally and on Monster.com. We have included those advertisements as an Exhibit CMMR-4. We were slightly delayed in the process to hire this position, but we have begun that process and expect to either have a full time candidate hired in this position by April 2008 at the very latest or temporary personnel to cover the duties until such time a permanent candidate can be hired. We feel it is appropriate to recover the annual amount of the salary plus benefits since the base rate final rate recovery will begin after the time that this position is hired, and the revenues will match the expenses.

<u>Executive Salaries</u>

Q. Are the projections for executive salaries appropriate as projected by the Company?

A. Yes. The Company has included a projected salary increase for the three executive officers of 11%. This is the actual average increase they have received in the last three historical years. I have attached the related minutes as well as the study that supports the fact that the executives' compensations are below market rates. I believe the OPC and PSC reviewed those minutes at our location. See Exhibit CMMR5. This is a confidential exhibit. The Board has been making increases over time to adjust executive compensation to be more in line with what are appropriate salaries. However, even after 2007, their salaries remain under market. The executives received an 11% increase for 2007. The Compensation committee has not determined the final increases for the executives for 2008, but has awarded 3.5% at this time. Additional increases may occur in the summer of 2008. Our projections are still appropriate as filed in the MFRs for executive compensation and are both reasonable and prudent.

<u>Salary Survey</u>

Q. What are the results of the salary survey for other employees and the impact to 2008?

A. The Company has completed and finalized a salary survey for all nonunion employees and has previously supplied the results for that survey as Late Filed Exhibit 14. We utilized data from various sources including salary data from three widely known salary survey consulting firms (Mercer, CompData, and SalarySurvey.com). In addition, we requested salary data from utility business "Peer Groups". We have previously provided and also included the summary of that survey as part of this rebuttal testimony. See Exhibit CMMR6. This is a confidential Exhibit. The total Company impact to 2008 is now expected to be an additional $55,634.84 plus the immediate increases given in 2007 of $8,500.00 for a total of $64,134.84. These amounts are shown as totals for columns on this survey. It also shows which positions will receive those increases. I have also provided additional documentation related to that same survey that shows the total impact to the electric division. See Exhibit CMMR7. That amount is expected to be $27,927.52 in 2008.

In addition to these amounts for nonunion employees, the Company may increase other salaries as part of union negotiations in 2008, and our projection as filed for 2008 and the salary survey is still materially appropriate. We originally included $32,089.00 for 2008. Although this data does not show any additional increases, we have already increased this amount for one position by an additional $3,600. Electric would receive 40% of this amount. After this amount, the current electric impact for 2008 is $29,367.52. In addition to these amounts, employees within their ranges are eligible for 5.5% in 2008. The salary survey increase is prudent, necessary and appropriate for recovery in this rate proceeding.

Q. Does the implementation of the salary survey depend upon the results of the rate case?

A. No, we have finalized the salary survey and set the salary ranges as shown in the latest exhibit, and expect to incur the impacts to 2008 as shown on that Exhibit CMMR6. We are not waiting on the rate case results. Contrary to the comments by the OPC regarding our over and above adjustments, the over and above adjustments that depend upon the rate case outcome are those that relate directly to our storm hardening mandates, the storm reserve, low growing trees, rate case amortization and the new amortization relating to the storm. Since these expenses have to be approved in concept by the Commission, it is most appropriate to await the decision and outcome. These annual expenses will match with the final base rate annual revenue, and are appropriate for full recovery. This salary survey expense will not depend upon the results of the rate proceeding.

Unamortized Rate Case Expense

Q. In response to the testimony provided by Hugh Larkin on behalf of the Office of Public Counsel, is it appropriate to include the 13 month average unamortized rate case in working capital for 2008?

A. Yes it is appropriate. The Company has incurred only those costs that are reasonable, prudent and necessary in preparation of our rate proceeding. All costs are appropriate for recovery. It would not be appropriate to include only one half of those unamortized expenditures in working capital because it would unfairly penalize the Company. With all entries to the Company's books, there is a corresponding offset. With respect to unamortized rate case expense, generally the offset entry is to either accounts payable or cash, and the true net impact as a result of these costs to the Company's balance sheet and working capital is 0. To arbitrarily reduce the unamortized rate case expense by one half would not allow for a balanced balance sheet and unfairly penalizes the Company. The Commission has allowed full recovery of unamortized rate case expense in working capital in at least one of our prior rate proceedings, see Docket 930400-EI.

Storm Reserve

Q. Is the Company's Storm accrual proposal appropriate for recovery?

A. Yes, the Company has requested an increase that is very conservative in nature, and is on the low side of what is needed for future. We have determined based on our judgment, that it is a conservative increase but necessary based on the location and potential damage our locations may incur as the result of a major storm. It is not possible to obtain reasonable insurance for hurricane damage for this coverage, and utility companies like ours have been forced to be self insured or to collect for storm damages after the storm occurs. Similar to individual insurance on homes, collecting this storm reserve up front is actually like insurance costs for our customers. They are sharing the risk with our two electric locations, and reducing the future impact to one of these locations. Although we have not yet been significantly impacted by a large major storm, we do have the potential and it would be most beneficial to the customers to have this storm reserve up front.

<u>**Rate Case Expense**</u>

Q. Is the Company's rate case costs associated with the Consulting firm Christensen Associates as projected appropriate?

A. Yes, the Company has appropriately projected rate case expenses. Although Christensen Associates did prepare the rate proceeding for a fixed fee, we expect to have costs above the contractual obligations for items related to this rate proceeding. We anticipated that we may need their assistance with work on the rate proceeding once our initial filing was made relating to interrogatory and document requests as well as hearing preparation. We have already used this consulting firm for assistance on some of the post filing work. We do not have any issues with updating our projection as we get closer to the hearing, and expect to do so as with past proceedings. If we determine at that time these costs can be reduced, and we will not need the services as initially expected, we will adjust our remaining projections as necessary.

Q. Are the costs relating to extra work performed by internal auditors included in rate case expense appropriate for recovery?

A. Yes, these are most appropriately included as rate case expense. Although this internal audit consulting firm was not directly involved in this rate proceeding, they allowed us the ability to perform additional direct rate case related work by our accounting staff. We initially hired our internal audit consultants to perform some of our internal audit testing for 2007. We were going to complete some of the internal audit related work for 2007 in-house. Once we determined the scope and amount of work that would be necessary to perform this rate proceeding, we asked our internal audit consultants to send us a new quote containing a comparison of the initial costs with the revised cost if they performed all testing that was required for 2007. We determined that the most cost beneficial use of resources would be to perform additional work in-house on this rate proceeding by our accounting staff, and have our internal auditor consultants perform the additional work related to internal audit.

Our staff at the time had more expertise relating to rate case work versus internal audit work, and would be most cost effective performing rate case related work. If we used additional consulting staff or temporary employees for the direct rate case related work instead of in-house personnel, the cost would have been higher than $30,000. This would not have been the best use of resources, and would not have been the most beneficial to our customers. It was simply the best use of resources, and in that respect, the additional internal audit cost is directly related to this rate proceeding. The final rate case costs may need to be adjusted and reprojected before our hearing, and adjusted as appropriate; however, the extra internal audit work did directly benefit our customers, this rate proceeding and did allow for a total cost savings overall. The additional internal audit costs required to absorb the work load of the accounting staff did directly benefit the rate proceeding and is appropriate for recovery in rate case expense.

Q. Is it appropriate to pay overtime to salaried individuals for extraordinary work levels?

A. Yes, it is appropriate to allow additional pay for extraordinary work efforts by salaried individuals. The Commission also has previously allowed pay to salaried individuals for extra effort above normal job requirements in prior rate proceedings and storm cost recovery proceedings. To retain staff levels internally to allow for preparation of periodic rate proceedings as suggested by the OPC would not be the most cost effective use of resources by our Company. Yes, a rate case is normal work for a utility company, but it is not normal annual recurring work. The Company does not retain excess employees to allow them to perform the work necessary as a result of a rate proceeding. Our employees have more than full-time jobs outside of the years that we are filing rate proceedings.

We utilize resources internally and externally to perform these periodic rate proceedings at the most cost beneficial level. It is necessary to use some of our internal personnel to assist in both the preparation of rate proceedings, as well as the work involved with responding to audit assistance, document requests, interrogatories and hearing preparation. The accounting staff, as well as internal division directors and engineers, had to perform a great deal of work related to this rate proceeding. The work load since the second quarter of 2007 has been extremely high for some of our accounting personnel and division directors as a direct result of this rate proceeding and the work levels are expected to continue through February or March 2008. We have five personnel that have consistently been working hours that are excessive since early 2007. These are all salaried individuals that have been working often and for long periods of time in excess of 50 and 60 hour work weeks. The salaried pay ranges for theses salaried individuals do not properly compensate for these high levels of required work loads and accordingly the additional pay to be awarded for this extraordinary effort on our rate proceeding is most appropriate and should be allowed for recovery. This extra pay will not compensate them for each hour worked over 45 or 50 per week if computed on an hourly straight time basis, but it does allow for some type of compensation for their extraordinary efforts.

O& M 2007

Q. Why are the actual 2007 operation and maintenance expenses as of September 2007 year to date for the electric operations below those included in the rate proceeding projections?

A. The primary reason for this 2007 difference is the costs associated with storm hardening initiatives, salary survey implementation and accelerated filer status and related audit fees delay. However, these items are valid and expected for 2008 (our projected test year).

Q. Does this conclude your written prepared testimony?

A. Yes

REBUTTAL TESTIMONY
OF
MEHRDAD KHOJASTEH

IN

FLORIDA PUBLIC UTITITIES COMPANY
DOCKET NO. 070304-EI

IN RE: PETITION OF
FLORIDA PUBLIC UTILITIES COMPANY
FOR AN ELECTRIC RATE INCREASE

Q. Please state your name, affiliation, business address and summarize your academic background and professional experience.

A. Witness Khojasteh: My name is Mehrdad Khojasteh. I am the Assistant Controller for FPU, a position I have held since August, 2006. In this position, I am the direct supervisor of the Senior Tax Accountant, Senior Regulatory Accountant, and Senior Project Accountant. I also assist the Controller with supervising the Corporate Accounting Department. Prior to this position, I was a Regulatory Accountant from November 1996 to March 1997, Tax Accountant from April 1997 to May 2003, and Corporate Accounting Supervisor from June 2004 to July 2006. I received a BS degree from Florida Atlantic University with a major in Accounting. I have been a witness for two proceedings before the Florida Public Service Commission (FPSC). These proceedings were for rate relief in Docket Numbers 030438-EI for electric and 040216-GU for natural gas.

Q. What is the purpose of your testimony in this proceeding?

A. Witness Khojasteh: This testimony is to provide additional testimony in support of our rate proceeding, in part, in response to the testimony provided by the Office of Public Counsel witnesses, Patricia Merchant and Hugh Larkin.

Q. Should Account 903, Customer Records and Collection Expenses, be increased to reflect an increase in postage expense?

A. Witness Khojasteh: Yes. We have included $20,100 for potential postage increases with $6,030 allocated to our electric division. This amount is based on analysis of historical expenses which indicate increases in our mailings and postage costs. In arriving at this amount, we did not consider an increase in the number of the mailings which would have resulted in an even larger amount. The Company views this increase to be reasonable and predictable based on the numerous postage rate increases in the past few years.

Q. Can Supervisory Training account be annualized to estimate 2008 expenses?

A. Witness Khojasteh: No. Annualizing the 2007 expenses does not produce an accurate picture of the expected expenses as they relate to the 2008 projected amounts. The Company plans to continue to conduct the supervisory training and intends to spend the $21,100 included in 2008 expenses for this purpose. The Company feels it is appropriate to increase the level of supervisory training to include items such as, ethics, harassment, hiring practices, and other supervisory issues.

Q. Is the $20,000 included for the travel related to the addition of a Compliance Accountant appropriate?

A. Witness Khojasteh: Yes. Witness Martin has addressed the need for the addition of a compliance accountant in her rebuttal testimony. The Company audits the inventory and cash of each division on an annual basis. However, we have the need to perform additional audits based on related Section 404 controls in Sarbanes Oxley, and other audits including operational depending on the risk assessment and the need to improve efficiencies or to test controls. We do not specifically track this cost, but the estimated cost for each of the five years would be between $1000.00 and $2000.00 per year per audit depending on location.

Using our historical cost per trip estimate, we estimated that we would need an additional four to six trips per year. Although our locations are all within the state of Florida, all trips to divisions require overnight stays at hotels and either car or air travel, depending on location and time constraints. Meals are also provided for these trips. The total cost of hotel, transportation, meals, and other travel related costs make up this estimate. For example: A trip for two people to our Marianna division conducting a material and supplies inventory would involve four nights stay at a hotel for approximately $800.00, meals for five days for approximately $400, transportation $400 to $1000, and other miscellaneous travel related costs of $100.

Q. Is the Company's requested increase for audit fees for the year 2008 appropriate?

A. Witness Khojasteh: Yes. In response to Mr. Larkin's testimony, ["The auditors email also stated that the internal control and financial report audit for 2008 was needed regardless of whether the Company became accelerated or not. So it appears that the audit fee estimated by the auditor has some options. That is, whether the Company becomes an accelerated filer or not."], the intent of the communication between the Company and BDO was to ensure that if the Company was going to incur additional fees due to becoming an accelerated filer that fee increase would be included in our projections. BDO's response to the Company was that the fees provided by the audit firm of $417,500 would not increase or decrease regardless of the Company's filing status (accelerated or not). The correspondence in no way indicates the Company has options; it more accurately indicates a lack of options.

In response to Mr. Larkin's testimony, ["It is also clear that the Company has some options regarding becoming an accelerated filer, if one is to accept what the email states. Additionally, if the internal control and financial reporting audit is conducted by the outside auditor, BDO Seidman, one must question whether the substantial fees paid to Crowe Chizek in 2006 of approximately $144,000 would be an ongoing expense to the Company."], the requirements for accelerated filing status are set forth by Reg. § 240 of the Exchange Act. The Company has no options in this regard, nor does the correspondence between the Company and BDO indicate any options. Please refer to Exhibit MKR-1 for Reg. § 240 of the Exchange Act relating to this issue. We had also provided replies to this issue in our response to the OPC's interrogatory #68.

The fees paid to the Company's external auditors, BDO Seidman, relate to review and audit work required for filing Forms 10-Q and 10-K with the Securities and Exchange Commission. The fees paid to the Company's internal auditors, Crowe Chizek, relate to internal control requirements pursuant to the Sarbanes-Oxley Act of 2002 and Section 404, Management Assessment of Internal Controls. As the requirements under the Sarbanes-Oxley Act are ongoing, it is reasonable to anticipate the costs for compliance will continue to be incurred.

The 2008 projection of $417,500 is provided directly by the Company's external auditors, BDO Seidman and is a correct projection for 2008. It is irrelevant if the portion labeled historical is understated or not, as either way the 2008 projection would remain unchanged. To arrive at total 923.3 projected expenses for 2008, the Company would correctly include $417,500 for the external audit costs plus the projected 2008 amount for the internal audit costs. The Company stands behind its position to include $90,675 in the 2008 projections.

Q. Is the projected 2008 uncollectible accounts expense of $216,664 appropriate?

A. Witness Khojasteh: Yes.

Q. Do you agree with Mr. Larkin's calculation of the 2008 uncollectible accounts expense of $71,179?

A. Witness Khojasteh: No. The Company believes that its projected 2008 uncollectible account expense is appropriate. However, even if the Commission decides that a four year average is more appropriate, we disagree with OPC's revisions. The computation of the 2008 expense by OPC does not take into consideration the effect on bad debts relating to large increases in Purchased Power costs in the years 2007-2008. These power cost increases will cause typical bills to increase 43% to 83% for the period 2006 to 2008. These increases coupled with the regulatory lag in not being able to increase customer deposits until at least twelve months after the higher bills have been rendered (FPSC rule 25-6.097(3) and (FPUC Electric Tariff Section 4(c)) will cause the write-off of bad debts to increase on an average of 180% over historical amounts. We have included Exhibit MKR-2 to show the Purchased Power or fuel cost increase effect on the write-off of bad debts.

We have also included Exhibit MKR-3 that reflects the computation of a four-year average write-off rate for the period 2003-2006. The FPSC has historically computed average write-offs and corresponding bad debts expense on a four-year average (See Issue 114, Order No. PSC-04-0369-AS-EI, issued 4/06/04). This four-year average write-off rate of .00136 would compute average net write-offs to be $53,653 for the calendar year 2006.

Q. Since you have re-calculated the write-offs for 2006 to be $53,653, are there any events that have taken place since 2006 that would affect the future write-offs?

A. Witness Khojasteh: Yes, effective January 1, 2007 and January 1, 2008 we will be experiencing large increases in our purchased power costs that we pass on to customers through the Fuel Adjustment Clause. This has had and will continue to have a dramatic effect on customer's bills. Due to this increase in customer's bills, we expect the write-offs of uncollectible accounts and related expense to increase 180% in the year 2008 over 2006. This is reflected in our Exhibit MKR-2.

This increase will be in effect until we are able to bill and collect the necessary customer deposit increases.

We also expect the downturn in the economy along with base rate increases to cause some otherwise good paying customers with no current deposit to become "risky". This is expected to further add to the write-offs and corresponding uncollectible accounts expense we are recommending.

Q. What is the amount of uncollectible expense you are recommending for 2008?

A. Witness Khojasteh: We are increasing the 2006 revised uncollectible expense of $53,653 by 180% to $150,228 for the projected test year 2008.

Q. Does the calendar year 2007, which is now complete, reflect an increase in net write-offs over 2006?

A. Witness Khojasteh: Yes, the write-offs in 2007 were $83,185 compared to $58,025 in year 2006. This was due in part to the increase in customer's bills due to the purchased power cost increase in our Fernandina Beach operations that was effective January1, 2007.

Q. What effect do the GSLD1 customers have on the uncollectible reserve and expense figures in your testimony and exhibits?

A. Witness Khojasteh: The two GSLD1 customers (large paper mills) billing revenues, are not included in the computation of average four-year write-off rates or the projection of uncollectible accounts expense in this testimony and exhibits. There is also no base rate increase projected for this class of customer in this rate case. There has never been a collection problem for these two mills.

Q. Mr. Larkin has adjusted the Bad Debt Rate of the Revenue Expansion Factor to 0.1152%. Have you also revised your computation of this factor?

A. Witness Khojasteh: Yes, In keeping with the FPSC four-year average write-off requirement, we have computed the Bad Debt Rate to be .00147 or 0.1470% for the most current four-year period ended December 31, 2007. This computation is reflected in our Exhibit MKR-4 attached.

Q. Can you summarize your position on Uncollectible Accounts expense for the record?

A. Witness Khojasteh: Yes, we have adjusted the 2006 historic test year expense to a four-year average write-off rate. We have projected the 2008 test year expense to include the increase in write-offs due to increases in purchased power costs and we have adjusted the bad debt portion of the revenue expansion factor to the average write-off rate for the four-year period ended December 31, 2007.

Q. How did you determine what projection factors to use for operation and maintenance expenses?

A. Witness Khojasteh: We choose the factors similar to those in previous rate cases. The application of these factors produced the expected and reasonable projected amounts. After the application of the factors, the projected expenditures were reviewed by the division managers and accounting department to verify that they are in line with their expectations.

Q. Is the Company's use of combined trend rates appropriate?

A. Witness Khojasteh: Yes. It is the Company's position that customer growth will have a direct effect on the need for additional employees. It is true that the use of new technologies and computers may help in the efficiencies with which employees perform their jobs. Many times, new technologies and computers actually help us serve our customers better and do not decrease the work load. However, this does not negate the fact that customer growth will necessitate the addition of new employees.

The use of combined factors such as customer growth and inflation are appropriate. As new employees are added over time as a result of customer growth, inflation has to be taken into account in order to account for additional payroll expense due to issues such as pay raises associated with cost of living and general economic conditions effecting payroll.

Also, the positions that are added over and above the trended factors are needed as the result of factors outside of the normal growth. These are factors such as additional requirements required by SOX 404 and the need for additional controls. Therefore, these additions do not result in double counting since they are outside of the normal growth factors. Please refer to Exhibit MKR-5 for the schedule C-7 revised to separate the amounts between payroll and non-payroll.

Q. Is the Company's requested increase for the conversion of the Safety Coordinator from contract to salaried position appropriate?

A. Witness Khojasteh: Yes. At the time of our rate case filing, the Company employed a retired FPU employee as the electric safety consultant on as an independent contractor. He continued his independent employment at the same hourly rate he was paid by FPU, subject to minor inflationary increases. He received no benefits from FPU and notified FPU of his intent to end his consulting work for the Company. The additional $10,000 is to cover the incremental cost of benefits and overheads for converting this position to a full time FPU staff position based on the expected salary level that will be required to find a qualified candidate.

Q. Is the Company's requested increase for the addition of a new CIS Project Analyst position for the Customer Relation department appropriate?

A. Witness Khojasteh: Yes. Previously, we had many of the duties of the new position decentralized to each local office and we struggled as a company to successfully complete these duties in a timely manner. Our intention is to ensure we are compliant within our local offices on 404, so we have decided to centralize some of the duties/tasks so we can operate more smoothly and efficiently. This will also allow the personnel in the local offices to concentrate on their own duties and serve our customers better.

