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From: Ann Bassett [abassett@lawfla.com]
Sent: Tuesday, March 18, 2008 4:32 PM
To: Filings@psc.state.fl.us
Subject: *Docket Nos. 070300-EI and 070304-EI*
Attachments: 2008-03-18, 070300 and 070304, FPUC's Posthearing Statement.pdf; 2008-03-18, 070300 and 070304, FPUC's posthearing brief.doc

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The Docket Nos. are:

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

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

This is being filed on behalf of Florida Public Utilities Company

Total Number of Pages is 71

Florida Public Utilities Company's Posthearing Statement

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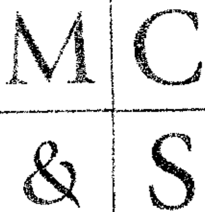

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March 18, 2008

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

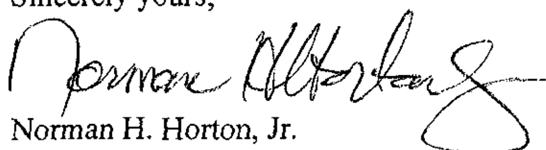
Re: Docket Nos. 070300-EI and 070304-EI

Dear Ms. Cole:

Enclosed for filing on behalf of Florida Public Utilities Company is an electronic version of Florida Public Utilities Company's Posthearing Statement in the above referenced dockets. The document is being provided in both MS Word and .pdf format.

Thank you for your assistance with this filing.

Sincerely yours,



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Enclosure
cc: Ms. Cheryl M. Martin
Parties of Record

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Florida Public Utilities Company for approval of its 2007 Storm Hardening Plan	)	Docket No. 070300-EI
In re: Petition for rate increase by Florida Public Utilities Company	)	Docket No. 070304-EI Filed: March 18, 2008

POSTHEARING STATEMENT
OF
FLORIDA PUBLIC UTILITIES COMPANY

Comes now, Florida Public Utilities Company ("FPUC"), through undersigned counsel, and pursuant to Order No. PSC-07-0811-PCO-EI, submits this posthearing statement. FPUC has not addressed those issues which were stipulated and accepted at the hearing.

BASIC POSITION

SUMMARY OF POSITION: *The relief sought by FPUC should be granted. The Company is encountering increased costs beyond its control and is making improvements that will prove beneficial to customers for future periods. The addition of positions, salary revisions and training responsibilities increase the efficient operations of the Company. The projections of test year expenses are based on reasonable information and estimates. The ROE recommendation of 11.50% is the minimum necessary to afford the Company the opportunity to earn a fair return.*

ANALYSIS AND ARGUMENT: As a regulated utility, FPUC can only charge those rates that are established and approved by the PSC. These rates are established at a level that allows the Company to recover its prudently incurred expenses to provide service and the opportunity to earn a fair rate of return.

In this proceeding, FPUC has requested an increase of $5,249,895 in permanent revenues in order to have an opportunity to earn a fair rate of return and in order to recover expenses

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necessary to continue to provide sufficient, efficient service to customers. The amount requested has been supported by testimony, minimum filing requirements ("MFR") schedules, exhibits, discovery and examination. The Commission audited the books of the Company and collected additional data on the request through that process. The Company has provided ample support for this request.

In preparing the request, the Company used 2008 as the projected test year with 2006 as the most recent historical period. The test year is important because it is the period that is used to establish rates and since rates are established for the future. It is essential that the test year be as representative of that future period as possible The Company used 2006 as the historic period and, using various factors, expanded that period to 2008. Additionally, known changes were incorporated into the projected test year. All of the projections for the test year were properly projected, supported and appropriate. The OPC has recommended changes to reduce the projected expenses of the Company without any basis other than an opinion and adoption of those recommendations will result in rates which are not sufficient to enable the Company to recover its expenses.

As the docket progressed, several issues were resolved and stipulated. The parties agreed on these stipulations and they were adopted by the Commission. However, several issues of significant impact remain to be resolved. Among these are:

Cost of Capital. The Company has requested a return on equity of 11.5%. The ROE is supported by extensive analysis prepared by expert consultants well versed in establishing ROEs for utilities. FPUC is a small utility and as such faces greater risks than larger utilities and corporations. The Company competes with these same larger companies for the same capital. It is therefore essential that the ROE be set at a level sufficient to allow the Company to compete

with these other entities and have the opportunity to earn a fair return for its investors. The methodologies and studies used for determining the ROE were thoroughly and expertly reviewed and discussed by Mr. Robert Camfield who also demonstrated the soundness of his recommendations over those of the witness for OPC.

Storm Hardening. Although several of the storm hardening issues were resolved, there are open issues regarding inspections and personnel.

The Company is required to inspect its distribution and transmission lines on a schedule as contained in its plan. In order to project the costs for these inspections the Company utilized estimates from service providers that perform these inspections. These were not bids but estimates to use for projections. Testimony reflects that in one instance multiple bids were sought and in the other, a contractor working on the system was asked to provide an estimate. The OPC suggests arbitrary adjustments to these estimates because they are not comfortable that only one estimate was received. Their suggestion takes a known cost estimate and arbitrarily reduces that cost. Adoption of their recommendation would result in insufficient rates to cover the expense associated with the inspections and would not permit the Company the opportunity to recover these prudently incurred expenses.

Also associated with the storm initiatives is the addition of an employee to handle all of the audits, reports, coordination, documentation and some design work associated with the storm plans. The ongoing implementation of the various initiatives takes a lot of time and adding an employee to take on these tasks will be a more efficient approach then requiring current employees to take on these additional tasks.

Personnel. The Company has deemed it appropriate to add several positions to its staff. Each of the positions has at least been advertised and at least one offer has been made with some

others being filled by temporary help. The justification for each of the positions was provided through testimony, exhibits, discovery and each is addressed herein but generally, the need for these positions is simply that there are additional, increasing demands on the Company relating to compliance issues, safety, and training requirements and related activities and as the Company continues to grow these requirements will increase. OPC again tries to adjust these proposals either by saying the position isn't necessary, only ½ of the salary expense should be recovered or other arrangements should suffice. These positions are considered necessary and a prudent addition to the organization. Actions such as this which enhance the efficient operations of staff are in the interest of the customers.

Salaries. Two issues were addressed with respect to salaries, one being a salary survey issue and the other with executive salaries. The Company conducted a salary survey in order to identify which positions were in need of adjustment. FPUC believes it is in the best interest of the Company and its customers to hire and retain the best staff it can and to do so must offer competitive compensation. These adjustments serve that objective.

As to executive salaries; the facts demonstrate that FPUC executives are not compensated commensurate with their responsibilities and even though OPC attempts to make this a worker vs. management issue that simply is not relevant.

Rate Base. There are several outstanding issues which affect rate base, the majority of which relate to the calculation of working capital. The Company has