The Company responded to interrogatory 62 incorrectly by referring to the new Compliance Accountant position needed in the Corporate Accounting department as opposed to the CIS Project Analyst position in the Customer Relation department. We discovered this mistake after reviewing the testimony of Patricia Merchant. Please refer to Exhibit MKR-6 for the job description for this position.

This is needed position that is required for our company. This expense is proper and should be allowed for recovery.

Q. Is the Company's requested increase for the addition of a new Programmer position for the IT department appropriate?

A. Witness Khojasteh: Yes. The company has not mislabeled the need for the addition of the fourth programmer for its IT department as stated in Patricia Merchants testimony.

While the Company has annualized the 2006 amounts to reflect vacancies in this area, we have also correctly explained part of the reason for the addition of the fourth position in the IT department as being related to the required SOX 404 controls.

The IT department originally had three programmers in 2005. It added a fourth position in 2006 n order to assist the department and prepare and stay in compliance with SOX 404 controls. Also, during the year, we had one of the original programmers leave and that is why we have had to annualize the 2006 amounts as well as having to explain the need for the additional programmer as a SOX 404 requirement.

Q. Is the Company's use of deferral accounting and creation of regulatory assets or liabilities appropriate?

A. Witness Khojasteh: Yes. The Company has filed a petition with the Florida Public Service commission for authorization to use deferral accounting and to create a regulatory asset or liability to record charges or credits in its natural gas and electric divisions that would have otherwise been recorded in equity pursuant to the balance sheet treatment required by SFAS 158. The Commission has authorized various utilities to use this method.

Q. Does this conclude your written prepared testimony?

A. Witness Khojasteh: Yes.

BY MR. HORTON:

Q Do you have a summary of your rebuttal testimony?

A Yes, I do.

Q Please go ahead.

A I provided additional exhibits and testimony in response to the testimony provided by the Office of Public Counsel. We provided additional testimony and exhibits as they relate to several payroll issues. We have several needed corporate related positions that are being added to our work force in 2008. These positions will all be filled by early 2008 and all are necessary for the operation of our company and they're all appropriate for full recovery.

The first year the final base rates will be effective will include a full year of these payroll expenses. We have also implemented new salary ranges from a salary survey that was adopted and approved December 2007. I provided an exhibit that shows the impact to 2008 to the electric operations, and it does show a decrease from our original projection of that salary survey of about $4,100.

The rate case expenses were managed in an efficient and effective manner using a creative solution to manage our resources. Outsourcing additional internal control functions allowed our internal personnel the ability to work on rate case items. We may have been creative in our use of resources, but it resulted in cost savings to the customers. Using our internal auditors to perform additional internal audit work allowed the company personnel more time to spend on the rate case. The internal auditors provided a secondary quote for performing those extra duties. Despite having the use of outside consultants to assist us with our rate proceeding, we also had to utilize several internal personnel to adequately prepare and support our rate proceeding. The workload was tremendous relating to our rate case on top of our normal job duties.

We had several salaried individuals that are currently and have been working extensive overtime since May 2007. It was important to provide additional pay to compensate them for their significant work and effort because their normal salaries do not compensate them for this level of work. The amount of money that we did provide them for this extra effort did not begin to compensate them for every hour that they worked over a normal work week; however, it does provide some additional compensation for their valuable effort and is very, very appropriate for recovery.

Finally, we utilized our rate case consultants for additional work beyond the scope of their contract and beyond what was required of them in the last rate proceeding. The workload after we filed our rate case required us to use the consultants to perform work that previously was not required in relation to responses to interrogatories and document requests as well as, as hearing preparation. The consulting firm already had experience on our rate case, and for us this was a cost-effective method to obtain additional resources that were required after we filed our rate proceeding. These costs along with the others that I've disclosed were appropriately charged to the rate case and are appropriate for recovery.

A final expense was the uncollectible expenses, and those will be increasing primarily as a result of our very large fuel increases that were effective in our electric divisions, one beginning January 1st, '07, and the other beginning January 1st, '08. We have clearly shown the impact will be quite significant and we did factor this into our expense for uncollectibles. But also as an alternative we offered information using a four-year average write-off as a percentage. We provided this data in my rebuttal testimony as an exhibit, and the four-year average rate for the period ending 12/31/07 was .1470. At a minimum, this rate should be applied to our revenues for determining the uncollectible expense. Thank you.

MR. HORTON: Ms. Martin is available for cross.

CHAIRMAN CARTER: Ms. Christensen, you're recognized.

MS. CHRISTENSEN: Thank you.

CROSS EXAMINATION

BY MS. CHRISTENSEN:

Q Good morning.

A Good morning.

Q Ms. Martin, you spoke a little bit about, this morning about the additional work that was required because you're in the rate case.

A Uh-huh.

Q Would you not agree that discovery is a normal part of a rate case process?

A I would say that some discovery, yes, is normal. But I can tell you I've been working here for over 20 something years, and the amount of discovery and work that's been involved in this rate case far exceeded anything that I've ever worked on.

Q And wouldn't you agree that the Commission has -- or not the Commission. I'm sorry. FPUC has requested numerous over and above adjustments that were the subject of these discovery requests?

A I'm not sure I understand your question.

Q Has FPUC made numerous over and above adjustments as seen in your over and above schedule attached to the MFRs?

A We have made over and above adjustments that were necessary to properly project our 2008 expenses. But --

Q And then it would be necessary to ask discovery on the over and above adjustments that you've requested; wouldn't you agree?

A I -- well, I suppose that would be necessary. But we feel we did provide data within our MFR filing. But I suppose.

Q Okay. Now let me ask you, in regard to the outside consultant, you're speaking specifically of Mr. Camfield's participation in this case?

A No. We also utilized other members of their firm to assist us with this work.

Q Okay. And what types of work did they assist you with as far as preparing the rate case?

A With preparing the rate case or the work that, that occurred afterwards?

Q No. Actually for preparing the rate case, as part of --

A They prepared some of the schedules. It was a joint effort. We had to -- of course, being company personnel, we have more intimate knowledge with respect to what's going on, so we had to provide them with data and it was more of a joint effort and they would compile a lot of that data. They did a lot of analysis to do some projections with units and so forth and cost of service study and that type of information.

Q Okay. So beyond the cost of service issues, did they participate in other issues that were related to the rate case?

A Yes. They worked on the cost of capital, they worked on the accounting schedules, all of that type of --

Q Okay. And Mr. Camfield's company has a fixed rate contract with you?

A They have a fixed contract for a portion of the work that they did provide for us. Yes.

Q Now is that fixed contract on an annual basis or on a per job basis?

A No, it is not. It was for certain specific work involved with the rate case that included the filing portion. It did not provide -- as -- even in my initial projection of those cost estimates I did anticipate we may need them for additional work beyond that initial filing, and the support shows that I put additional amounts of money for that work that was outside of the scope of their contract.

Q Now have you provided documentation and a breakdown of the work that they provided over and above and why that was outside the scope of the original contract?

A I provided a summary of the amount that was required outside of that, but nobody specifically asked me for a breakdown of the work. That was afterwards.

Q Let me ask you to turn your attention to executive salaries. Do the executives receive an increase in their salary in 2007?

A Yes, they did.

Q Okay. And do the executives receive bonuses?

A Not bonuses per se. A part of their compensation is, is based on incentive but it's, it's not really a bonus. It's just a portion of their normal salary has a -- certain goals have to be met to obtain that salary.

Q Okay. I have no further questions.

One minute.

(Pause.)

Okay. Just two quick questions. Has your company paid the additional overtime for the salaried employees?

A No, they have not. It's going to be paid the first week of March.

Q Okay. And did your, did your four-year average of the uncollectibles include recoveries collected or was it based only on the amount of the write-offs?

A Are you -- the uncollectibles in our initial analysis did not have an adjustment for those recoveries, but the analysis that I provided in my rebuttal testimony does show those write-offs net of recoveries.

MS. CHRISTENSEN: Okay. No further questions.

CHAIRMAN CARTER: Commissioner Argenziano.

COMMISSIONER ARGENZIANO: Thank you, Mr. Chair.

Did you just answer that the salaried employees, I gather the average worker at the company, has overtime that has been, not been paid?

THE WITNESS: It's not overtime per se. It's additional compensation for the work that was required on this rate case, and it will be paid the first week of March 2008.

COMMISSIONER ARGENZIANO: Okay. And the -- well, how long has that been outstanding?

THE WITNESS: It's not an outstanding payment. It's an amount that will be due after the conclusion of the hearing for this rate proceeding.

COMMISSIONER ARGENZIANO: So it's not considered overtime, it's just considered pay for work that was done.

THE WITNESS: Additional compensation, yes.

COMMISSIONER ARGENZIANO: Okay. And the executive salary that was given in 2007, what percentage bump was that?

THE WITNESS: I believe it was 11 percent.

COMMISSIONER ARGENZIANO: 11. And when was the previous executive salary bump before 2007?

THE WITNESS: I believe that the average historical increase overall was 11 percent in the previous year.

COMMISSIONER ARGENZIANO: So every year pretty much then.

THE WITNESS: Just in the last three years.

COMMISSIONER ARGENZIANO: Okay. Thank you.

CHAIRMAN CARTER: Commissioner Edgar, you're recognized.

COMMISSIONER EDGAR: Thank you. And just to follow up on that so I'm clear, when we say executive salaries, which positions are included in that?

THE WITNESS: That would be our CEO, our COO and CFO, three executives.

COMMISSIONER EDGAR: But not down to the like District Director or District Engineer or that type of position?

THE WITNESS: No. It was just those three positions.

COMMISSIONER EDGAR: Thank you.

CHAIRMAN CARTER: Commissioner Argenziano.

COMMISSIONER ARGENZIANO: Thank you. Yesterday in the confidential information that was given out, and I'm not going to name numbers, but I noticed there were comparisons for those three positions and trying to compare executive salaries. And it seemed to me that FPUC was comparing Delta Airlines with FPUC's executives. That's quite a difference. How did you come up with using that as a comparison rather than a company that is maybe similar in size?

THE WITNESS: That actually was not Delta Airlines. That was Delta, I think it's Natural Gas, but I'm not positive. It is -- all of those were utility companies.

COMMISSIONER ARGENZIANO: Okay. That wasn't clear, so that was something I'm glad I asked because I didn't know. Is it a comparable size company?

THE WITNESS: I believe so, but I'm not, I'm not positive. But I believe so.

COMMISSIONER ARGENZIANO: Okay. Maybe, maybe I can find that out somehow just to -- it's nice to know that the comparables are comparable. Thank you.

CHAIRMAN CARTER: Commissioner, what we can probably do, as staff is going through the analysis, maybe that's some research that can be conducted and so that those kind of questions -- because, as you know, both myself and Commissioner Skop had some questions similar down that line and were trying to compare. I asked, I think I asked a question, "Am I comparing apples with grapefruit?" So it's hard to tell. So, staff, as you're doing your analysis, maybe some of those kind of questions are the kinds of things that we could probably entertain and have answers to.

Any, Commissioners, any other questions? From the parties, any further cross-examination?

MS. BROWN: Mr. Chairman?

CHAIRMAN CARTER: Wait. Who -- where am I?

MS. BROWN: Over here. Staff has one question, follow-up question of this witness.

CHAIRMAN CARTER: Okay. Let me do this. Okay. None of the -- okay. All right then. Staff, you're recognized.

MS. BROWN: Thank you.

CROSS EXAMINATION

BY MS. BROWN:

Q Ms. Martin, you spoke earlier about the incentives for executive salaries and that they include goals that have to be met.

A Yes.

Q Could you describe in more detail what those goals are?

A I don't have specific information, but I believe that they contain items such as customer growth and profitability, but I'm not positive. I could get you that information.

Q We would like that information. Could we have this be a late-filed exhibit? I think it would be --

CHAIRMAN CARTER: That will be Exhibit 93.

MS. BROWN: 93.

CHAIRMAN CARTER: That would be Exhibit 93.

MS. BROWN: And I guess we would title this Executive Salary Incentive Goals.

CHAIRMAN CARTER: Executive Salary Incentive Goals.

(Late-Filed Exhibit 93 identified for the record.)

THE WITNESS: Okay.

MS. BROWN: Thank you. We have no other questions.

CHAIRMAN CARTER: Okay. Commissioner Argenziano.

COMMISSIONER ARGENZIANO: To that point, because I had written down things yesterday that I forgot today and now looking at it, but, but to the incentive goals, I understand companies doing that. I thought that maybe would be part of your 11 percent bonus every year that you would get if you did a good job, but however the companies do it. What percentage or what kind of goals, what kind of package are we talking about that the executives get?

And the reason I ask is because I guess the customer has to pay for this, and I'd really like to know besides the 11 percent increase, what would that bump the 11 percent up to?

THE WITNESS: It's not on top of that. The salaries you're looking at, I believe, do include all of that as a total. So it's the total salary, it's the total salary paid to those executives.

COMMISSIONER ARGENZIANO: So you're saying --

THE WITNESS: There's not additional on top of.

COMMISSIONER ARGENZIANO: So you're saying the 11 percent includes this incentive. That doesn't make sense. Why would it be called an incentive and not just a salary increase?

THE WITNESS: It's -- a portion of their salary is incentive based. It's normal salary, it's just that they've developed certain goals that have to be met to achieve that additional salary. But the total salary including that portion of their compensation is, includes that 11 percent.

COMMISSIONER ARGENZIANO: So then for the past two years they have met their goals?

THE WITNESS: I'm not positive about that.

COMMISSIONER ARGENZIANO: But they got the 11 percent increase.

THE WITNESS: Yes.

COMMISSIONER ARGENZIANO: Okay. Thank you.

CHAIRMAN CARTER: Thank you, Commissioner Argenziano.
Commissioners, any further questions?
Staff, on this -- did we establish a date for the late-filed?

MS. BROWN: We have not yet. We could consult with FPUC on timing and get back to you at the end of the hearing to establish that time.

CHAIRMAN CARTER: Okay.

MS. BROWN: But while I have your attention, I'm thinking that we will need another late-filed exhibit --

CHAIRMAN CARTER: Okay.

MS. BROWN: -- having to do with the size of the companies that we're comparing salaries to. Staff has informed me they're not aware that that is in the record at the moment. So we would like Ms. Martin to provide a comparison of the sizes of the other companies that you related to the executive salaries.

CHAIRMAN CARTER: Excellent. And we'll have that -- one second, Commissioner. I'll be right with you. And we'll have that -- kind of conversing with them by the end of the day so we can have a time for that?

MS. BROWN: Yes, I think so. And Mr. Horton is indicating that he thinks that that is in the record, so --

CHAIRMAN CARTER: Okay. Well, you'll get it to us by the end of the day.

(Late-Filed Exhibit 94 identified for the record.)

MS. BROWN: Right. We'll do that.

CHAIRMAN CARTER: Commissioner Skop, you're recognized.

COMMISSIONER SKOP: Thank you, Mr. Chairman. In terms of the size comparison, I think we need to either specify some sort of metric or benchmark what we're going to look at, whether it's number of employees, gross revenues, something, or a combination thereof.

CHAIRMAN CARTER: In essence so that it'll make sense.

COMMISSIONER SKOP: Yes, sir.

CHAIRMAN CARTER: I agree with you on that.

Commissioner Argenziano.

COMMISSIONER ARGENZIANO: That would be, I think all of those things are contributing. They need to be comparable all the way around or similar. I mean, you know, when you're doing a comparable, you want it to be at least the number of employees, the revenue generated, you know, how big the company is, and I think all of that needs to be put together just to how you came to the comparables.

CHAIRMAN CARTER: Yes. That would make a lot of sense and as we've had questions on that. And then some of the things, maybe even if it's a company similarly situated in a geographical area. You know, is it, are we comparing Rhode

Island with Florida?

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Mr. Chair. And I'll make this quick because I know Commissioner McMurrian was -- but to your point, exactly, I mean, it would be nice to see some, either a cooperative or something like that, maybe there's one in Florida that's comparable or Georgia or the southeast. Again, looking at a sample of utilities is great, but I think the relationship matters in terms of looking at things that are most closely situated to what's being compared. Thank you.

CHAIRMAN CARTER: Thank you.

Commissioner McMurrian.

COMMISSIONER McMURRIAN: I was just going to add, and I'm not sure I'm remembering it correctly, but I was thinking that perhaps some of that information, at least maybe the number of employees might have been in that exhibit yesterday, but I may be remembering wrong. I just, I thought I saw numbers about at least number of employees. But I don't think that gives us all the information that the Commissioners are asking for either. I just -- thank you.

CHAIRMAN CARTER: Okay. Well, we thank you so kindly. That will be a late-filed exhibit and staff will give us a date after they confer with the parties afterwards.

Now in our last episode you had one question. Had you completed your question?

MS. BROWN: Yes. We have no further questions.

CHAIRMAN CARTER: Okay. No further questions.

MS. BROWN: Thank you, Mr. Chairman.

CHAIRMAN CARTER: Mr. Horton, you're recognized.

MR. HORTON: Yes, sir. Just clarification. The, the, what we have filed as part of the confidential does show the companies that we, we looked at and the size relations. And am I to understand that you would like to see some additional comparisons or just some more information on these particular ones, or is that something that we can discuss with staff?

CHAIRMAN CARTER: Yes. With staff, discuss that with staff.

MR. HORTON: Okay.

CHAIRMAN CARTER: Because I think they clearly understand what we're saying, and that way it'll be -- it'll be better that way.

MR. HORTON: Okay.

CHAIRMAN CARTER: Okay. Now we need to deal with exhibits, do we not?

MR. HORTON: Well, I've got --

CHAIRMAN CARTER: Wait a minute. One second. Go ahead.

MR. HORTON: Yes, sir. I believe Commissioner

Argenziano had requested some, some follow-up information yesterday as a result -- she had asked Mr. Larkin some information, and Ms. Martin is the appropriate one to respond to that, if this is the appropriate time to do that.

CHAIRMAN CARTER: I'm sorry. I had one of my over 50 moments and I cannot remember. I think it had --

MR. HORTON: It had to do with the information that was provided and the detail of the information that we had provided, and Mr. Larkin had indicated that we had not given him some information and there was a discussion back and forth. Commissioner Argenziano had asked the company to respond. Ms. Martin is the appropriate one to respond to that.

CHAIRMAN CARTER: I'm still not feeling you. The information had to do with -- you're recognized.

COMMISSIONER ARGENZIANO: Mr. Larkin had indicated that there was unsubstantiated costs or details.

CHAIRMAN CARTER: Oh, yes. Right. That's the term he used, "unsubstantiated."

COMMISSIONER ARGENZIANO: Right. And I wanted to hear from the company side of that and see, you know, how I have to determine all the information coming in. And that's what he, I think he's referring to at the moment that Ms. Martin can answer.

CHAIRMAN CARTER: Well, let's -- Ms. Martin, let's hear from you on that.

THE WITNESS: Okay. I believe Mr. Cutshaw is going to address -- there were some of his costs. But the ones that relate to my testimony, I believe what you were questioning was one of those was uncollectible expense. We did provide in my rebuttal testimony quite a number of exhibits. Some of those exhibits support our projection that indeed those fuel increases are going to cause the overall bad debt rate to go up. We provided that information along with just information. And I think, you know, it may be known too just through common knowledge that the whole economy on a whole is suffering right now with the housing market and so forth and that naturally is going to have an impact to our bad debts. And we do feel that it's appropriate to include and have included an increase in our bad debts from that alone, as well as the increase that was necessary on top of the additional revenues that we are now collecting.

We did as an alternative, because we recognized in some of the past Commission hearings that a lot of times a four-year average write-off rate is used, so in that rebuttal testimony I provided exhibits for that as well. And I show that at 12/31/07 that average rate is .1470, which is higher than Mr. Larkin, I believe, had in his testimony, and that would produce at a minimum an uncollectible expense of $91,858. We provided exhibits that support that as well.

Another area that I believe that was being discussed was the rate case expenses, and I put a lot of that information in my summary testimony. But I do have information that supports all of those projections that I have given to the parties and have put in the filing that supports those as well. And I believe those were the two items that --

COMMISSIONER ARGENZIANO: Was there something on maintenance?

THE WITNESS: The maintenance expense is the one Mr. Cutshaw is going to address. That's more operational specific and he's --

COMMISSIONER ARGENZIANO: Okay.

THE WITNESS: Okay.

CHAIRMAN CARTER: Did -- does the, the bond -- has the bond rating for the company been impacted in any way? I noticed we were talking yesterday at length about the financial markets. Remember, I was talking about what I had read in the Wall Street Journal and watched on CNBC about the credit markets and things of that -- do you remember that?

THE WITNESS: I do remember it. I have to apologize. That's not one of my areas of expertise. But we do have our expert witness I think that can address that coming up here as part of rebuttal. I'm sorry.

CHAIRMAN CARTER: Okay. Commissioner Argenziano.

COMMISSIONER ARGENZIANO: A comment to my colleagues and staff. I'm not sure -- you're saying you provided the information, and I guess what Mr. Larkin was saying is that it was unsubstantiated. I don't know that he said it wasn't provided. And now I'm confused as to, as to what -- maybe OPC can --

MS. CHRISTENSEN: I think I can maybe shed some light on it. Although documentation was provided, in OPC's review I think we don't feel that an adequate explanation of the cost was provided. So there was documentation provided, the explanation of why this cost should be increased, and that's the basis for our testimony is, is that. And, of course, the company has the opposite position that they provided documentation, that they feel their explanation was adequate, and so that's where the disagreement is.

CHAIRMAN CARTER: I think, Commissioner Argenziano, I think what got us is Mr. Larkin said "unsubstantiated" as opposed to the information that they presented that OPC disagrees with, and that kind of --

COMMISSIONER ARGENZIANO: Well, Mr. Chair --

CHAIRMAN CARTER: You're recognized.

COMMISSIONER ARGENZIANO: And this is in my fairly new Commission capacity, and forgive me, because I'm never ashamed to ask something I don't know, and, but I'm a quick learner. But what I, what I don't understand is at this point if I'm standing as somewhat of a judge over two people telling me two different things, how the heck do I know what's substantiated or not? I have no details. So it's like, okay, well, OPC says this and the company says this. And how do I know?

CHAIRMAN CARTER: Well, I think what we'll do, as staff fleshes out, when they bring to us the recommendation, they can look at this and, and not get so tied up into the thaumaturgy (phonetic) in terms of the language that was used but actually give us a basis to see what actual data was presented by the respective parties, and that way we can actually, we can judge, you know, apples to apples.

COMMISSIONER ARGENZIANO: Just a thought, and I don't mean this in a derogatory manner because the staff is great, they do a great job. What I need to know is -- I don't need to hear from staff, yes, it was substantiated. I want some backup, it was or it wasn't. So that's what I need just to feel comfortable in what's really going on before me. Thank you.

CHAIRMAN CARTER: Thank you, Commissioner. And I'm sure staff is taking copious notes to ensure that we get answers to all of the questions here. And I think this -- the good thing about us being able to ask questions from the bench is that they can take that into consideration so when they do make a recommendation, they will make these recommendations based upon the areas of the questions that we've asked. Because those are critical issues, very critical issues, and we've all expressed an interest in finding the responses to those questions.

Commissioners, anything further?

Okay. Mr. Horton, you're recognized.

MR. HORTON: I have no redirect and I would move Exhibits 73 to 86.

CHAIRMAN CARTER: Exhibits 73 through 86, any objections? Hearing none, show it done.

(Exhibits 73 through 86 admitted into the record.)

Mr. Horton, you're recognized. Your witness may be excused.

MR. HORTON: And I would call Mr. -- the witness may be excused and I'd call Mr. Mesite.

MR. YOUNG: Mr. Chairman.

CHAIRMAN CARTER: One second.

MR. YOUNG: Before you -- before he calls the next witness --

CHAIRMAN CARTER: Oh, okay.

MR. YOUNG: -- staff also has late-filed exhibits that we're requesting to be moved into the record at this time, too.

CHAIRMAN CARTER: Okay.

MR. YOUNG: That's --

MS. BROWN: Mr. Chairman, if we could hold off on that until we've worked out a time. We don't -- we can mark these for the exhibit list, but we don't need to move them into the record at this time.

CHAIRMAN CARTER: Okay.

MS. BROWN: Thanks.

CHAIRMAN CARTER: All right then. Let's, let's move along.

Mr. Horton, your next witness. Mr. Mesite; is that right?

MR. HORTON: Mr. Mesite.

CHAIRMAN CARTER: Okay. Mr. Mesite.

MR. HORTON: Yes, sir.

CHAIRMAN CARTER: Thank you. I got it right this time.

JAMES V. MESITE, JR.

was called as a witness on behalf of Florida Public Utilities Company and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. HORTON:

Q Would you please state your name and address for the record.

A James V. Mesite, Jr., 401 South Dixie Highway, West Palm Beach, Florida.

Q Mr. Mesite, you were sworn in this proceeding yesterday, were you not?

A That's correct.

Q Mr. Mesite, have you caused to be prefiled supplemental testimony, excuse me, rebuttal testimony in this docket?

A Yes.

Q Do you have any changes or corrections to make to your rebuttal testimony at this time?

A No, I do not.

Q If I were to ask you the questions contained in that testimony today, would your answers be the same?

A Yes.

MR. HORTON: Mr. Chairman, I'd request that Mr. Mesite's rebuttal testimony be inserted into the record as though read.

CHAIRMAN CARTER: The rebuttal testimony will be entered into the record as though read.

BY MR. HORTON:

Q And, Mr. Mesite, have you also caused to be attached to your testimony exhibits which have been premarked numbers 87 through 90?

A Yes.

Q Do you have any corrections or additions to make to those exhibits?

A No, I do not.

REBUTTAL TESTIMONY OF
JAMES V. MESITE, JR.
before the
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 070304-EI
FLORIDA PUBLIC UTILITIES COMPANY

<u>INTRODUCTION:</u>

Q. PLEASE STATE YOUR NAME, AFFILIATION, BUSINESS ADDRESS AND SUMMARIZE YOUR ACADEMIC BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. My name is James V. Mesite, Jr. I am the Senior Project Accountant in the Corporate Accounting department at Florida Public Utilities Company (FPUC), 401 South Dixie Highway, West Palm Beach, Florida 33401.

On an ongoing basis, I am responsible for all preparation, filing, reconciliation and audit of documents as directed under PGA Docket No. NN0003-GU. Using various company systems and computer application, I prepare several periodic accounting analysis reports. In the past I was responsible for converting the Company's manual CPR records to a computerized system. I am responsible for the review and evaluation of fixed asset issues involving acquisitions, dispositions, retirements, capital versus expense, and chart of accounts. I am responsible for the filing of FPSC depreciation studies for the regulated electric and natural gas divisions. Additionally I am involved with various internal control and review projects as circumstances dictate.

I joined FPUC in 1995 as a Special Project Accountant and was promoted to my current position in March 2002. I graduated from Northeastern University in 1976 with a BS degree in Business Administration, major in Accounting.

I have been a witness in two rate relief proceedings before the FPSC: Docket Numbers 030438-EI for electric and 040216-GU for natural gas.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony is rebuttal to the Office of Public Counsel (OPC) direct testimony of Hugh Larkin, Jr. and Patricia W. Merchant of December 27, 2007, in these dockets.

Q. IS ADDITIONAL REBUTTAL TESTIMONY BEING PRESENTED BY FPUC?

A. Yes. Additional rebuttal testimony is being presented by FPUC employees and representatives in their respective areas of expertise.

Q. WHAT WILL BE THE MAJOR AREAS OF YOUR TESTIMONY?

A. I will present testimony primarily associated with the Schedules B, as presented in the MFR. This would include rate base, working capital, plant, and balance sheet, including associated depreciation and amortization expenses.

Q. IS THE DATA CONTAINED IN FPUC'S MFR COMPLETE AND ACCURATE?

A. Subject to various fall-out adjustments and other agreed upon adjustment, that are usual and expected elements of the rate relief process, MFR data is presented in an accurate and fair manner.

Q. HOW WILL YOUR TESTIMONY BE STRUCTURED?

A. I will offer rebuttal testimony to specific items of Mr. Larkin's and Ms. Merchant's testimony, since we feel that wholesale adjustments to the MFR are not required. We believe that the decisions of the Commission will be on individual item adjustments to the MFR, and not major revisions to areas of the filing.

WORKING CAPITAL

Other Property And Investments:

Q. DO YOU AGREE WITH MR. LARKIN'S PROPOSED TREATMENT OF THE $3,100 "OTHER SPECIAL FUNDS' UNDER THE HEADING "OTHER PROPERTY AND INVESTMENTS"?

A. No, I do not. The inclusion the $3,100 in 2008 consolidated electric working capital as shown in the MFR is accurate.

The $3,100 in question represents 31% allocated to electric of a $10,000 deposit that is held in escrow covering FPUC's auto and general liability claims. The 31% allocation is based on the consolidated electric share of adjusted gross profit.

Mr. Larkin testified that [1] the heading is clearly non-regulated, [2] that FPUC has failed to show that the other special funds is related to utility operations, and [3] should be eliminated from working capital requirements: all three points are incorrect. This issue was raised during the OPC's Telephonic Panel Disposition of Cheryl Martin, Mehrdad Khojasteh, and Jim Mesite, on December 11, 2007. In response, FPUC filed with the OPC, Late File Exhibit 1. Attached is a copy of the exhibit as: Exhibit JM R-1. The exhibit was generated by the insurance representative, and details the several questions raised during the deposition including the content of the coverage and amount of coverage.

Cash:

Q. DO YOU AGREE WITH MR. LARKIN'S PROPOSED ADJUSTMENT FOR THE 13-MONTH AVERAGE BALANCE FOR CASH?

A. No, I do not. The 13-month average cash balance of $70,678 presented in the MFR is accurate and should remain unchanged.

Mr. Larkin's testimony, that the cash balance for consolidated electric be held at $10,000, is arbitrary and illogical in the context of a viable and on-going business operation. His testimony of FPUC's cash balances of $247,509 in 2006, and $210,108 in 2007, indicates that our 2008 projected consolidate electric cash balance of $70,678 is less than what might be expected based on historical review alone.

A cash balance must cover several factors including payment of current accounts payable; employee net payroll; and various corporate, withheld payroll, and collected taxes. When considering these amounts as detailed on Schedule B-3 (2008), Mr. Larkin's recommended cash balance of $10,000 is not viable. Consideration must also be given to outstanding checks and non-recurring immediate cash needs.

FPUC has procedures and process in place for the purpose of maintaining efficient cash balances. However, it is not conceivable that it could be cost effective to activate and maintain a cash management system that could achieve Mr. Larkin's $10,000 proposed target.

<u>**Special Deposit-Electric:**</u>

Q. DO YOU AGREE WITH MR. LARKIN'S RECOMMENDATION FOR THE REMOVAL OF $317,836 FOR ACCOUNT 1340 - SPECIAL DEPOSIT-ELECTRIC FROM WORKING CAPITAL?

A. No, I do not agree. The inclusion of this deposit was rightfully included in working capital and should not be adjusted.

This amount is comprised of two deposits imposed by Jacksonville Electric Association and Gulf Power during the negotiation of new fuel contracts with these vendors. According to Mr. Mark Cutshaw's rebuttal testimony, a portion of the deposit will be returned during 2008 and the balance in 2009. It is FPUC's opinion that these amounts should be included in the 2008 working capital. As monies are refunded, the funds will continue to be applied in a manner consistent with working capital treatment.

Mr. Larkin has testified that since the deposits generate interest to the company, the deposits should be excluded from working capital. The fact is the interest is to be returned to the ratepayer as a reduction in fuel costs through inclusion in the electric fuel docket monthly filing.

Accounts Receivable:

Q. **IS MR. LARKIN ACCURATE IN HIS PRESENTATION OF ACCOUNTS RECEIVABLE TESTIMONY?**

A. No, he is not. Throughout his testimony, Mr. Larkin makes references to "accounts receivable" and "customer accounts receivable" interchangeably. Within the MFR, our presentation included various categories of accounts receivable included in the Schedules-B as the single line item, "accounts receivable".

Questions of "accounts receivable" and "customer accounts receivable" arose during our Telephonic Panel Deposition by the OPC. In response we filed Late File Exhibit No. 16.1, 16.2, and 16.3. Attached is a copy of the exhibit as: Exhibit JM R-2, pages 1through 3. These exhibits detail the accounts that are rightfully classified as accounts receivable.

Throughout his testimony, Mr. Larkin made no reference to this late filed data or other information contained in these exhibits.

Q. SHOULD THE AMOUNT INCLUDED IN THE MFR RELATING TO CUSTOMER ACCOUNTS RECEIVABLE BE MODIFIED?

A. At the time the MFRs were prepared, the consolidated electric divisions were in the process of negotiating new contracts for the purchased power for both operating locations. It was obvious that costs would increase significantly from 2006 costs. The amounts shown for customer accounts receivable for 2007 and 2008 were based on our estimation of the forthcoming increases in the purchased power costs and the increase in base rates resulting from this rate proceeding.

The exhibits detail what we currently project to be 2007 and 2008 customer accounts receivable. Our computations used actual and estimated typical bill changes from December 2006 through May 2008 resulting from purchased power filings, mid-course correction filing, interim rate relief, the anticipated rate increase resulting from this rate proceeding, and a customer growth factor. The increases were applied on a month-by-month basis for 2007 and 2008 to arrive at a 2008 13-month average customer accounts receivable of $4,906,472.

Q. DO YOU AGREE WITH MR. LARKIN'S RECOMMENDATION FOR PROJECTING CUSTOMER ACCOUNTS RECEIVABLE?

A. No, I do not. He exhibited 10-years of data comparing customer accounts receivables to operating revenues, and simply proceeded to arbitrarily base his recommendation on the lowest percentage.

The 10-year data that Mr. Larkin presented spans years that contained no purchased power increases and only one rate proceeding. An impartial review of the exhibits would have indicated little deviation in the ratio of customer accounts receivables to operating revenues over the years. Contrary to Mr. Larkin's testimony, we are not proposing changing the ratio between customer accounts receivable and operating revenues. Our computation mathematically adjusts customer accounts receivable by the same percentage change that we anticipate for operating revenues; primarily as a result of recent large fuel cost increases and this rate proceeding.

Q. DO YOU AGREE WITH MR. LARKIN'S PROPOSAL THAT ACCOUNT 1430.1, ACCOUNTS RECEIVABLE –EMPLOYEES BE EXCLUDED FROM WORKING CAPITAL?

A. No, we do not agree. This account is rightfully includable in working capital as ordinary and necessary in the normal course of business.

The amounts represented by this account are amounts due to the Company from retirees and employees owing to employment related transactions in the normal course of business. Such transactions may be the individual's share of Company paid medical, health and disability insurance, the individual's share of Company required uniforms and equipment; garnishment of wages as required by various governmental authorities; and prepaid expense advances to employees for business trips, etc. The reimbursement of these amounts to the Company is from direct repayment by employees, or by payroll deduction.

The 13-month average for 2007 and 2008 for this account are detailed in Exhibit JM R-2.

Q. DO YOU AGREE WITH MR. LARKIN'S PROPOSAL THAT ACCOUNT 1430.2, ACCOUNTS RECEIVABLE –ELECTRIC-OTHER BE EXCLUDED FROM WORKING CAPITAL?

A. No, we do not agree. This account is rightfully includable in working capital as ordinary and necessary in the normal course of business.

The account represents reimbursable costs incurred by the Company for damages to Company's electric facilities by others, or for other special services performed on our electric facilities at the request of customers, municipalities, or other entities. These items may include damages by contractors or homeowners to distribution facilities, damages caused by traffic accidents, temporary relocation of electric facilities as directed by municipalities, etc. within our electric service areas.

The 13-month average for 2007 and 2008 for this account are detailed in Exhibit JM R-2.

Prepaid Insurance:

Q. DO YOU AGREE WITH METHODOLOGY EMPLOYED BY MR. LARKIN FOR ALLOCATING PREPAID INSURANCE?

A. No, we do not. Allocating prepaid insurance based on adjusted gross profit, as used in our MFR, is the correct method and the account requires no adjustment.

Mr. Larkin contends that using payroll as the basis for allocation is the preferable method since prepaid insurance is predominately payroll driven. Such is not the case, as detailed in our Late Exhibit 8.1 filed in conjunction with our Telephonic Panel Deposition by the OPC. A copy of this exhibit is attached as Exhibit JM R-3. As indicated in the exhibit, only 18.3% ($34,748 / $195,194) relates to workmen's compensation and could be considered payroll related. The remaining majority of 81.7% relates to the overall operational aspects of the business.

The allocation factor that would best represent the overall performance of an operating segment of FPUC would be adjusted gross profit. Adjusted gross profit would therefore be the acceptable method for allocating the combined prepaid insurance accounts to be allocated to consolidated electric.

Unbilled Revenue:

Q. SHOULD UNBILLED REVENUE BE REDUCED AS RECOMMENDED IN MR. LARKIN'S TESTIMONY?

A. No, a reduction to unbilled revenue is not necessary. Unbilled revenue should remain as shown in the MFR.

In our response to OPC's Interrogatory No. 9, the explanation of our computation for the 2008 13-month average was incomplete. The narrative should have also indicated that to project 2008, the 2007 amount was increased by an additional 20% to represent anticipated increased in base revenue as a result of this rate proceeding. The 20% in addition to the 3.5% projection factor would produce the appropriate 23.5 % increase for 2008 that Mr. Larkin alluded to in his testimony.

Regulatory Asset – Retirement Plan:

Q. MR. LARKIN RECOMMENDS CHANGING THE ALLOCATION PERCENTAGE FOR THE REGULATORY ASSET-RETIREMENT PLAN ACCOUNT, AND A RESULTING REDUCTION IN WORKING CAPITAL. DO YOU AGREE WITH THE ALLOCATION CHANGE AND THE ASSOCIATED DECREASE IN WORKING CAPITAL?

A. No, we do not agree with Mr. Larkin's recommendation for a change in the allocation percentage or for an adjustment to working capital for this account.

During his testimony Mr. Larkin addressed several areas in his testimony concerning this account. One area concerned the allocation percentage that was applied when allocating this account to consolidated electric. Specifically, he did not understand why we used 34% as the payroll allocation percent for this account, and 25% as a payroll allocation percentage when allocating the pension liability account.

FPUC is comprised of regulated and non-regulated segments. As such, individual Company-wide accounts may be applicable to all segments, just regulated segments, or just non-regulated segments. In most instances, the allocation base is company-wide.

However, as is the case for the Regulatory Asset-Retirement Plan account, it is appropriately allocated using just regulated payroll since the account only pertains to regulated segments. The payroll allocation base contains: regulated electric payroll, plus regulated natural gas payroll, plus the regulated share of corporate payroll. To determine electric's allocation percentage, electric's payroll is divided by the total regulated payroll base. For 2007 and 2008 the electric allocation percentage is 34%.

The pension liability account is a company-wide account and is therefore allocated based on total payroll. In this instance electric's payroll is divided by total FPUC payroll. For 2007 and 2008 the electric allocation percentage is 25%.

Mehrdad Khojasteh will address other aspects of Mr. Larkin's testimony relating to the Regulatory Asset-Retirement Plan account.

<u>Over and Under Recovery of Fuel and Conservation:</u>

Q. SHOULD FUEL AND CONSERVATION OVER AND UNDER RECOVERY DATA CONTAINED IN THE MFR BE MODIFIED?

A. No, it should not. Over and under recovery data presented in the MFR is appropriate as filed.

Q. WHAT IS FPUC'S GENERAL POSITION CONCERNING THE ACCOUNTING

TREATMENT OF OVER AND UNDER RECOVER ACCOUNTS?

A. The accounting treatment for inclusion in working capital of the fuel and conservation accounts for over-recoveries and under-recoveries should be consistent. Other than a covert means to reduce working capital and therefore rate base, there is no rational justification for the current practice of only including over-recoveries in working capital.

Q. WHAT IS THE PROCEDURE FOR THE SETTING AND APPROVAL OF RECOVERY RATES FOR FUEL AND CONSERVATION?

A. The setting of recovery rates for fuel and conservation are conducted annually, each under a separate docket. During this process, the Company presents their estimations for sales and costs for the upcoming year. These estimations are reviewed for completeness and appropriateness by staff. If necessary the projections are modified by the Company until all parties feel that the projections are appropriate. The rates to be applied to the upcoming year are then approved by the Commission.

Q. WHAT MEANS CAN THE COMPANY EMPLOY TO BE SURE THAT PROJECTED SALES AND COST LEVELS ARE ACHIEVED ONCE THE RECOVERY RATES ARE SET?

A. Aside from prudent business and operational judgment, the Company has limited control over the actual achieved sales and costs levels. Much of the actual sales levels are determined by factors such as weather, customer demand, changes in the number of customer, etc. Actual costs for fuel and services are for the most part market driven.

Q. WHAT PROCEDURES ARE IN PLACE SHOULD THE PROJECTIONS PROVE TO BE INACCURATE OR TO PREVENT ABUSE OF THE RECOVERY

PROCESS?

A. Since the recovery rate is based on projections, over and under recoveries are inevitable. However, contained in the recovery process are mid-course correction procedures that allow for the rates to be reviewed by the Commission if the over or under recoveries exceed a predetermined percentage of annual projected costs.

Q. WHAT IS THE CURRENTLY ACCEPTED TREATMENT FOR OVER AND UNDER RECOVERIES?

A. If these projections result in an over-recovery situation, the over-recovery is included in working capital as a reduction to rate base. However, if these the same projections result in an under-recovery situation, the under-recovery is to be excluded from working capital and have no effect on rate base.

Q. ARE THE DIFFERING TREATMENTS FOR OVER-RECOVERIES AND UNDER-RECOVERIES REASONABLE AND JUSTIFIED?

A. No, they are not. It is not reasonable that the same projections, approved by the same Commission are treated in differing manners based simply on their affect on rate base.

Q. IS IT NECESSARY TO CONSIDER THE INTEREST ON THE OVER OR UNDER RECOVERIES IN THIS DISCUSSION?

A. No, it is not. When discussing the topic of interest, the OPC appears to be or is trying to cloud the issue on over and under recoveries, and only discusses the issue from a one-sided perspective.

Per the fuel clause, interest accumulates on both under and over recoveries. This interest appropriately is either returned to the customers for all over-recoveries, or remains with the Company for all under-recoveries. This interest process provides adequate returns for funds over or under collected. This is fair to both the customers and the Company.

In our last rate proceeding, the over recoveries were included in working capital, however this penalized the Company and provided in essence a double return to our customers for this over recovery.

Q. WHAT DOES FPUC PROPOSE FOR THE TREATMENT FOR OVER AND UNDER RECOVERIES?

A. In order to maintain neutrality and fairness between the ratepayers and the Company it is necessary that both over-recoveries and under-recoveries be treated in the same manner. There are two alternatives that could be adopted to achieve this goal. It is more appropriate to exclude both under and over recoveries from working capital for rate making purposes, since the fuel clause already provides for an adequate return to both customers and the Company.

In the alternative, both under and over recoveries would be allowed within working capital: including both would provide consistent, fair, and equal treatment for the ratepayer and the company.

<u>**Storm Reserve:**</u>

Q. DOES FPUC AGREE WITH MR. LARKIN'S TESTIMONY REGARDING RECOMMENDED CHANGES TO THE STORM RESERVE?

A. No, we do not. The information presented in the MFR is accurate and should remain unchanged. Mr. Mark Cutshaw has addressed the issues raised by Mr. Larkin's concerning the appropriateness of the account balance. I will testify regarding changes to working capital.

Q. SHOULD WORKING CAPITAL BE ADJUSTED FOR THE STORM RESERVE ACCOUNT AS SUGGESTED BY MR. LARKIN?

A. No, it should not be adjusted. Mr. Larkin recommendation was predicated on our change in the monthly accrual to the account, and on a $50,000 cost charged to the account in 2007. Mr. Cutshaw has addressed the issue of the monthly accrual.

The Company appropriately included projected charges totaling $50,000 for storm damage costs for September 2007: September being the mid-point of the hurricane season. Based on Mr. Larkin's exhibits, the 19-year average annual storm damage costs are $36,700 ($697,472 / 19 years = $36,709). Allowing for inflation and service area growth over the 19-year period, $50,000 as the estimation for annual costs is proper.

<u>**Interest Accrual – Customer Deposits:**</u>

Q. IS MR. LARKIN CORRECT IN HIS RECOMMENDATION THAT WORKING CAPITAL SHOULD BE ADJUSTED FOR THE INTEREST ACCRUAL-CUSTOMER DEPOSITS ACCOUNT?

A. No, he is not. The Company projected this account using appropriate methodology, and working capital for this account should not be adjusted.

<u>**Working Capital Adjustments:**</u>

Q. DOES FPUC AGREE WITH MR. LARKIN'S PROPOSED ADJUSTED WORKING CAPITAL BALANCE CONTAINED IN HIS TESTIMONY?

A. No, we do not agree. The working capital that should be included in determining the rate base is a fall-out amount: the 13-month average contained in the MFR is adjusted by items that are stipulated by all parties to the rate relief proceeding, and ultimately by the Commission for any outstanding issues. It is not appropriate at this point in the rate proceeding to presume that any working capital determination could possibly be the final working capital amount that would be used toward rate base in the final order.

Q. DOES FPUC RECOMMEND ANY ADDITIONAL WORKING CAPITAL ADJUSTMENTS?

A. Yes, we do. We propose that, if the final 2008 13-month working capital balance is negative, we should be allowed an adjustment to bring the balance to \$0 (zero). This adjustment has been allowed by the Commission in past FPUC rate proceedings including Docket No. 940620-GU and Docket No. 900151-GU.

The Company agrees with these allowances since it is neither logical nor appropriate for adjusted working capital to reflect a negative balance. If allowed, a negative working capital balance would artificially reduce overall rate base simply due to Commission ordered adjustments to working capital. An adjustment for negative working capital is appropriate in situations where negative working capital exists due to the imposition of various adjustments by the Commission. The Commission and Staff have affirmed the appropriateness of such adjustments on numerous occasions in previous rate case proceedings. Water and Wastewater companies also normally adjust negative working capital to \$0.

Historically, the Commission has allowed an additional final adjustment to bring negative working capital to zero. In FPUC's 1990 Rate Case, Docket No. 900151-GU: Interim rates Order No. 23516 (9/19/90), Staff stated, "in accordance with past commission policy, has adjusted working capital to zero" and Commission approved this adjustment. Final rates, Order No. 24094 (2/12/91), the Staff and Commission agreed with the adjustment to bring negative working capital to $0 for the test year. In the Company's 1994 Rate Case Proceeding, Docket No. 940620-GU: Interim Rates, Order No. PSC-94-1519-FOF-GU (12/9/94) Staff's position was that it agreed with the adjustment for negative working capital to $0 and it was approved for interim rates. Final Rates and Order of this docket did not address the negative working capital issue since adjusted working capital was positive for the test year.

Company is not asking the Commission to grant an arbitrary increase in working capital, but rather grant a final adjustment to mitigate the effects of certain adjustments and return the Company to a minimum working capital level that would be expected of any viable and ongoing business concern. The negative working capital is a result of the required adjustments to rate base such as exclusion of interest bearing cash, and several adjustments and methods used for allocating corporate items.

Transmission Pole Replacement Recovery Program:

Q. DO YOU AGREE WITH MS. MERCHANT'S REPRESENTATION OF THE TRANSMISSION POLE REPLACEMENT RECOVERY PROGRAM AS PRESENTED IN HER TESTIMONY?

A. No, I do not. Ms. Merchant is not portraying an accurate picture concerning the mechanism that FPUC is proposing for the funding and installation of the transmissions poles.

The major area of confusion concerns Ms. Merchant's statement that, "the rate payers pre-pay for the full cost of the new poles before the Company even purchases or has the poles installed." This is not, nor has it ever been the methodology proposed by FPUC.

Our proposal is that, concurrent to our replacement of the transmission poles at the rate of 9 or 10 poles per year, the installation costs are recovered on an ongoing basis through amortization that has been approved and incorporated into base rates. There is no "pre-payment" or "advanced payment" by the ratepayers involved. As FPUC pays for the installation of poles, these costs are recovered, since they are already included in base rates. From another viewpoint, as the ratepayer pays the approved base rate, FPUC will be obligated to install the transmission poles.

Q. DO YOU AGREE WITH MS. MERCHANT'S TESTIMONY THAT FPUC WAS IN ERROR WHEN IT INCLUDED THE FUTURE COSTS OF INSTALLING POLES IN ITS COMPUTATIONS?

A. No, I do not agree. Our proposal is that base rates be set to include recovery for the installation of transmission poles over the next 20 years. In order to determine the total cost of this long-term project, it is necessary to include both the cost of the first pole to be installed in 2008 and the cost of the last pole to be installed in 2028. Our methods were designed to accomplish this goal and are appropriate.

Q. ARE ANY ADJUSTMENTS TO THE MFR REQUIRED DUE TO THE EFFECTS OF THE PROPOSED TRANSMISSION POLE REPLACEMENT PROGRAM?

A. No adjustments are necessary. Our proposal is rate base neutral. In the MFR, plant-in-service, plant reserve, and depreciation expense did not include any effects due to the recovery program, since they are not affected by the recovery program.

Q. WHAT ACCOUNTS IN THE MFR ARE IMPACTED BY THE TRANSMISSION POLE REPLACEMENT RECOVERY PROGRAM?

A. Only Amortization Expense is affected. The impact was included in the MFR on

Schedule C-19 (2008) [page 51, of the Schedule C section].

Adjustment For 13-Month Average For Replacement 40 MVA Transformer:

Q. IS MS. MERCHANT'S RECOMMENDATION APPROPRIATE THAT THE FULL YEAR 13-MONTH AVERAGE NOT BE ALLOWED IN RATE BASE?

A. No, her recommendation is not appropriate.

The Company has provided extensive testimony, interrogatory response, and documentation concerning this issue.

Q. DOES THE COMPANY BELIEVE THAT THE COMMISSION SHOULD ALLOW THE FULL 13-MONTH AVERAGE FOR THE TRANSFORMER BE INCLUDED IN RATE BASE?

A. Yes, they should. To allow the full 13-month average in rate base would be appropriate and justified.

The company has made every attempt to purchase and install this replacement transformer since the original transformer ceased functioning late in 2006. The old transformer required testing and other evaluation in order to determine the feasibility of having it rebuilt. Ultimately, it was determined that it could not be rebuilt. Bids were then solicited, an order was placed, and contracts were signed. New transformers are custom built out of the country, and a final delivery timeline is typically uncertain until far along in the construction process.

The Company believes that the Commission should consider it appropriate to include the full 13-month average for several reasons. This is not a discressionary addition to plant. This transformer is an ordinary and necessary replacement of a major component of the distribution system. There is no doubt that the transformer will be purchased, installed, and still be in service several years into the future.

Additionally, while the company is waiting for the transformer to be delivered and installed, a temporary replacement transformer is being rented at a cost in excess of what the annual depreciation expense of the new transformer would be.

Construction Work in Process – CWIP:

Q. MS. MERCHANT TESTIFIED THAT CWIP SHOULD NOT BE INCLUDED IN RATE BASE. DO YOU AGREE WITH HER TESTIMONY?

A. No, I do not. CWIP should properly be included in rate. The costs chargeable to CWIP are ordinary and necessary as a function of providing utility service to the ratepayer. CWIP costs must be incurred as a prerequisite to the creation of in-service plant.

One must consider an item of plant purchased fully functional from an outside contractor. There is no question that this item would be fully includable in rate base. The cost of the item purchased would necessarily include the contractor's manufacturing and overhead costs that were incurred during manufacture. These same costs as incurred by the Company should then also be considered in rate base. It is not logical is omit costs from rate base simply because they were paid for by the Company and charged to an account other than "plant".

The value of an item ultimately charged to plant, is comprised of the components that were charged to CWIP, and the individual costs of the CWIP components, were paid for by other components of rate base (i.e. cash, accounts payable). It the logical then, that all phases in the creation of plant, including CWIP, should be considered rate base.

Historically, the Commission has determined that CWIP is ordinary and necessary, and as such, includable in rate base.

Rate Base Adjustments:

Q. **DOES FPUC PROPOSE ANY ADJUSTMENTS TO RATE BASE AT THIS TIME?**

A. No, we do not. Rate base is a fall-out amount: the rate base data contained in the MFR is adjusted by items that are stipulated by all parties to the rate relief proceeding, and ultimately by the Commission for any outstanding issues. It is not appropriate at this point in the rate proceeding to presume that any rate base determination could possibly be the rate base that would be used in the final order.

Q. **DOES THIS COMPLETE YOUR TESTIMONY?**

A. Yes it does.

BY MR. HORTON:

Q Do you have a summary of your testimony?

A Yes, I do.

Q Present it, please.

A Good morning. The following is a summary of my rebuttal testimony on the material issues presented in response to the testimony of Mr. Larkin and Ms. Merchant of the Office of Public Counsel that remain unresolved.

At a minimum, a cash balance must be sufficient to cover check disbursements. Assuming 260 business days in a year, Mr. Larkin's proposal, proposed amount presumes that we only issue a maximum amount of $2,600,000, which represents 260 days times $10,000 a day. This amount is certainly an unrealistically low amount. We have a good cash management program and we have included $71,000 for the, in the MFR for cash, which we consider to be a workable, prudent and appropriate amount for our cash balance.

In response to the OPC's deposition on December 11th, 2007, we provided a late-filed exhibit detailed, Number 16, that details the appropriate level of accounts receivable. This is comprised of customer accounts receivable, employee accounts receivable and other accounts receivable. This analysis indicated a total accounts receivable of $5,015,473 as being appropriate. This Exhibit 16 was also referenced in my subsequent response to Mr. Larkin's testimony.

Concerning the customer accounts receivables, we based projections, those projections on actual and anticipated increases in typical bills. The OPC's testimony was based on averaging customer accounts receivable balances for the past ten years. Such analysis is very inappropriate since over the ten-year historical period FPUC had fuel costs well below market rates, and current receivables would be extremely understated using this historic data.

For employee accounts receivable and other accounts receivables OPC has taken the position that these are nonregulated accounts. Such is not the case. The employee accounts receivables are a function of maintaining a workforce that necessitates accounting for the employees' share of medical, life and other insurances, their share of uniform costs, travel expenses and other miscellaneous employee receivables.

The other receivables account is for amounts due from other, excuse me, other electric related charges including special services rendered to customers, municipalities and other entities. Thank you.

MR. HORTON: Mr. Mesite is available for cross.

CHAIRMAN CARTER: Commissioners, any questions before we go to the parties?

Ms. Christensen, you're recognized.

MS. CHRISTENSEN: Thank you. I just have a few questions.

CROSS EXAMINATION

BY MS. CHRISTENSEN:

Q Mr. Mesite, on Page 14 of your rebuttal testimony you state that you disagree with Mr. Larkin's removal of the projected $50,000 charges to the storm that were projected for 2007.

A Yes.

Q Okay. And is it correct that no storms hit FPUC's system in 2007?

A That is, that is correct. That's correct.

Q Okay. So there were no actual charges made to the reserve in 2007; correct?

A Correct.

Q Okay. And I have one more question or two more questions.

Okay. Now wouldn't you agree that Mr. Larkin's analysis of the accounts receivable compares each year's accounts receivable to the total revenues?

A It appeared to be that that's what he had done. I'm not --

Q And so his -- you would agree that his calculation did take into consideration the relationship for each year between those amounts.

A It appeared to me in his analysis that he did not do anything to kick up his numbers for what our increases in, our massive fuel rate increases, which have unfortunately taken place in '07 and '08 or the increase in the, for the rate case.

Q But if the relationship, if the relationship, it was based on a relationship and you're comparing the revenue increases and the projected revenue increases, wouldn't the projected revenue increases have included the increases from the new fuel contracts?

A It would appear that would, that should, that would hold, yes. I'll give you that.

MS. CHRISTENSEN: Okay. No further questions.

CHAIRMAN CARTER: Staff?

MS. BROWN: Staff has no questions.

CHAIRMAN CARTER: Commissioners?

Mr. Horton.

MR. HORTON: I have no re, I have no redirect.

CHAIRMAN CARTER: You want to deal with the exhibits?

MR. HORTON: And I would move Exhibits 87 through 90.

CHAIRMAN CARTER: Any objections? Hearing none, show it done.

(Exhibits 87 through 90 admitted into the record.)

The witness may be excused.

MR. HORTON: Thank you, sir. And we would call Mr. Robert Camfield.

CHAIRMAN CARTER: Mr. --

MR. HORTON: Camfield.

CHAIRMAN CARTER: Oh, Camfield.

MR. HORTON: Yes, sir.

ROBERT J. CAMFIELD

was called as a witness on behalf of Florida Public Utilities Company and, having been duly sworn, testified as follows:

THE WITNESS: Good morning. My name is Robert Camfield. I appeared yesterday before this Commission as regards to cost of capital issues.

DIRECT EXAMINATION

BY MR. HORTON:

Q Mr. Camfield, you're jumping ahead of me.

Did you, did you cause to be prepared prefiled supplemental testimony in this docket, rebuttal?

A I did.

Q I don't know why I can't remember it's rebuttal testimony.

Do you have any additions or corrections to make to that rebuttal testimony at this time?

A There's, there's a couple of corrections. First of all, on Page 7, the last line, 23, at the end of the line it should read, "May deviate from the." The word "the" needs to be inserted before the word "historical." Then on Page 8, Line 18, there's a comma at the end of the sentence that should be eliminated. Those two changes are all that I have.

Q And with those changes, if I were to ask you the questions contained in that testimony, would your answers be the same today?

A They would.

Q And you did not have any exhibits attached to that rebuttal testimony, did you?

A I did not.

MR. HORTON: I'd request that Mr. Camfield's rebuttal testimony be inserted into the record as though read.

CHAIRMAN CARTER: The rebuttal testimony will be entered into the record as though read.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 070304-EI

REBUTTAL TESTIMONY
OF
DR. J. RANDALL WOOLRIDGE

BY
ROBERT J. CAMFIELD

ON BEHALF OF
FLORIDA PUBLIC UTILITIES COMPANY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Robert J. Camfield, and my business address is 4610 University Avenue, Madison, Wisconsin 53705.

Q. HAVE YOU PREPARED AND PRE-FILED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes, that is correct.

Q. WHAT IS THE SCOPE OF YOUR REBUTTAL TESTIMONY?

A. This testimony is offered to the Commission as rebuttal to the pre-filed direct testimony of Dr. J. Randall Woolridge on behalf of the Office of Public Council addressing issues related to, and providing recommendations for, the cost of capital of Florida Public Utilities Company ("FPU" or "Company"), within the immediate docket. This testimony also addresses the comments, critique, and concerns raised by Dr. Woolridge in his rebuttal testimony regarding my original estimates of the cost of capital, in particular the cost of equity and return on equity recommendation.

Q. WHAT SPECIFIC COST OF CAPITAL ISSUES DO YOU ADDRESS WITHIN YOUR IMMEDIATE TESTIMONY?

A. In this rebuttal testimony the cost of capital concerns and issues that I wish to raise for the consideration of the Florida Public Service Commission are as follows:

1. Issuance costs associated with the Company's anticipated issue of additional shares of common equity, for recognition in the allowed equity rate of return.

2. The definition of the year-forward dividend yield within the discounted cash flow method for estimation of the cost of equity capital.

3. The appropriate short-term cost rate to be applied to the Company's balances of short-debt debt.

4. Capital costs in 2006 and 2007, and whether or capital cost rates have changed in 2007.

5. The appropriate basis to measure historical realized market returns and risk premia, as the basis for determining estimates of the cost of equity capital.

6. The use of the Capital Asset Pricing Model ('CAPM") in isolation of other methods.

7. The appropriateness of *ex ante* risk premia, for use within the CAPM cost of capital framework.

8. The appropriateness and realism of size-related risk premia within the context of the CAPM- and Risk Premium-based cost of capital methods, where size premia are used to determine the cost of capital for very small companies such as the applicant before the Commission in the immediate docket, Florida Public Utilities Company.

Below, I address each of issues identified above.

Q. PLEASE RESPOND TO AND ELABORATE ON THE RECOGNITION OF ISSUANCE COSTS WITHIN THE ALLOWED RATE OF RETURN ON EQUITY.

A. Issuance costs are real transactions costs, paid out in the course of providing funding for the Company's internal requirements for the cost of equity. Such costs reduce net proceeds realized by the Company from its pending sale of new equity securities and are fully justifiable. Accordingly, the Commission should account for such costs in full.

Professor Woolridge makes the following observations regarding the recognition of issuance costs for equity within the cost of capital and allowed rate of return. Dr. Woolridge indicates that the Company should document its proposed issuance costs and recognizes that issuance costs are composed of two elements, including the direct expenses associated with the transaction, and the discount claimed by the underwriters that sell the shares, where the discount is the difference between the price at which the shares are sold within primary markets, and the net proceeds realized by the Company. Dr. Woolridge recognizes that the direct expenses associated with the sale of securities, if the sale of shares is a real event and such expenses are at justifiable levels, are valid costs incurred in the course of doing business. Further, Dr. Woolridge suggests that the appropriate basis for recovery of such costs is within the ongoing expenses of the Company that, presumably, should be recovered directly in revenues charged to retail electricity consumers. Finally, Dr. Woolridge takes the position that discount spread for the sale of equity securities should not be recovered. Dr. Woolridge's view regarding the latter issue, which I will loosely refer to as discount spread, is as follows:

1) such transaction cost, which raises the cost of equity to the issuing Company, is offset by the transaction cost incurred by investors as counter parties to the sale of new securities; and

2) market prices of common equity shares for electric and gas utilities are trading at values substantially above book value. Accordingly, as argued by Dr. Woolridge, market prices are at a level sufficient to absorb any dilution of earnings per share in the form of additional shares outstanding that the internal returns to capital must cover.

My view on the recovery of issuance costs is that such costs reflect the resources associated with primary securities markets, and are thus true costs, as incurred by the counter parties to the transaction (sale), and that both parties would capitalize the transactions costs that each incurs within the price that they would be willing to pay for, and be willing to sell, the new securities. In the case of the issuing party, Florida Public Utilities Company, such costs are in the form of reduced proceeds from the sale, where the result is to raise the net carrying charge rate on the capital that is obtained.

A related question is whether there is a sufficient level of market efficiency associated with the bidding processes of competing security underwriters, in their role of providing the investment banking services. I do not find that the counterparty cancellation view, advanced by Dr. Woolridge, has merit. Moreover, the position that no dilution of book value takes place because market prices trade above book value is not, in my view, the relevant question. Rather, the question is whether the discount spread, which covers the resource costs of the investment banking services, are real economic costs and thus a valid component of the opportunity cost (rate) of capital (which is the net market discount rate of investors) to fund the incremental capital requirements of the firm. Certainly, my testimony does not mention book value dilution as the basis for acceptance or rejection of issuance costs by the Commission for inclusion within the cost of equity capital and allowed overall rate of return for the Company. Common equity of the firm is valued at the marginal cost of capital to the firm. On the basis of opportunity cost of capital (to fund incremental capital by the firm) in past testimony and in capital valuation studies, I have advanced the position that it is appropriate to recognize issuance costs on the share of increased equity capital raised externally.

Q. WHAT ARE THE CONSEQUENCES IF THE COMISSION DENIES THE COMPANY'S REQUEST TO RECOVER JUSTIFIABLE ISSUANCE COSTS?

A. It means that, by regulatory design, equity shareholders obtain returns on the capital committed to the provision of electricity services for the convenience and necessity of the public, that are less than the opportunity cost of capital.

Q. WHAT IS THE NET IMPACT ON THE COST OF COMMON EQUITY TO THE COMPANY AND THE ALLOWED RATE OF RETURN, AS A CONSEQUENCE TO THE COMMISSION'S RECOGNITION OF THE ISSUANCE COSTS ATTENDING THE COMPANY'S NEW SHARES OF COMMON EQUITY?

A. The estimated net impact on the cost of equity and allowed rate of return by the Florida Commission is equal to 0.33%, or 33 basis points.

Q. YOUR ISSUES LIST MENTIONS THE DETERMINATION OF THE FORWARD-YEAR DIVIDEND YIELD WITHIN THE CONTEXT OF DCF METHODOLOGY. PLEASE ELABORATE.

A. Professor Woolridge argues that the Company's DCF analysis has incorrectly specified the so-called forward-year dividend. Because I am unsure of precisely what Dr. Woolridge means, I will proceed to explain the approach that I have taken, which I believe is correct. That is, the observed dividend rate for the quarter previous to or for the month in which market price is sampled serves as the basis to determine the previous period's dividend rate. In many cases, utilities change the dividend rate no more frequently than annually, though exceptions to this general can be easily found in the historical records of dividend payments. The previous 3-4 years are used to gauge when a reasonable investor might expect the dividend rate to change, within the first forward year, though the record of when the dividend rate changes is not always consistent among previous years. Thus, historical experience of a utility could imply that the dividend rate would, most likely, change at a point within the forward year so that 3 of 4 quarterly dividends within the year are at the higher rate. Hence, the estimated growth rate is applied to 3 of the 4 quarterly dividends. On the other hand, the implication of history pattern in dividend increases over recent years may suggest that the higher dividend rate is applicable to only 1 of the 4 quarterly dividend payments of the forward year. In any event, I believe that the point made by Dr. Woolridge—that as an approximation only one-half the growth rate should be used in the determination of the forward year dividend—is an appropriate and a fair approximation, equivalent in intent to the procedure that I apply. For a utility, the actual change in the quarterly dividend rate may deviate from the historical pattern, and thus the result of my approach, or of the result obtained by applying the one-half growth rate rule. Nonetheless, the one-half growth rate rule is an appropriate approximation to determine the forward-year dividend rate, and I do not take issue with it.

Q. WHAT IS YOUR VIEW AND ADVICE TO THE COMMISSION REGARDING THE SHORT-TERM DEBT COST RATE FOR DETERMINING RETAIL PRICES WITHIN THE IMMEDIATE DOCKET?

A. The Company's proposed short-term debt cost rate is determined by the commercial terms of the Company's short-term credit facility with Bank of America, and varies with the one-month London Interbank Offer Rate ("LIBOR"). In turn, the pattern of LIBOR appears to vary closely though not uniformly with that of the U.S. Fed Funds interest rate, which is the short-term interest rate at which U.S. commercial banks lend funds among themselves. Historically, the one month LIBOR has been, on average, 18 basis points above the Fed Funds interest rate, though this spread varies from a -3 to +130 basis points, for the 1992 – 2007 period. Accordingly, the approach that we recommend to the Commission is to determine LIBOR on the basis of the Fed Funds rate plus the 18 basis point spread. To this interest rate is added the 90 basis point spread charged by the Company's bank, as defined by the terms of the line of credit, as well as other charges associated with the Company's short-term debt facility.

For setting retail electricity prices, the Commission should adopt a short-term debt cost rate that reflects the cost of short-term funds over the timeframe in which the retail prices are likely to be in place. The Federal Funds rate during late-December 2007 is representative of the likely range of the Federal Funds interest rate over this timeframe. Hence, I recommend that the Commission adopt the late-December 2007 Fed Funds rate as the basis to determine the appropriate level for LIBOR, and the cost rate for the Company's short-term debt. The late-December 2007 interest rate for Fed Funds is close to the observed fed funds rate over the period 1992-forward, and is thus a reasonable approximation of the cost rates that the Company will be charged for short-term debt in the timeframe over which the retail prices will be in effect.

Q. HAS THE COST OF CAPITAL CHANGED FROM 2006 TO 2007?

A. Not in any significant way. Changes in interest rates and levels of inflation are indicative of changes in the cost of capital, holding perceptions of risks and the demand for capital unchanged. While the average federal funds rate rose from 4.87% to 4.94% from 2006 to 2007, BAA bonds remained unchanged at 6.48% over the same period. However, 10-year Treasury bonds declined from 4.79% in 2006 to 4.63% in 2007. As has been brought out in my deposition, the fed funds target interest rate declined to 4.25% by year end 2007, from 5.25%. On the other hand, inflation in 2007 rose rather significantly from about 2.5% in 2006 to 4.0%., though inflation indexed securities ('TIPS") of the U.S. Treasury have remained virtually unchanged in 2007, with respect to 2006. At the international level, the recently released U.S. World Bank review of interest rate spreads for developing economies suggest that, for many regions, financial risks have declined during 2006 and 2007, from 2005 and earlier.

Q. SHOULD HISTORICAL RETURNS TO CAPITAL RISK PREMIA BE ASSESSED ACCORDING TO ARITHMETIC OR GEOMETRIC METHODS?

A. It depends on the application, and how the data are utilized. Most economists agree that, for assessment of risk premia spreads, that the better way to approach it is to assess arithmetic differences. If, on the other hand, the question is what have been realized returns to capital over an extended timeframe, outside the context of premia measurement, my view is that geometric measurement of returns is the better indicator for that purpose. However, it is common to reflect returns both ways and, for this reason, my exhibits reflect realized returns for the companies within the electric utility and natural gas samples by applying both arithmetic and geometric methods, and for multiple periods.

Q. CAN YOU PLEASE COMMENT ON THE CAPITAL ASSET PRICING MODEL AND RELIANCE UPON INDIVIDUAL COST OF CAPITAL ESTIMATES, USED IN ISOLATION?

A. The problems associated with the estimation of the cost of capital with Capital Asset Pricing Model ("CAPM") arise for reasons having to do with the assumptions underlying the CAPM specification as a whole, and obtaining reliable estimates of β as the sole measure of the relevant risks.

The traditional CAPM, which describes stock returns solely on the basis of an estimate of β, is based on the assumption that all market participants share identical subjective expectations of mean and variance of the return distribution, and the portfolio decision is exclusively based on these moments. However, empirical evidence suggests that the estimated CAPM does not conform to the theory. It has been observed by Engle (1982) and Bollerslev (1986) that return distributions vary over time. In other words, the stock return distribution is time variant in nature and hence, the subjective expectation differs from one period to the next. This can be interpreted as saying that investor expectations of the moments of the *ex ante* distribution of returns behave like random variables rather than as constants, as assumed in the traditional CAPM. The result of this modification of the assumptions in the CAPM has led to the specification of conditional CAPM ("CCAPM") formulations that attempt to account for the fact that both the expected value and the variance of returns may be time varying. A review of these studies finds that the accurate prediction of future market returns, within the CAPM framework, remains elusive.

The lesson to be taken from shortcomings associated with the theoretical development of CAPM, and estimation of the market-based returns using a single-factor CAPM formulation, is that there exists a substantial level of uncertainty in the resulting estimates. Therefore, strong adherence to the classic CAPM framework, in the absence of other approaches is not advisable. But CAPM should not be singled out; each of the several approaches, as members of, should we say, the cost of capital toolbox, has limitations. As a practical matter, it is thus appropriate to draw upon multiple methods anchored in historical experience. In closing on this topic, my view is that other approaches referred to as arbitrage pricing theory ("APT") and factor models, coupled with the simulation of future possible states of right-hand-side variables drawn from correlated distributions of historical experience, may be a better and more complete methodologies.

Q. CAN YOU PLEASE COMMENT ON THE USE OF SO-CALLED *EX-ANTE* RISK PREMIA IN THE DETERMINATION OF THE COST OF EQUITY CAPITAL?

A. Yes. For some time, economists have observed that realized historical market returns do not appear to comport with economic theory. The issue was formalized in the 1985 discussion paper by Rajnish Mehra and Edward C. Prescott, "*The Equity Premium, A Puzzle*", which I included in the collection of documents and reports provided to all parties in the immediate docket. The Mehra-Prescott paper precipitated a substantial body of further work, some of which is cited by Dr. Woolridge that explores the reasons why observed historical realized returns and risk premia, repeatedly and over extended timeframes, depart from the level suggested by economic theory, at least the formulation of utility theory and preference toward risk set forth by Mehra and Prescott. Essentially, so-called Puzzle Research is a well known and has been studied extensively. Two general threads of this research include a so-called behavioral approach (see article on this topic which appeared recently in the *Journal of Economic Literature* "Disagreement and the Stock Market" by Hong and Stein, 2007 that explores historical returns with different models and assumptions about investor behavior. A second approach is the application of economic simulation methods where the projections of returns are developed from exogenous data, including historical returns and other financial market information.

At this point, my perspective on this issue is that no clear viable solution to the "Puzzle" is present. As a result, I suggest that the Florida Public Service Commission, for the purpose of determining the cost of equity and the allowed rate of return, utilize risk premia and returns that are drawn from historical experience exclusively. One of the most useful compendium surveys of the puzzle research literature is that of Richard Derrig and Elisha Orr, "*Equity Risk Premium: Expectations Great and Small*". They (Derrig and Orr) summarize at several places of this substantial survey and, emphasizing the dichotomy, at one point state:

"In a curiously asymmetric way, there are no serious studies yet concluding that the historical results are too low to serve as *ex ante* estimates. Although both groups have made substantial and provocative contributions, the behavioral models do not give any ex ante ERP estimates other than explaining and supporting the historical returns. Although both groups have made substantial and provocative contributions, the behavioral models do not give any ex ante ERP estimates other than explaining and supporting the historical returns. We presume, until results show otherwise, the behavioralists support the historical average as the *ex ante* unconditional long-run expectation."

One of the two original researchers (Mehra) is quoted by Derrig and Orr as stating:

"Before we dismiss the premium, we not only need to have an understanding of the observed phenomena but also why the future is likely to be different. In the absence of this, we can make the following claim based on what we know. Over the long horizon the equity premium is likely to be similar to what it has been in the past and the returns to investment in equity will continue to substantially dominate those in bonds for investors with a long planning horizon."

In summary, I advise the Commission to rely on historical measures of historical market returns and risk premia for purposes of determining the cost of equity capital.

Q. WHAT IS YOUR RECOMMENDATION AND GUIDELINE TO THE COMMISSION FOR DETERMINING THE HISTORICAL MARKET RETURNS AND RISK PREMIA?

I should mention that, to the degree that the Commission exclusively relies on historical market returns— which is my recommendation and view—that caution is the word for assessment of historical returns. Specifically, it is essential that historical returns be gauged in a manner that is consistent with the context. Historical equity risk premia are reported in a number of ways including arithmetic and geometric returns, nominal and real returns, for short- and long-term timeframes, and with respect to short-, intermediate-, and long-term future timeframes. In addition, some of the research and estimates of historical returns are viewed as conditional and other research as unconditional. The various articles including surveys of historical returns as well as simulations of future returns are laced with measurement differences along these dimensions. Comparability of study results can be problematic; historical risk premia across studies cannot be accurately gauged without having ensured a comparable basis of measurement.

Q. CAN YOU PLEASE COMMENT ON BOND RETURNS AND BOND YIELDS?

A. For some period, the determination of *ex post* returns on bonds, including Treasury securities and bills, incorporates the realized interest income as well as the gains and losses in the market value of the securities. If bonds are held to maturity, the realized return is referred as the yield to maturity, and may be substantially different from stated yields published at some point in time. Over long timeframes, the month-by-month stated yields closely approximate the income return component, for Treasury bond securities.

Q. DR. WOOLRIDGE INDICATES THAT THE SIZE PREMIA ASSOCIATED WITH VERY-SMALL SIZED EQUITIES SHOULD NOT BE UTILIZED TO DETERMINE THE COST OF EQUITY CAPITAL. WHAT IS YOUR VIEW ON SIZE PREMIA?

A. A substantial level of empirical work substantiates the existence of size premia for the U.S., and also for emerging world markets though the evidence regarding non-U.S. markets is certainly less complete. Size premia is well-recognized, and the remaining questions focus on the underlying reasons.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.

BY MR. HORTON:

Q And do you have a summary to present?

A Yes, I have a short summary. And today I'll try to keep it short, Mr. Chairman. Apologies for yesterday. I misunderstood my instructions.

I list on Page 2 and 3 the issues that I take up. These are often detailed issues with which I quibble with Professor Woolridge regarding cost of capital. These are to some extent just technical issues that we have disagreements on and maybe some differences in interpretation, and for the most part are of small scale as far as the overall rate of return and return on equity is concerned.

The issues here that I list, the ones that really matter I think have to do with the issuance of equity and the issuance costs associated with that; and then secondly, the appropriate cost rate for short-term debt; and then finally, of course, the risk premia that's used to estimate the cost of capital.

Now with regards to issuance costs, generally speaking it's common for those costs to be recognized by regulatory bodies within the rules of conventional regulatory governance wherein a utility is issuing new equity. So that being the case with FPU, the Public, excuse me, Florida Public Utilities Company does anticipate issuing new equity this year, 2008, this year, and so thus I've included those issuance costs in the, in the common equity return recommendation. I believe that the approach that I've taken, which has been detailed in response to an interrogatory request put forth by the staff, identifies the methodology and I think that's fully documented.

So the bottom line is we would ask that the Commission include equity issuance costs within its overall authorized rate of return on equity for the company.

Now turning to short-term debt cost rate, this is especially important for Florida Public Utilities Company insofar as they in their underwriting of their assets and capital resources for, for utility plant and equipment used substantial levels of short-term debt. The short-term debt cost rate is, as far as the facility is concerned, facility with Bank of America (phonetic) is well-established and recognized, has been in place for a number of years.

The relevant issue is just what is the Fed Funds rate? I think everybody agrees with my recommendation that we use that as the basis to set that fund rate. The relevant question then is what is that fund rate likely to be over the time frame in which the rates are to be in effect?

Public Counsel has in its position set forth a 4.25 percent Fed Funds rate. In view of the changes that have taken place recently, I suggest that we use a historical basis Fed Funds rate of 4.06 percent, slightly, somewhat below that. And just recently staff has put forth a recommendation of

3.5 percent as I understand it. Staff may want to interject on this, but I understand that those are the three approaches that have been advanced. I believe that the staff 3.5 percentage point Fed Funds rate is, is based upon historical experience, 2001 forward.

Now, as I understand, and certainly as Ms. Christensen took me through, across yesterday, the current Fed Funds rate is 3 percent. I have indicated in a, a interrogatory, excuse me, in an interrogatory response that it's going to decline somewhat. But we would suggest that we stick with a 4.06 percent rate based upon history.

Regarding the risk premium, well, there no doubt are many studies that suggest that the historical-based risk premium is above that, and there are a number of methods, in fact, applied to assess that historical risk premium. At this point, looking at the recent history as well as the long-term history, we find no evidence that that risk premium is declining. Now if it shows up in the recent history and we have reason to believe that the risk premia is declining, this would be the equity risk premia with respect to Treasury debt yields, in my case it is intermediate debt yields, then I would suggest, yes, perhaps give consideration to these simulation studies and surveys and so forth. But absent that historical experience, because this has been looked at for many years, I would recommend that the Commission stay with the historical-based risk premia. Thank you.

MR. HORTON: Thank you. Mr. Camfield is available.

CHAIRMAN CARTER: We'll get him a sundial.

THE WITNESS: That was about two minutes, wasn't it?

(Laughter.)

CHAIRMAN CARTER: Ms. Christensen, you're recognized.

CROSS EXAMINATION

BY MS. CHRISTENSEN:

Q Good morning, Mr. Camfield.

A Good morning.

Q I just have a few questions for you this morning.

Under the fixed rate contract you have with FPUC did you send the company monthly invoices regarding your work that the company, was performed by your company?

A I don't know. I suspect that we did, but it's handled by our administrative staff and, frankly, I don't know. But I anticipate that, yes, we would, we would do that normally.

Q Do you know what, what level of detail you provide in those analysis and how you would document what work was performed?

A The structure of the invoice includes the billing hours and the billing rates of the individuals that worked on, on the substantive work provided.

Q Okay. But you don't know whether or not it had a description of the work that they performed?

A We do recognize the work, Ms. Christensen, according to task areas, but not specific detail beyond that.

Q Okay. Now let me turn you to --

A May I just elaborate?

Q Sure. Certainly.

A Just to give you a full answer on this.

So, for example, the task areas that I believe are recognized would be the preparation of the MFRs and the support of the filing and all the data and information that is involved in that. That's a substantial piece of work.

And then secondly we have a task area referred to as cost of service studies and billing determinants. A third area would be the cost of capital preparation, essentially my, my area, my substantive area. And I believe there's a fourth task area that the title slips my mind. I think it might be regulatory support.

Q Okay. Let me turn your attention to your rebuttal testimony on -- I believe it's Page 12 of your rebuttal testimony.

A I have it.

Q And in that -- okay. And in that testimony you state that "For some time economists have observed that realized historical market returns do not appear to comport with economic theory." Is that a correct summary of your statement?

A That is.

Q Okay. And that while you acknowledge the problem with relying on historical market returns and state that no clear solution to the problem, there's no clear solution to the problem, you have presented no solution to address this historical bias. Would that be a correct summary?

A It's not clear to me that it's a bias. It's that theory and studies essentially cannot explain the historical market returns. In other words, we cannot understand as economists, financial economists exactly why historical returns are at the levels that they are when you look at the problem from the perspective of, of simulation, economic simulation of output of an economy and so forth giving rise to returns to capital. It doesn't quite add up.

Now the relevant question I think is just, well, what are the differences? How big they are. And so, quite frankly, the differences aren't nearly as large when you go through and look seriously within the studies and review the studies. I have many of the studies that are cited in my files by Professor Woolridge and so I know this literature a bit. I didn't know that it was going to be an issue here or I would have brought it up, but -- in my prefiled testimony.

But the bottom line is if you go through the studies and look at the methodologies, you find a number of variations such as, well, risk premia with respect to what? Is it with respect to corporate bonds, long-term treasuries or short-term bonds? Are we going to measure historical premia with respect to two different methods, general methods known as geometric returns or arithmetic returns? The financial economists generally agree that the arithmetic approach is the better way. Or are we going to look at them in terms of real rates of return or nominal rates of return? So we have to put it into the context. Now here the relevant context is with respect to intermediate bonds and then, secondly, nominal rates of return.

Q Let me ask you, are you aware that the New Hampshire Public Utilities Commission in May of 2007 approved a settlement for the Public Service Company of New Hampshire with an ROE of 9.67 percent?

A Though I was the Chief Economist of the New Hampshire Commission at one time, I'm unfamiliar with the order.

Q Okay. Are you aware that the Arkansas Public Service Commission in June of 2007 approved an ROE of 9.9 percent for Energy Arkansas?

A Yes, I had heard about that decision. Let me just add that if we want to look at authorized rates of return, a recent survey that was developed in a proceeding that I was involved in and filed shows that the authorized returns -- this would be based upon orders by regulatory agencies nationally where those orders are surveyed, the information is compiled by an organization known as Regulatory Research Associates, now a part of the SNL, and that -- SNL Financial Services. And that survey result shows that overall across, across the regulatory governance agencies in the U.S. that for 2004, as I recall, the overall average authorized return on equity was 10.75 percent. For 2005 it was 10.57 percent, if I recall correctly. And through 2006, at the time we didn't have complete data, it was 10.58 or 54 percent.

Q And you would agree for 2007 the full year averages would be 10.36?

A Possibly. I haven't seen that data.

Q If I show you -- but you would agree that that's possible that it's 10.36 for the overall 2007 average?

A I agree that it's possible.

Q And let me ask you are you aware that the New York Public Service Commission in October 2007 approved an ROE of 9.1 percent for Orange and Rockland Utilities?

A I'm not familiar with that order, but I know Orange and Rockland and I, I know their corporate situation, which is an affiliate of Con Ed, as I recall, which is a very large utility.

So when you look at these returns, you want to account for differences in size insofar as the empirical and theoretical information clearly suggests that smaller companies and utilities, because they're unable to diversify risks nearly as much as larger companies, may thus have, as we'd expect, higher cost of capital, thus higher authorized returns.

Q Let me ask you this, are you aware that the Public Utilities Commission of Texas in December 2007 approved an ROE of 9.96 percent for AEP Texas Central Company?

A No.

Q And are you aware that the Connecticut Department of Public Utility Control in January 2008 approved an ROE of 9.4 percent for Connecticut Light & Power Company?

A Yes.

MS. CHRISTENSEN: Okay. I have no further questions.

CHAIRMAN CARTER: Okay. Commissioners, any questions at this time?

Commissioner McMurrian, you're recognized.

COMMISSIONER McMURRIAN: I have a few, Chairman, if that's all right.

CHAIRMAN CARTER: You're recognized for a few questions.

COMMISSIONER McMURRIAN: Thank you.

Hi, Mr. Camfield.

THE WITNESS: Hello.

COMMISSIONER McMURRIAN: First I wanted to ask you about in your summary you talked about staff putting forward a short-term debt cost rate, I believe it was, of 3.5 percent. Can you elaborate on that? Because I didn't think that staff at this point in the case had put forward anything. In fact, can you, can you help me understand where the 3.5 percent you were referring to --

THE WITNESS: I believe the 3.5 percent, percentage point Fed Funds rate was advanced by staff in a staff position.

COMMISSIONER McMURRIAN: Okay. Okay. And then I had some questions. Yesterday when we heard from Mr. Woolridge there was a lot of discussion about gas versus electric companies and their risks.

MS. CHRISTENSEN: Commissioner, I'm sorry. Can I object? I want to make a comment regarding the, the Fed Fund rate that was proposed by staff. My understanding is that was proposed for negotiation and settlement purposes between the parties and I would like to note that for the record.

CHAIRMAN CARTER: Duly noted. You may proceed, Commissioner.

COMMISSIONER McMURRIAN: Thank you. And I will go back and look.

With respect -- Mr. Woolridge yesterday was talking with us a little bit about the risk of gas companies and electric companies, and I think you were here for that.

I believe he said, and I don't want to put words in his mouth, but I believe he said that gas companies had slightly lower risks than electric companies. Do you agree with that?

THE WITNESS: Well, the relevant question there, Commissioner, of course, is what are the relevant risk measures? What risk measures or metrics do we want to use and what are relevant to investors? And the context certainly of Professor Woolridge's response to that issue was the ValueLine set, selection of ValueLine metrics that were ascribed or described as risk metrics.

Now I use, I use a set of risk metrics, I draw upon in my sample from ValueLine data banks, construct my own risk metrics, and I find that the gas sample is precisely the same as Professor Woolridge's, I think he used my sample, as he said, are as a whole, those companies, gas companies as a whole, small distribution companies, are comparable in risk to FPU, and I show that in my exhibits.

Notice also the -- if I may just elaborate. The Capital Asset Pricing Model beta, the key risk metric in the context of CAPM model, cost of capital model estimation, and that average or typical level of beta for those gas distribution companies in 2007 is above that of 2006, which was my sample time frame, and above that of FPU. And at least for CAPM, I mean, that is conceptually the only risk metric that matters in the cost of capital thus as implied for the gas companies would be above that of FPU.

COMMISSIONER McMURRIAN: And -- Chairman, thank you. Isn't it generally true that the higher the risk, the higher the return?

THE WITNESS: Yes.

COMMISSIONER McMURRIAN: Okay. I guess I'll just, I'll just state I was a little bit confused yesterday as we were looking at some of the, the data that we had before us that we were talking about that the gas companies had lower risk, and yet I was looking at charts that showed higher return ROEs for that. And I should have probably followed up with that witness. I was thinking about it a lot last night and I wanted to get your thoughts on it.

THE WITNESS: Yes. I find them equivalent or slightly higher in risk by my metrics than FPU. And also that comports with the realized returns for the gas companies are somewhat above that of my electric sample, which would confirm your positive risk return relationship, which I think is pretty well documented and accepted.

COMMISSIONER McMURRIAN: Okay.

THE WITNESS: I agree.

COMMISSIONER McMURRIAN: Thank you. That's all, Chairman.

CHAIRMAN CARTER: Commissioners, anything further?

Staff, you're recognized.

MS. BROWN: Yes, Mr. Chairman.

CROSS EXAMINATION

BY MS. BROWN:

Q Mr. Camfield, earlier you discussed the survey by the

Regulatory Research Associates. Is that -- am I labeling that right?

A You are.

Q We would like a copy of that survey. Well, first, let me ask this. Am I correct in assuming that the data for 2007 is not available yet?

A I don't know. I have not -- well, they collect orders as the orders by the regulatory bodies nationally are released and then essentially put that information into their databases. So when you use RRA data, you essentially subscribe to the service and then access the database and pull together the studies that you wish. We do not currently have a subscription to RRA, though we've discussed it. I've discussed it with my client.

Q So are you telling me there would be no way for us to get a copy of the yearly surveys from 2005 through 2007?

A Not without a subscription. Now the information that I cite here, the 10.75 through 10.58 percentage points years 2004 through 2006, that's a result of, yes, the RRA authorized returns as gathered in another proceeding in which I was involved in and reported in that proceeding. So I'm, I'm providing you with the results of reported information, officially reported information with another regulatory proceeding. In this case I was testifying, just to be specific, on behalf of Kansas City Power & Light with regards to corporate performance. Yes.

Q All right. And that's a matter of record.

A Yes.

Q Could we have a copy of that?

A Absolutely.

Q Thank you. That would be --

CHAIRMAN CARTER: Late-Filed Number 95.

MS. BROWN: Late-Filed 95, yes. We'd like to mark it. And then after we have our discussion with FPUC --

CHAIRMAN CARTER: Okay. Give me a title.

MS. BROWN: -- we'll get back to you.

CHAIRMAN CARTER: Give me a title.

BY MS. BROWN:

Q Oh, what is -- Mr. Camfield, what was the name of the proceeding or where was it, in Kansas?

A The copy of the study is part of rebuttal testimony by a fellow that I have worked with, Dr. Hattaway.

Q All right. Well, how about --

A Teamed up with him. And, well, it's in KCPL's, Kansas City Power & Light's regulatory proceeding in Missouri. They had a parallel proceeding at the same time in Kansas in, initiated in late 2005 but in 2006.

Q This is Mr. Hattaway. Why don't we call this Rebuttal Testimony of Hattaway in Related KCPL and Missouri Proceedings.

A That's correct.

Q Okay.

(Late-Filed Exhibit 95 identified for the record.)

CHAIRMAN CARTER: Okay. Commissioners, any further questions?

Any further cross? Mr. Horton, you're recognized.

MR. HORTON: Just a couple of things. First of all, do you want the rebuttal testimony or just that exhibit, just that schedule?

MS. BROWN: I think the exhibit really is probably what we would be interested in.

MR. HORTON: Okay. And I do have a question. But to begin with, Mr. Chairman, if, if Mr. Camfield has inadvertently disclosed something that was subject to some negotiations, that was not intentional. There's been a number of things -- I noticed that the staff does indeed make a position with regard to the short-term debt. There's been various copies of all this material going around. So if we did inadvertently mention something, I do apologize to the Commission. I know it was not intentional on our part, so my apologies for that.

CHAIRMAN CARTER: Duly noted.

MR. HORTON: Just a couple of questions for Mr. Camfield.

REDIRECT EXAMINATION

BY MR. HORTON:

Q Mr. Camfield, Ms. Christensen asked you about some orders and some allowed ROEs. Are you aware that in North Carolina the Commission there awarded on November 29th, 2007, to Duke Energy an ROE of 11-point -- 11 percent?

A Yes.

Q And that the Georgia Commission by order of December 18th, 2007, authorized 11.25 percent ROE for Georgia Power?

A Yes. Though we, we need to recognize comparability. Those are very large utilities, as we all recognize. And because risks tend to rise progressively with smaller size utilities, negative relationship there, then it would imply higher cost of capital for smaller utilities than those returns would suggest.

MR. HORTON: Thank you. That's all I have.

CHAIRMAN CARTER: Okay. And there were no exhibits.

MR. HORTON: That's correct, Mr. Chairman. And may Mr. Camfield be excused?

CHAIRMAN CARTER: Anything further, Commissioners?

MR. HORTON: I'm sorry.

CHAIRMAN CARTER: Okay. Yes, he may be excused. Call your next witness.

MR. HORTON: Call Mr. Cutshaw.

CHAIRMAN CARTER: Mr. Cutshaw.

Let's do this before we call Mr. Cutshaw, I'm sorry, for the court reporter. You know, we were going on a streak there. Let's give the court reporter a break. I'm looking at 10:38. Let's take ten minutes. We'll be back at 10:48. Or look at your watch; in ten minutes we'll be back. So we're on recess.

(Recess taken.)

We are back on the record. And just before we proceed with our next witness, I'm going to ask if we could call Mr. Camfield back for just one moment.

MR. HORTON: Yes, sir.

(Witness Camfield recalled to the stand.)

CHAIRMAN CARTER: Thank you. Thank you, Mr. Horton. I appreciate your cooperation in this.

I asked a question, remember I was talking -- I think you were here yesterday when I was asking questions about the economics in terms of the bond market, the credit markets, the capital markets, and I made reference to what I had read in the Wall Street Journal and listened to on, watched on CNBC about even though there's, the Feds had lowered the Fed Fund rates, there was still a crunch for capital in terms of being able to get credit. And one of the questions that I asked was whether or not -- I think I asked this today, was whether or not the impact of this credit situation, has it impacted the bond rating of the company?

THE WITNESS: Well, there's no question that rating agencies are, because of the mistakes with regards to what are known as structured, structured financial vehicles, asset-backed securities as they're known in this case, mortgages, they made a mistake, so they're taking a pretty cool hand these days to, to, and looking more in depth at the inherent risks to various debt issues in their rating processes. There's no question.

This is showing up in a couple of respects. First of all, lenders in some cases are much less willing to just put up capital. You've read, Mr. Chairman, certainly about the failure of the auction security market where the auctions just simply failed. There was not enough money to underwrite the securities that were up to, to be sold. And then secondly, of course, the, the big downturn in structured investment vehicles, much of which was owned by the very large financial firms, including investment banking firms as well as commercial banks in this country and overseas as well.

In terms of corporate debt, that means that despite the declines that we see in short-term Treasury Bill yields and Fed Funds rate declines, LIBOR rates are down from late 2007, we see actually an uptick in bond yields. Recall that Mr. Horton, my counsel, asked Dr. Woolridge about bond yields, and Professor Woolridge, I think, accurately makes the statement that generally speaking, interest rates are down a little bit in the last four or five years, but they've turned up and turned up sharply just very recently. You see that, for example, in Baa corporate bond debt yields. You see it also in even AAA debt yields. Let me give you a specific number. Right now Baa debt is trading at right at 6.75, 6.79 percent up from 6.48 percent average for 2007. It was also 6.48 percent exactly in 2006. I have these data that I carry around in my head. And we see a similar trend in, in AAA securities as well, as I mentioned.

In addition to that, there's a sharply upward sloping term structure that's sometimes referred to as a yield curve on securities, suggesting that because of higher expected inflation -- Treasury securities, of course, are sensitive to expected inflation, and so the longer term securities are upward sloping these days rather significantly, suggesting that in the future, say, two, three years forward, that short-term interest rates will, will be up from where they are currently. And that's consistent with previous business cycles.

We're essentially in the process of a modest downturn, and it's a classic business cycle much like 1991 but not like 2001, by the way. Maybe I'm elaborating too much here. I apologize for going off on this.

CHAIRMAN CARTER: That's fine. Thank you. Commissioners, I beg your indulgence. I just had that question. And I know that Mr. Camfield had finished his testimony, but still I wanted to follow up on that. Do any of you have any questions for Mr. Camfield at this time?

Okay. Thank you, sir. Thank you very much.

MR. HORTON: Thank you.

CHAIRMAN CARTER: You can call your next witness.

MR. HORTON: We're ready with Mr. Cutshaw.

P. MARK CUTSHAW

was called as a witness on behalf of Florida Public Utilities Company and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. HORTON:

Q Would you please state your name and address for the record, sir.

A My name is Mark Cutshaw, 911 South 8th Street, Fernandina Beach, Florida.

Q And, Mr. Cutshaw, you were sworn during this proceeding yesterday, were you not?

A Yes.

Q Did you prepare and prefile rebuttal testimony in this proceeding?

A Yes, I did.

Q Do you have any changes or corrections to make to the rebuttal testimony at this time?

A No, I do not.

Q If I were to ask you the questions contained in that rebuttal testimony today, would your answers be the same?

A Yes, they would.

MR. HORTON: Mr. Chairman, may I request that Mr. Cutshaw's rebuttal testimony be inserted into the record as though read?

CHAIRMAN CARTER: The rebuttal testimony will be entered into the record as though read.

BY MR. HORTON:

Q And, Mr. Cutshaw, attached to that testimony did you prepare and attach exhibits which have been identified as 60 through 71?

A Yes, I did.

Q Do you have any changes or corrections to make to those exhibits at this time?

A No, I do not.

REBUTTAL TESTIMONY
OF
P. MARK CUTSHAW
IN

FLORIDA PUBLIC UTITITIES COMPANY
DOCKET NO. 70304-EI

IN RE: PETITION OF
FLORIDA PUBLIC UTILITIES COMPANY
FOR AN ELECTRIC RATE INCREASE

Q. Please state your name, affiliation, business address and summarize your professional experience and academic background.

A. Witness Cutshaw: My name is P. Mark Cutshaw. I am the General Manager, Northeast Florida for Florida Public Utilities Company (FPU). My business office address is 911 South 8th Street, Fernandina Beach, Florida 32034. I joined FPUC in May 1991 as Division Manager in the Marianna (Northwest Florida) Division. In January 2006, I moved into my current position of General Manager in our Northeast Florida Division. I graduated from Auburn University in 1982 with a B.S. in Electrical Engineering and began my career with Mississippi Power Company in June 1982. While at Mississippi Power Company I held positions of increasing responsibility that involved budgeting, operations and maintenance activities at different company locations. My work experience at FPUC includes all aspects of budgeting, customer service, operations and maintenance in both the Northeast and Northwest Florida Divisions. In 1993, I participated in the Cost of Service study for the Marianna Division Rate Case Filing and testified during the proceeding. I also participated in the 2003 rate case filing that consolidated the rates for both divisions. I have also been involved with other filings, audits and data requests before the FPSC.

Q. What is the purpose of your testimony in this proceeding?

A. This testimony is to provide additional testimony and information in support of our rate proceeding in response to the testimony provided by the Office of Public

Counsel witnesses, Patricia Merchant and Hugh Larkin. Also included in this testimony is response to testimony provided by third party attachers in Docket #070300.

Q. Please summarize what areas you will be addressing in your testimony.

A. The majority of my testimony will focus on storm hardening issues in which I do not agree with the testimony of Office of Public Counsel witnesses Patricia Merchant and Hugh Larkin. Issues regarding special deposits, temporary services, storm reserve, advertising, economic development and rental expense will also be addressed. Testimony is response to storm hardening testimony provided by third party attachers is also included.

Q. What is the total cost associated with the storm hardening initiatives, and what is the estimated annual cost associated with those initiatives?

A. We have detailed some of the individual issues and cost estimates related to the storm hardening initiatives within our testimony, but I have also included a summary of our latest cost estimates compared to our original estimates as Exhibit MCR-1. The plan filed in June 2007 is our current plan; however, some of the cost estimates have changed. The Company has offered support for our projections and used expert estimates and bids to support those estimates used in projections. If the Commission determines that changes are required to the plan filed in June 2007, then cost estimates would need to be revised accordingly.

Transmission Pole Replacement

Q. What did the company propose in regard to the replacement of 69 KV transmission poles?

A. The Company proposed to replace approximately ten poles per year during a 20 year time period in order to improve the overall integrity of the 190 wood poles remaining in the 69 KV transmission system. The $4,085,000 total cost (2007 cost) associated with this would be amortized over a 20 year period. The proposal is outlined in the OPC Production of Documents Exhibit 27.1 which is included as Exhibit MCR-2 to this testimony.

Q. How long have the poles on the 69 KV transmission system been in service?

A. Regarding the 190 wood transmission poles in service, there are 55 poles that have been in service 30 or more years and 56 poles that have been in service between 20 and 30 years. If these are replaced in accordance with the proposal, a total of eleven years would be necessary to complete the process which results in the replacement of poles which had been in service in excess of 30 years. Based on the age of these poles and damage imposed on wood pole by wood peckers, it is important that these older poles be replaced on a routine cycle. Exhibit MCR-3 is attached which shows the information for all 69 KV wood poles on the Company transmission system.

Q. Do you have information on cost associated with the replacement of similar type poles?

A. The last project to replace 69 KV wood transmission poles similar to the type work contained in the proposal was completed in 1998 and involved the replacement of three 69 KV wood transmission poles with 82 foot concrete poles. A contractor was used to perform this work. The work was performed on IR #20034 with a total cost of $44,387 (See Exhibit MCR-4). If this cost were escalated at a conservative 3.5% per year the 2007 amount would total $60,494 or $20,164 per pole replaced. This verifies that the estimate used in the development of this project of $21,500 is reasonable. Exhibit MCR-5 shows current pricing (11/29/07) on 82' concrete poles with a cost of $5,717 per pole that will be purchased in January 2008. Exhibit MCR-6 shows bids received recently for the installation of concrete poles that range in amounts from $17,500 to $20,177 per pole.

<u>Recovery of Transmission Pole Replacement Cost</u>

Q. Do you agree with Ms Merchant's recommendation regarding the amortization of cost associated with replacement of transmission poles?

A. No I do not. Although this approach is different than the normal approach used in rate proceedings, this mechanism has been used and approved by the commission in the replacement of bare steel gas mains in our natural gas operations. Based upon the significant expense to the company, the normal approach to rate making does not allow adequate recovery to the company in order to comply with the requirements. The amortization will allow the company to more quickly upgrade the transmission system, make preparation for a significant storm event and provide for the long term benefit of our customers.

Q. How will the Company be monitored by the Commission if this is approved?

A. Annual reports will be provided to the Commission regarding the work completed, expenses incurred and compared to the revenues received. This will provide a documented method of oversight to ensure compliance with the program.

Q. What is the appropriate depreciation for concrete poles that are not included in the amortization proposal?

A. Currently, a small number of concrete poles are included in the depreciation study along with wood poles and depreciated accordingly. In our in-process depreciation study under Docket No. 307382-EI, Staff is proposing that the Company establish account 355.1 – Concrete Transmission Poles, with a 40 year life, -30% Net Salvage, and 3.3% Remaining Life Rate (annual depreciation rate). The Company agrees with this proposal.

Q. Is it possible to offset cost and comply with the storm hardening requirements by bracing and guying the transmission poles?

A. In some cases it is possible to increase the loading capacity of transmission poles through the use of bracing and guying. Transmission lines are typically constructed on right of ways that allow for the use of guying thus increasing the loading capabilities of the structure. However, the vast majority of the 69 KV transmission system on Amelia Island is located on city streets which will not physically allow for the placement of guy wires. Similarly, based on the urban location, the use of bracing would not be appropriate due to the aesthetic concerns and would not be accepted within the community.

Special Deposits

Q. What are the terms of the Special Deposits that the Company has paid to the transmission providers associated with the Network Operating Agreements beginning in 2008.

A. A total of $189,530 was paid to JEA in the form of a deposit which will be refunded to the Company, with interest less any cost associated with studies that may be performed, in conjunction with the first months billing for January 2008. A total of $130,306 was paid to Southern Company in the form of a deposit which will be refunded to the Company, with interest, after one year of service or January 2009. The final documents related to these agreements were completed at the end of December 2007 and are attached as Exhibit MCR-7. Recommendations on the appropriate adjustments are included in Mr. Jim Mesite's rebuttal testimony.

Temporary Services

Q. Please explain the issue with the collection of temporary service charges addressed in Mr. Larkin's testimony.

A. During this rate proceeding, an adjustment has been proposed to the charge for temporary service in the amount of $200 per overhead service and $170 per underground service as well as additional charges if excess facilities are required. The currently approved tariff includes $150 per overhead service and $110 per underground service. This has resulted in the under collection of revenues for temporary service installation. The issue with the temporary service charges continues to be addressed and the charges to this account are reviewed closely in order to attempt to balance the amounts that are approved in the tariff for temporary service charges.

Q. What should be done to correct the adjustment suggested in Mr. Larkin's testimony.

A. The account is being handled according to the approved tariff and an arbitrary adjustment has impacts on other areas within the proceeding. Additional information is required in order to determine if any adjustment is required and would be contingent upon the approval of the proposed temporary service fees. If an adjustment is warranted, the changes necessary should also be made to the tariff.

Storm Reserve

Q. Do you agree with the recommendation in Mr. Larkin's testimony regarding a reduction in the storm reserve amount?

A. No. As was indicated in the testimony, over the last 19 years the company has not experienced a catastrophic storm event in either division. One division is located on an island in Northeast Florida and one is located within a short distance of the coast in the Florida Panhandle. Based on these locations and the lack of a significant event in 19 years, the storm reserve does appear reasonable based on past experience. However, it does not appear to be in the best interest of the ratepayers or the company considering the probabilities as having a major storm occur seems to be increasing with every passing year.

Q. What impact could a significant event have on the Company?

A. Being a relatively small company with small compact service territories, a significant event could have a large impact on the company and the rate payers. Should a significant event occur with the currently approved storm reserve, it would be necessary to petition for a large storm surcharge to cover the damage. As has been indicated from recent customer surveys and customer comments, customers expect the company to be prepared for events that could cause the rates to increase dramatically. One measure is to increase the storm reserve to avoid a dramatic increase when a significant storm event occurs. Living in Florida we all know it will happen, we just don't know when and not having a hurricane in many years' only increases this possibility.

Forfeited Discounts

Q. Do you agree with Mr. Larkin's recommendations regarding late payment fees?

A. No, I do not. Mr. Larkin stated that revenue projections from late fees should be increased due to the decrease in time to pay the bill. It was not the intent of the Company to decrease the time allowed for customers to pay the bills but to get a documented date while still ensuring the customers had 20 days from mailing to pay the bill. Although the proposed tariff wording allows for improved documentation of dates, the Company is willing to re-file tariff language to clarify that the time for payments does not decrease and allow for compliance with the rule. Actual revenues from January through November for late payments for 2007 ($315,179) compared to 2006 ($323,038) have in fact declined 2.4%. Based upon this factor, indications are that this trend may continue.

Q. What is your recommendation on the appropriate method to handle late payment fees?

A. The late fee adjustment recommended by Mr. Larkin due to time to pay the bills is unjustified. My recommendation is that no adjustment be made to late fee payments. The Company will also re-file the tariff language to clarify when late payments are assessed and comply with the commission rules regarding this issue.

Other Information Advertising

Q. Do you anticipate that advertising expenses will remain at the increased level which is included in this filing?

A. Yes. As was indicated in Mr. Larkin's testimony, expenditures on advertising in the past were extremely low. This was as a result of the customers enjoying low rates and excellent service. During 2006, with the increases in fuel cost, the Company focused on keeping customers informed on what was and would be occurring regarding electrical cost. Based upon limited customer response received after the higher rates became effective in Northeast Florida, it appeared the communications were successful. With the higher costs, customers are much more concerned with what service they are receiving for their money. Continuing in

2008 there will be the need to continue to provide excellent service and to keep the customers informed of issues surrounding electrical cost and operations. Issues like annual fuel cost increases, increased vegetation management, tree planting information, undergrounding of electric lines, photovoltaic/renewable energy generators, automated meter reading and franchise negotiations will be of great interest to customers. It is fair and reasonable for customers to be provided this information from the Company on a timely basis.

<u>**Tree Replacement**</u>

Q. What benefits would occur related to a tree replacement program?

A. As other Florida companies have addressed with similar programs, the most effective method of addressing tree related outages is to avoid having a tree planted that will contact the overhead electric lines. If property owners can be educated on what types of trees are appropriate near overhead electric lines, the planting of large trees near electric lines can be reduced. Also, if existing trees that conflict with overhead electric lines can be removed rather than being continually trimmed, both outages and overall tree trimming cost will begin to decrease as the program continues. However, in most cases property owners do not want the tree removed or even trimmed. In some cases, being able to provide them with a location appropriate tree to replace the one being removed may enable the Company to remove the tree. This will avoid future issues with tree trimming while tree related outages and tree trimming cost decrease as the program continues.

Q. What will occur in the tree replacement program?

A. A limited number of trees will be available to be used in providing location specific trees to customers in conjunction with advertising programs or when trees that conflict with overhead electric lines are being removed as part of the vegetation management program. In reality, many customers become very attached to certain trees and do not care that the tree may be located on public rights of way or conflict with electric lines; they just do not want the tree removed. This program will provide some alternatives to improve the vegetation management program while minimizing the negative publicity that results from trees being removed.

Q. Do you agree with Mr. Larkin's recommendation that the program be eliminated and the expense removed?

A. No. The expense should be approved. Implementation of this program will provide for reduced vegetation management cost and improved reliability in the future. Educating customers in location appropriate trees and removal of trees in conflict with electric lines will remove the need to trim these trees in the future.

<u>Substation Maintenance and Testing</u>

Q. Has the Company developed a specific plan for performing substation maintenance?

A. Yes. The company used the information provided by the International Electric Testing Association Inc. (OPC Exhibit 50.2) to develop the substation maintenance plan. This document is provided in Exhibit MCR-8 to this testimony. Based upon these guidelines, a plan for the 2008 -2012 time period was developed. The plan includes annual costs for maintenance along with the type maintenance being performed on each substation transformer and breaker contained in the Northeast Florida Division substations. OPC Interrogatory Question Exhibit 50.1 was submitted to document the substation maintenance requirements for those years. Inadvertently only the annual cost information was submitted. Attached is Exhibit MCR-9 which shows the OPC Interrogatory Questions Exhibit 50.1 and the detailed maintenance schedule used to develop the total annual cost for the maintenance.

Q. Do you agree with Mr. Larkin's recommendation that these expenses be removed?

A. No I do not. For 2006, distribution substation maintenance was $70,208 and transmission substation maintenance was $99,061. The expenses included in substation maintenance accounts include normal general maintenance and repairs of equipment. The items shown on Exhibit MCR-9 are proposed as scheduled maintenance in accordance with manufacturer's recommendation that is in addition to what was completed in 2006. This maintenance activity will ultimately reduce the expected repairs that were necessary during 2006. The scheduled maintenance was estimated as $126,000 for 2008 while the over and above amount included in the rate proceeding for transmission and distribution substations is $73,050. The reduced amount of $73,050 included in the rate proceeding accounts for the long term reduction anticipated in repairs that will avoided based on the scheduled maintenance activities. The scheduled maintenance will also allow for equipment to be in service longer thus reducing the need of significant substation capital replacements that have occurred.

Q. Should the over and above substation maintenance expenses be included as submitted?

A. Yes. The $73,050 expense should be approved as submitted.

<u>Economic Development</u>

Q. Why has the Company not made contribution to Economic Development entities to the level of that approved in the last rate proceeding.

A. The decrease in the level of economic development contributions was based on the evaluation of economic development opportunities during this time period. The Company examines economic development opportunities on an annual basis and determines the prudence of these expenditures. During 2006 and 2007, economic develop opportunities were not identified that ensured that use of these funds would allow for economic growth which would offset the burden to other customers as industry is developed in the area. Customers will benefit from the use of the funds in our storm reserve or, if the situation warrants, to assist with economic development opportunities.

Q. Was there are requirement based on the last rate proceeding to transfer the unexpended economic development funds to the storm reserve?

A. Yes. The unexpended funds were transferred to the storm reserve. This is another consideration when examining the use of economic development funds. The prudence review also considers the current amount included in the storm reserve compared to the economic development opportunities. As previously described, since there were no significant economic development opportunities, the funds were used to supplement the storm reserve in order to prepare for future storm events and assist in reducing the burden on customers should a major storm event occur.

Collaborative Research

Q. Do you agree with the recommendation made by Mr. Larkin regarding the Collaborative Research?

A. No. Based on the agreement with PURC who is conducting the collaborative research, the total amount of payments for 2008 is projected at $870 which was verified in OPC Production of Document Request #70. In addition to this amount, $2,000 should be added to cover company labor, travel, expenses and possible overruns or changes from contractors working on the collaborative research projects. The total amount should be $2,870 for this project.

Post Storm Data Collection and Forensics

Q. Do the costs for development of the program for Post Storm Data Collection and Forensics Analysis appear to be recoverable in the from the storm reserve?

A. No. The development of the program through the use of a contactor is not directly related to the storm restoration process, it is a one time cost and should not be recovered through the storm reserve. This amount should be included based on the one time cost of $17,000 to develop the program which complies with the storm hardening plan. Amortization over four year seems to be the most appropriate method of addressing this expense.

Q. Do the costs for the actual Post Storm Data Collection and Forensics Analysis appear to be recoverable in the from the storm reserve?

A. It may be possible. The post storm data collection and forensics analysis is somewhat related to the actual storm restoration process in that many of the events occur during or immediately following restoration. Based on the requirement to provide the data and analysis after a restoration event, it does appear reasonable that costs associated with these efforts could be charged against the storm reserve. However, should a commission ruling state that these activities cannot be charged against the storm reserve, the $10,000 should remain as proposed.

<u>Rental Expense</u>

Q. Will the company continue to require the rental of a transformer at the AIP substation after the new transformer is installed?

A. It is anticipated that the new substation transformer will be installed in the AIP substation during February 2008. The installation and testing should be completed by the end of February and the rental transformer can be removed from service. After the new transformer is operating properly, additional work will be required to physically remove the transformer from the substation and make preparations to transport this back to JEA. Removal of the transformer should be completed by the end of March 2008 at which time the rental costs should conclude.

Q. Should the rental cost be included in the 2008 test year?

A. Yes. Rental cost for three months in the amount of $6,420 should be included.

<u>Training Apprentices</u>

Q. Who will be responsible for administering the training programs and will they have other duties?

A. With the addition of this position, there will be positions in both divisions that will handle the training and safety programs. Currently the safety programs and reporting requirements for both divisions are handled by one existing position. With the addition of the second position, the safety and training programs will be handled by the position located in that division. The work load associated with the safety and training programs are such that at least two positions are required to fulfill the requirements.

Q. Why did the Company change positions regarding the training of apprentice lineman?

A. The Company purchased a training program from TECO in 2004 that was to be used for training of apprentice lineman. During the customization of the program, it was determined that a significant amount of work was required and took several years to complete due to work load and existing staffing. The customization was nearing completion during the initial submission of the MFR's. During the final stages of the customization and after the MFR's were submitted, it was determined that the original plans for conducting the program were underestimated and that the TECO training facilities would not be available. Based on this information, but primarily due to the under estimation of the work load associated with conducting the program, the program was revised and a summary included in OPC Interrogatory Question #45. This response is included in Exhibit MRC-10 for the purpose of this testimony.

Q. What are the current plans for the training of apprentice linemen?

A. The apprentice lineman will be involved in two separate programs. One program which has been in existence for many years involves a home study course that is available through the State of Florida. The only change to this program is that the number of participants that can be involved in the program has been expanded so that all apprentice linemen can participate. Completion of this program is typically four to five years.

The other program is a TECO Lineman Training program that has been customized for use by the Company. This program consists of 204 modules that will be administered over a four year time frame. Modules include formal classroom training and testing, and in most cases, actual hands on training which requires the apprentice lineman to demonstrate proficiency in the skills.

For both programs, the documentation will ensure that all training, testing and skill assessments are available for all participants. The in house program will also be required to be updated as materials, specifications and equipment change.

Q. How many participants will be involved in the program?

A. In the Northeast Florida Division there are 7 apprentice linemen that will participate in both the in house and state training programs. In the Northwest Florida Division, there are 6 apprentice linemen (4 immediately and 2 within two years) that will participate in the in house program and 5 apprentice linemen (3 immediately and 2 within two years) that will participate in the state training program. This will require that 13 apprentice linemen participate in the in house program and 12 will participate in the state program.

Q. What will occur when all participants complete the program?

A. As the apprentice linemen complete the program, they will be moved to a lineman position. Due to the status of our Working Foreman, many of which are nearing retirement, these new lineman are needed to ensure a stable work force and to provide knowledgeable employees to continue to provide excellent customer service. This will also allow the Company to attract and retain employees rather than having them leave the company after training for better paying jobs elsewhere.

Q. What should be approved regarding the training of Apprentice Lineman?

A. The revised cost identified in OPC Interrogatory Question #45 should be approved in the amount of $127,135 which replaces the original amount submitted in the MFR's of $25,127.

<u>Position for Storm Hardening</u>

Q. What will be the duties of the new position that will handle pole inspections and joint use audits that is included in the MFR's

A. The job description, along with the job advertisement, of this position is included in Exhibit MCR-11 which shows the general duties. The position will coordinate the pole inspection and joint use audits and the necessary documentation and reporting for both divisions. In addition to these duties other storm hardening activities and the associated documentation and reporting will also be included in this position. This position will also be responsible for a portion of the design of those facilities that require upgrading.

Q. What should be adjustments should be made to the costs associated with this position?

A. There should be no changes to the amount requested other than a possible adjustment to the benefits percentage. In the proposed calculation 30% was used to adjust for overheads. This percentage may change depending upon the outcome of the issue related to the proper percentage to be used in calculating benefits and overheads. Ms. Merchant proposed a reduction in the travel component of transportation in the amount of $22,838. This amount should not be reduced due to the travel requirements required between the two divisions and the fact that the normal transportation cost in included in this amount and that travel between the divisions will be necessary.

Q. Do you agree with the position taken in Ms. Merchant's testimony that this position could be combined with the training position?

A. No. As outlined in earlier in my testimony regarding the training/safety position, the storm hardening position and the training/safety positions are totally separate job functions with the amount of work required that prohibits them being combined. For those with experience in these operational areas, it is clear that the programs, planning, documentation and reporting requirements of either position can not be combined and be expected to fulfill the requirements of the job responsibilities. Although combining these may appear reasonable on paper, this would not work in the real world.

Transmission Inspection Contract

Q. Do you agree with the reduction proposed in Ms. Merchant's testimony regarding the amount included for climbing inspections on the transmission system?

A. No I do not. The Company has proposed to include one sixth of the overall climbing inspection cost ($18,540) each year although the total cost of the inspection ($112,240) will be incurred in either a one or two year period in order perform these in a cost effective manner. This appears to be a reasonable method for including this cost in the rate case and should be included.

Q. Was the cost estimate provided obtained in the most reasonable manner?

A. Yes. When the estimate was obtained, the contractor was working for the company on a daily basis and was familiar with the system and the areas to be inspected. Based on this experience, the contractor provided an estimate with knowledge of the Company requirements, system conditions and the location of such facilities. Estimates from other contractors would have been based on limited knowledge of the conditions which would have lead to less confidence in the bidding process and less reliable, and probably higher, cost estimates with additional contingencies that could result in even higher cost. Based on this the estimates provided are appropriate.

Pole Inspection Cost

Q. What amounts should be included for the pole inspection cost in this proceeding?

A. The estimates provided in OPC Production of Documents request #72 in Exhibit 72.2 were based on a May 17, 2007 estimate obtained from Osmose Utilities Services, Inc. who is a recognized expert in this area and performs numerous pole inspections for utilities throughout the nation. Two other companies contacted declined to bid on the project due to the fact that did not perform the excavation around the base of the pole. Based on the information and the specification included in our pole inspection plan, the External Treat ($29.88), Sound and Bore

($7.75) and LoadCalc ($7.26) are combined for a total of $44.89 per pole. Escalating this amount by 3.5% results in a 2008 cost of $46.46 per pole which should be included in this proceeding. The differences in this amount and the $46.35 included in the original filing are due to differences in the calculation methods but the overall difference is negligible. Based on this the amount included in the proceeding should not be adjusted.

Tree Trimming

Q. What is the appropriate number of tree trimming crews necessary to keep up with the 3 year feeder and 6 year lateral trim cycle?

A. The company revised the proposed amount for the additional tree trimming crews as detailed in OPC Interrogatory Question #58. This proposal includes a total of seven tree trimming crews with an additional amount included in the rate case of $234,840. A total of five (5) crews will be needed in Northwest Florida and two (2) in Northeast Florida. The amount is for a total of two additional tree trimming crews over and above the 2006 historic year amounts. This will allow the Company to comply with the 3 year feeder and 6 year lateral trim cycle.

Q. Why did the Company revise its original request for vegetation management?

A. During the original submittal of the Storm Hardening Plan in Docket #070300, the Company included a plan for a three (3) year trim cycle on all distribution lines. Based upon additional information, it was determined that a reduction in the trim cycle was acceptable to all parties and the company revised the plan to include a three (3) year trim cycle on all main feeders and a six (6) year trim cycle on all laterals. This allowed a reduction of one tree trimming crew.

Q. Do you agree with Ms. Merchant's recommendation of the number of tree trimming crews needed in Northwest Florida?

A. No I do not. For the years 2004 through 2006 there were approximately 36 miles of line trimmed for each tree trimmed crew. Ms. Merchant's selection of 2006 and the average miles of line trimmed was correct information. However, those experienced in the area of vegetation management understand that tree conditions change dramatically from one area to another which drastically impacts the long term average productivity rates for tree trimming crews. Also, the calculation of the 3.67 year productivity rate of 43.09 miles per crew referenced in Ms. Merchant's testimony was based on three crews which is not correct since there were four crews during the 2004 and 2005 years. Using the correct number of crews for the years 2004 through August 2007, the average trim rate per crew is 38.52 miles per year.

Q. How did you determine the requirement to have five tree trimming crews for Northwest Florida in order to maintain a three year main feeder and six year lateral trim cycle.

A. As outlined in OPC Interrogatory Question #58 and OPC Production of Documents Exhibit #73.1 (included in this testimony as Exhibit MCR-12) and assuming the 2004 – 2006 average trim rates of 36 miles of line per crew per year, a minimum of 3.5 crews are required to minimally meet the requirements. In order to ensure compliance with the storm hardening plan, a total of four (4) crews will be required to maintain the vegetation management trim cycle and one (1) additional crew will be required to address danger trees and spot trimming as required to address system reliability issues.

Q. What information does the Company have to justify the need to have one additional crew to handle danger trees and spot trimming responsibilities?

A. The Company has not collected data to identify the number of danger trees and spot trimming but will begin collecting this information in accordance with the vegetation management plan. However, those involved in the day to day operations of the vegetation management plan frequently receive calls from customers to have tree related situations investigated or concerning outages that have occurred as a result of tree conflict. Addressing these issues require having a crew to move to the affected area in order to perform trimming or removal of trees in order to avoid any possible impacts on system reliability or public safety. Although the documentation is not available at this time, the realistic need to perform this work is required.

Personnel at the EOC's

Q. Do you agree with Ms. Merchant's recommendation that the expense related to locating personnel at the EOC's during emergency conditions is appropriate?

A. No. Ms. Merchant recommended that $19,991 be removed from the 2008 expenses. Based on inclusion of locating personnel at the EOC during emergencies as documented within the storm hardening plan, the fact that this has not occurred in past emergencies and non-electric personnel being used for this purpose; costs related to this should be included in the expenses.

Q. What amount should be included in expenses?

A. During the original submission of the MFR's, an amount of $19,991 rather than the correct amount of $9,991 was included. In order to correct this amount, the amount that should be included is $9,991 which would require a total of $10,000 should be removed from the test year expenses.

Q. Is it more appropriate to recover this through the storm reserve?

A. It may be possible to include this in the storm reserve. Since these costs are directly related to the storm restoration and would include employees who are not involved in electric operations, it may be appropriate to include the total cost for recovery through the storm reserve. If approval of including the total cost for recovery through the storm reserve is received, this amount can be removed.

Third Party Attachers

Q. Have you reviewed testimony provided from third party attachers?

A. Yes I have.

Q. Please summarize the testimony.

A. The testimony is basically focusing on a need for additional information regarding detailed plans and procedures included in the storm hardening plan. Additional questions focus on the type construction and the communications with third party attachers.

Q. Has the Company completed the detailed plans and procedures?

A. There have no additional details developed in addition to those included in the storm hardening plan. Based on the approval of the overall storm hardening plan and the rate proceeding, details will be developed to support the successful implementation of the approved plan.

Q. Have the Company and third party attachers been in communication regarding the storm hardening plan?

A. Yes we have. The parties have completed the "Process to Engage" agreement and are in the process of completing the stipulation agreement that is similar to the agreement between third party attachers and other investor owned electric utilities in the state. We have been discussing resolution of other issues with the parties and hope to conclude those discussions soon. All parties understand the need to continue to communicate and develop the details to ensure the successful implementation of the storm hardening plans.

Conclusion

Q. Does this conclude your testimony?

A. Yes.

BY MR. HORTON:

Q Do you have a summary of your rebuttal testimony?

A Yes, I do.

Good morning. In my rebuttal testimony filed in this docket I provided additional testimony in support for a rate proceeding in response to testimony provided by Office of Public Counsel. First I'll start and I'll try to address these in order so we can get through this very, very quickly.

Temporary service charges are included within the tariff and an increase has been requested in this proceeding. The increase in service charges should correct the issue identified in the testimony provided by Mr. Larkin.

The storm reserve has been sufficient based on prior storms that affected the FPU system. However, it is, it is possible that a major storm could strike Amelia Island and cause catastrophic damage to over 50 percent of the FPU system. When this occurs, customers will be asking, "Why did you not plan ahead for this?" All we can say is, "We tried."

Substation maintenance and testing was included in the over and above amounts in this proceeding. Inadvertently the detailed maintenance schedule was not included with the OPC Interrogatory Question 50. In my rebuttal testimony on Exhibit MCR-9 this was included. The information was also provided to staff.

The company also included the rental amounts for a mobile substation transformer that is being utilized in waiting on the arrival of the new 40 MVA substation transformer. The new transformer should be installed by the end of March. This rental could have been reduced but would have required delivery of a permanent transformer prior to the beginning of 2008. However, should this have been done, the cost of the transformer would have increased significantly or we would have had to compromise the reliability of that unit.

Another issue is training of apprentice linemen, which has been an issue with Florida Public Utilities for several years. To address this, a training program was purchased from TECO in 2004. Due to staff limitations, the customization was nearing completion while the MFRs were being prepared in this rate proceeding. After the MFRs were submitted, changes were necessary due to the unavailability of the TECO facility. Options were considered and a final decision was reached. Information was provided to OPC in Interrogatory Question 45. More detailed information was provided to staff based on information requested regarding the over and above expenses.

The program consists of two separate programs: A state apprenticeship training program and the in-house training program, which consists of 204 separate training modules. The two training programs did result in confusion when attempting to communicate the training needs which varied depending on the personnel. The overall program was much more involved and the requirements were originally underestimated.

In order to successfully administer this program and continue the existing safety program, a safety and training position will be required in each division. This will ensure a well-trained workforce necessary to provide reliable electric service and combat the declining workforce that is faced by all utilities in the State of Florida.

As has been mentioned, the workforce at FPU is very, very limited. In order to comply with the storm hardening initiatives and provide the necessary data to demonstrate the associated benefits, an engineering position is required. This position will concentrate on the pole inspection program, joint use audits, the vegetation management program, transmission inspections and other maintenance programs. The job description has been provided in my rebuttal testimony as Exhibit MCR-11.

The bid provided for the transmission inspection contract was provided by a contractor working on FPU property. The detailed inspection -- the bid associated with the detailed inspection involves climbing each and every structure, checking every nut and bolt and connection, some of which are not easily accessible and only accessible by boat.

The company feels the most effective manner to receive a realistic cost estimate was to use a contractor that was familiar with this particular situation. This is much, much different than buying poles, computers or even cabinets. The cost estimate was much more difficult, required a site visit, and costs may vary based on the work performed.

For pole inspections, the bid was provided for the pole inspection cost and was based on a request from three different companies. Only one provided an estimate since the other two companies could not provide all the services that were requested. The cost included the external treatment, sound and bore and the LoadCalc, which slightly exceeds the estimate that was included in the MFRs and meets the requirements of the pole inspection program bids based on a per unit cost allowed for reasonable bids without a site visit being necessary. All three components of the inspection will occur whether or not any third-party attachers are included on the pole. This concludes my summary.

MR. HORTON: Mr. Cutshaw is available.

CHAIRMAN CARTER: Thank you. Before we recognize Ms. Christensen, Commissioner Skop, you're recognized.

COMMISSIONER SKOP: Thank you, Chairman Carter.

Just some quick, quick points of clarification with respect to the transformer rental. I've actually had the occasion to do that in my career and it can be expensive.

Am I correct to understand that essentially you stated that you could have mitigated the rental expense by early delivery, but the early delivery charges in terms of accelerating the manufactured delivery of the transformer would have been in excess of the rental cost? Is -- I'm just trying to flesh that out a little bit.

THE WITNESS: That's correct. During the process to purchase the transformer we looked at several different criteria, one being the reliability of the unit that we were purchasing. We looked at the delivery time. We also considered how will this impact the rate proceeding which we knew would be occurring. We looked at all the alternatives, looked at the economics involved, considered the monthly cost of the rental transformer, and the final decision involved purchasing a transformer that was approximately $790,000 with a delivery time of 74 weeks. We could have purchased another comparable transformer for approximately $200,000 more and we could have received it in 46 weeks. So there were a lot of components that we considered in the analysis of which transformer to purchase.

Rather than focus on how it would impact the rate case, we looked at what was the most reliable unit that we could purchase and how quickly could we get it? And those are the two factors that resulted in delivery times that are excessive. 74 weeks is a long time. So we knew all those factors, but the decision was made to purchase the one we did.

COMMISSIONER SKOP: Thank you. As a, as a follow-up -- and, again, I've been in that situation unfortunately where lead times are excessive.

With respect to the linemen training, I think that you also mentioned that you previously had outsourced that activity and now you have to do it in-house. Prior to taking it back in-house was there any consideration in terms of looking at other training venues perhaps? And I'm just going to throw out some ideas, but City of Tallahassee, I think, or Tallahassee utilities has one, I think GRU might have one or FPL. Could you just elaborate on that or flesh that out for me, please?

THE WITNESS: We did look at several alternatives. I think the entire presentation or the PowerPoint presentation that covers all the different alternatives has been provided in your stack of documents somewhere.

The -- we did look at other, other avenues of training. There are drawbacks from any, any other training venue that you may use. The travel cost may be expensive. As you may be aware, different utilities use slightly different materials, have different specifications. None are right or wrong but they're different. And one of the considerations that we wanted to make foremost is that they were comfortable and knowledgeable of our system, that they all did it the same way, and that in conjunction with the training that we also made sure that the safety aspect was, was a key part of the training program. So, yes, we did look at other venues, but the decision was reached to try to bring it in-house.

COMMISSIONER SKOP: And thank you. And I guess my question for that or as a result of that is, you know, cost considerations in terms of doing what's in the best interest of consumers for, for making those decisions. Thank you.

CHAIRMAN CARTER: Thank you, Commissioner.

Commissioners, any further questions?

Ms. Christensen, you're recognized.

MS. CHRISTENSEN: Thank you.

CROSS EXAMINATION

BY MS. CHRISTENSEN:

Q Let me follow up on Commissioner Skop's line of questioning regarding the training.

Is it correct that prior to, prior to 2006 and going back, the program that FPUC participated in was the state training program; is that correct?

A That's correct.

Q And the state training program in conjunction with apprenticeship hours that you would do at Florida Public Utility?

A That's correct.

Q Okay. And the first, I guess, out-of-house program that you were looking at was the TECO program; is that correct?

A That's correct.

Q And that you did not actually initiate the TECO program because of problems with actually implementing it from TECO's side; is that my understanding?

A It is still the TECO program. We purchased a computer-based system that had a, like I mentioned, it had in excess of 204 modules, but that's what we paired it down to as we customized what we had purchased. So it is the TECO program customized to our needs based on our system.

Q But the linemen aren't going to go train at the TECO facility.

A That's correct.

Q Okay. And I know you did respond with the full PowerPoint presentation with all of the different options that were available?

A Correct.

Q Okay. Now let me ask you a little bit about the transformer. Do you know what percentage of that project is complete as of today?

A The transformer is, as I understand it, on its way from the facility in Bogotá, Colombia, to the boat. It will be shipped by boat to the port in Jacksonville where it will be unloaded and transported to the substation with the intent to have it on site the middle to the end of March.

Q Okay. And originally you all anticipated a February installation date. Can you explain what the delay was between the February date and now looking at mid-March, if you know?

A When the initial estimate or when the bid was awarded we had really anticipated hopefully getting it in December of 2007. After discussions with the manufacturer, it began to be January 2007. As it progressed it became February 2007. During January during the inspection and testing phase of the transformer construction they had some problems with their testing equipment in their facility which delayed it even further. The intent at this point as I understood it, as of yesterday the transformer will be in Fernandina the middle to the end of March. All the bus work in the substation is ready to have the transformer put in place and connected.

Q Okay. So, and that's assuming no transportation delays.

A That is correct.

Q Okay. And let me ask this. Once the transformer comes in, you will no longer need the rental for the current transformer that you're using?

A Correct. As soon as we can get it installed, get it tested, connected, within a week or two we will remove the rental transformer. We always like to give it a few days to cook, to warm up and make sure it's really going to work.

Q Okay. So once one cost comes into place, the other cost should go away.

A Correct.

Q Okay. Let me ask you a little bit about storm. And I think in your rebuttal testimony on Pages 15 through 17, you state that it does not appear to be in the best interest of the ratepayers or the company to keep the accrual at the current level, considering the possibility of a major storm increase with every passing year. Is that a correct summary of your testimony?

A Can you -- what page is that again?

Q 15 through 17 of your rebuttal testimony. I'm sorry. Maybe a few pages before that. Let me, let me get the actual pages for you. Make that Page 6. We had a typo. Pages 6 through --

A Okay.

Q Just six.

A Okay. Could you ask that one more time, please?

Q Well, is it your testimony that, or your contention in your testimony that it does not appear to be in the best interest of the ratepayers or the company to keep the accrual at the current level because of the possibility of having a major storm that increases with each passing year? Is that a correct summary of your position?

A That's correct.

Q Okay. Now you would agree that you've had no statistical basis that backs up that position; correct?

A That's correct.

Q Okay. And you haven't had any storms or major storms that have impacted the system.

A Not yet.

Q Okay. Now would you agree that if a major storm does impact your service area, that the ratepayers will end up having to pay any incremental costs for storm recovery?

A Yes, they would.

Q And would you agree that when the other big electric companies were hit by major storms, that when they encountered big major storms, their reserves were insufficient and they had to enact some sort of surcharge or some sort of securitization type mechanism?

A Yes, I do.

Q Would you agree that even if FPUC were to increase its accrual and increased its reserve, it's likely that if you got hit by a major storm which impacted Fernandina directly, that your losses are likely to exceed whatever the reserve is at that time?

A If a major storm did strike Fernandina Beach, it could easily surpass the 5 percent amount that we're trying to collect.

MS. CHRISTENSEN: Okay. Thank you. I have no further questions.

CHAIRMAN CARTER: Thank you.

Commissioners, any questions at this time?

MR. HATCH: Mr. Chair, with fear and trepidation I have to justify my existence, I suppose.

CHAIRMAN CARTER: Mr. Hatch, you're recognized.

MR. HATCH: I think I have one, maybe two questions.

CROSS EXAMINATION

BY MR. HATCH:

Q Mr. Cutshaw, in your rebuttal testimony, I believe it's on Page 16 going on to 17, you talk about your pole inspection program. Do the revenues from your third-party attacher contracts cover the associated costs with those contracts?

A Yes, they do.

Q And this is to follow up, I think, on something you mention in your rebuttal testimony, but -- I mean, in your summary to your rebuttal, but I just wanted to make clear. When you do LoadCalc as part of your pole inspection cost, is that independent of whether there's any attacher on the poles?

A Based on our existing pole inspection program there are certain steps that we go through. If the pole is, is found to be good, when we get to the part of the process that involves the LoadCalc, it will be performed regardless of whether or not there are any third-party attachers or not. I know it's provided somewhere. I don't have the number off the top of my head. But there, there are a lot of poles that, that will be LoadCalced that do not have third-party attachments.

MR. HATCH: Okay. Thank you. I have no other questions.

CHAIRMAN CARTER: Mr. Konuch.

MR. KONUCH: Mr. Hatch actually covered some of the issues we were going to cover, so we have no additional questions.

CHAIRMAN CARTER: I just wanted to let you know I hadn't forgotten.

MR. KONUCH: Thank you.

CHAIRMAN CARTER: Okay. Staff?

MR. YOUNG: No questions.

CHAIRMAN CARTER: Mr. Horton, you're recognized.

REDIRECT EXAMINATION

BY MR. HORTON:

Q Mr. Cutshaw, just a couple of quick ones.

Ms. Christensen was just asking you about the storm reserve. Do you have insurance on your home?

A Of course. Everybody does.

Q Have you ever lost your home?

A I've had some significant damage to it, yes.

Q But -- and you're still carrying your homeowner's insurance for any loss or unexpected events?

A The damage occurred about 20 years ago. But living in Fernandina Beach, I know it's going to happen sooner or later.

MR. HORTON: Okay. Thank you. That's all I have.

CHAIRMAN CARTER: I guess I zigged when I should have zagged.

Let's deal with the exhibits.

MR. HORTON: I would move Exhibits 60 through 71.

CHAIRMAN CARTER: Exhibits Number 60 through 71. Any objections? Hearing none, show it done.

(Exhibits 60 through 71 admitted into the record.)

The witness may be excused.

MR. HORTON: Mr. Chairman, I'm sorry. Mr. Cutshaw was also going to provide some clarification for Commissioner Argenziano on that other issue. I'm sorry.

CHAIRMAN CARTER: Oh, then hold on there. Don't go away. Let's -- we'll just go ahead on and take the, admit the exhibits.

MR. HORTON: Okay.

CHAIRMAN CARTER: And then we'll go back to Mr. Cutshaw since he's there. And, Mr. Horton, you're recognized.

MR. HORTON: Well, I would just ask Mr. Cutshaw if he would respond to Commissioner Argenziano's request.

CHAIRMAN CARTER: Okay.

THE WITNESS: If I remember correctly, the question was or the comment was that the detailed justification for the substation maintenance testing was not provided. And on error on my part, when we provided the exhibit to the interrogatory question asked by OPC, I did leave off some of the information on one of the tabs on my Excel spreadsheet. That was later provided and is included in my rebuttal testimony as an exhibit. I apologize for the confusion. But in the exhibit that's included here it does detail exactly the pieces of equipment that need to be maintained or tested on an annual basis. It includes the cost and also the year in which it will be done.

CHAIRMAN CARTER: Commissioner, are you satisfied?

COMMISSIONER ARGENZIANO: That's fine.

CHAIRMAN CARTER: Okay. Also, one other housekeeping matter: Exhibit Number 72 on our list.

MR. HORTON: I'm sorry.

MS. CHRISTENSEN: Yeah. We do, we do have an objection to Issue -- Exhibit 72. The last three pages of that exhibit are information that was just provided in this exhibit that were not provided to OPC prior to, I guess, two days before the hearing. So we haven't had an opportunity to look at them and do any sort of discovery on them. So we would object essentially due to the lack of timeliness on the responses.

CHAIRMAN CARTER: And your objection is based upon the last three pages; is that correct?

MS. CHRISTENSEN: The last three pages. I believe the other information is supplemental, I think, to support some of the stipulations that we've reached in this case, to provide some record support backup for that stipulation. But the last three pages were an open issue that we're still having contention today and discussion on, and this was just provided like -- well, it wasn't put out until February 19th and it was not provided to us until two days ago or within the last week.

CHAIRMAN CARTER: Okay. Here's what I'm thinking. Let's bifurcate -- let's take the three pages off and that way we'll go ahead on and admit Exhibit 72. Let's allow this as a -- we'll just make it a late-filed exhibit, give OPC an opportunity to look it over and review it and ask questions, cross-examine, whatever they desire to do on that. And that way we can have an opportunity for all parties to be heard, heard on that issue. Ms. Christensen.

MS. CHRISTENSEN: Well, I guess I can follow up with a couple of questions on it, although -- I mean, this is obviously a recent exhibit.

RECROSS EXAMINATION

BY MS. CHRISTENSEN:

Q Mr. Cutshaw, referring to, I guess, a rebuttal exhibit that was provided that was previously marked for identification as Number 72, which would be, I guess, now Exhibit 96 for identification, Commissioner?

CHAIRMAN CARTER: This -- 72 is that we just bifurcated, we took the last three pages. So this will be Exhibit, this will be Exhibit 96, and we need a title for that.

MS. BROWN: Mr. Chairman, could I ask OPC a question?

CHAIRMAN CARTER: Yes, ma'am.

MS. BROWN: Are you now asking questions about this latest exhibit? I think that's -- is that correct?

MS. CHRISTENSEN: I'm following the Chairman's instructions. He suggested that we be given the opportunity to ask some cross-examination questions, so.

MS. BROWN: Oh, that's, that's fine with staff. That appears to take care of the problem then.

MS. CHRISTENSEN: Well, I mean --

CHAIRMAN CARTER: Well, what I wanted to do -- hold on. Hold it before we have our ping-pong match here. But what I wanted to do is in the best case -- try to find the best-case scenario. It was the last three pages that they had not had an opportunity to review. Give OPC an opportunity to review that and, while the witness is here, allow them the opportunity to cross-examine on it. That was my thinking. And was that your understanding of my thinking?

MS. CHRISTENSEN: That was my understanding while we have the person here. I mean, I don't know that that alleviates the objection to the untimely filing of it, but at least I can ask questions and I guess we can maybe raise --

CHAIRMAN CARTER: You can ask the questions and then make it a late-filed exhibit, then we can deal with it at that point in time.

MS. CHRISTENSEN: Okay.

CHAIRMAN CARTER: You are recognized.

MS. CHRISTENSEN: Thank you.

CHAIRMAN CARTER: That's Exhibit 96. And we need a title for it, by the way.

MS. CHRISTENSEN: Job Posting.

CHAIRMAN CARTER: That's as good as any. I like it. It's short and sweet, to the point.

(Exhibit 96 marked for identification.)

BY MS. CHRISTENSEN:

Q Mr. Cutshaw, as part of that supplemental exhibit now, Exhibit 96, you provided a job posting, is that correct, for the, for a position that you're calling Safety Coordinator I; is that correct? Are you familiar with that job posting?

A Can I, can I see that just for a second, please?

Q Sure.

A Thank you.

Q Uh-huh.

A Yes. This exhibit is for a Safety Coordinator I position. As it states, there will be two individuals hired to perform this function, one in Northeast Florida, one in Northwest Florida.

Q Okay. And when was this e-mail dated?

A The date was February the 19th, 2008.

Q And so this is a recent, a recent listing for these positions?

A I'm not exactly sure when this was on the website. I know we had some applicants for this earlier in, or late in 2007. But pending the outcome of this proceeding, we held off moving forward with those positions.

Q Okay. Just one moment, please.

(Pause.)

Mr. Cutshaw, in the over and above adjustments, if you know, was it, was there only included a request for the benefits for the safety, for a Safety Coordinator position for the northeast?

A Correct. In Northeast Florida we have a Safety Coordinator in place at this time.

Q Okay.

A That person is a contract employee. The additional benefits were to cover the benefits when that position became a permanent company employee.

Q And in the over and above adjustment there was no position identified as a request for a separate Safety Coordinator position for the Northwest Division; isn't that not correct?

A I think in the over and above description it talked about training of apprentices. Included in our revised position was when the position was stated.

Q Okay. So there was -- there was no listing for a second safety position for the Northwest Division in the over and above; correct? This was an added, an addition that you say that you made for a training position as far as for the first time addressed in rebuttal testimony; is that my understanding?

A The position -- if I remember the question correctly, was Interrogatory Question 45 in which we changed our original position that increased the over and above expense from approximately $54,000 to approximately $127,000 in response to Interrogatory Question Number 45.

Q And that was for -- and that was regarding training, not Safety Coordinator position; correct?

A And I think it specified in that response that the safety and training would be combined so that there was a position or there was a person in each division that would coordinate both the safety and the training functions for that division.

MS. CHRISTENSEN: Okay. I have no further questions.

CHAIRMAN CARTER: Thank you. Staff?

Oh, Mr. Horton, sorry about that.

MR. HORTON: I have no follow-up questions. I guess I would, I would move Exhibit 96.

CHAIRMAN CARTER: Okay. Okay. Any objections?

MS. CHRISTENSEN: I'd still note for the record that this was provided a week before the hearing. But at this point, given that I've conducted some cross-examination on it, I'm not going to raise an objection for it to be entered into the record, but I would note the timeliness of it.

CHAIRMAN CARTER: Okay. Show it done without objection.

(Exhibit 96 admitted into the record.)

Ms. Brown, you're recognized.

MS. BROWN: Thank you. Mr. Chairman, we have three other late-fileds to address and then --

CHAIRMAN CARTER: Okay. You're recognized.

MS. BROWN: We have had our discussions with FPUC about when they can provide those late-fileds to us, and they've said they can provide them a week from tomorrow, March 7th.

CHAIRMAN CARTER: March 7th?

MS. BROWN: Yes.

CHAIRMAN CARTER: Okay.

MS. BROWN: And with that, we would like to move Exhibits 92, 93 and 94 into the record.

CHAIRMAN CARTER: Without objection, show it done.

MS. CHRISTENSEN: Commissioner, can we make that subject to any objection, if there's something? I mean, at this point I don't anticipate that I would have any objections to the exhibits the way that they're identified. And I would expect that if they come in as they purport to be, that they should not be objectionable. But I would like to reserve my ability to object to them once I've actually seen them, you know. And I would certainly be happy to be required to file some written objection within a week if I find them objectionable once I've had an opportunity to look at them.

CHAIRMAN CARTER: Okay. Show it done.

MS. BROWN: Mr. Chairman, I misspoke about the numbers.

CHAIRMAN CARTER: It's 91 through 95?

MS. BROWN: Yes. And the late-fileds are 93, 94 and 95.

CHAIRMAN CARTER: Okay. Good. Ms. Brown, you're recognized.

MS. BROWN: We'd like to move those into the record at this time.

CHAIRMAN CARTER: Okay. Any objection?

MS. CHRISTENSEN: Subject to the same caveat that, you know, should we find something objectionable, that we still reserve the opportunity once they've been formulated to file some sort of written objection by, I guess what would it be, March 7th to anything within the exhibit. I assume they're going to be what they purport to be and they should be fine and I don't anticipate the need, but I'd like to reserve that right.

CHAIRMAN CARTER: Okay. Show it done.

(Exhibits 93, 94 and 95 admitted into the record.)

Ms. Brown.

MS. BROWN: I think we're about to wrap up here.

CHAIRMAN CARTER: Okay. Now we need additional procedures and concluding matters. I believe we're there now.

MR. YOUNG: Yes, Mr. Chairman. Hearing transcripts are daily. That means yesterday's transcripts, yesterday's testimony will be available today and today's tomorrow. And the brief dates are, the day the briefs are due are March the 14th, 2008. But I think Ms. Christensen has a request.

CHAIRMAN CARTER: Ms. Christensen, you're recognized.

MS. CHRISTENSEN: Yes. Thank you. I would request that the brief filing due date for the parties be moved to the following Tuesday, which I think is March 18th. That would give us some additional time through the weekend to work on it. We still have a lot of issues to address and I think that would be helpful to us.

CHAIRMAN CARTER: Okay. Let me, let me before I rule on that ask staff, does that put us in any kind of procedural statutory quagmires or anything?

MS. BROWN: No. My staff is grimacing a little bit, but we have no objection to that.

CHAIRMAN CARTER: Okay. We'll show it done.

MS. CHRISTENSEN: Thank you.

CHAIRMAN CARTER: Okay. Staff, you're recognized.

MR. YOUNG: At this time, Mr. Chairman, we can adjourn the hearing.

CHAIRMAN CARTER: Say again.

MR. YOUNG: At this time we can adjourn the hearing.

CHAIRMAN CARTER: Oh, that's the good part.

Any further -- Commissioners, anything for the good of the order? Thank you so kindly. I hope everybody feels better soon. We are adjourned.

(Proceeding adjourned at 11:35 a.m.)

STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, LINDA BOLES, RPR, CRR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 29th day of February, 2008.

Linda Boles
LINDA BOLES, RPR, CRR
FPSC Official Commission Reporter
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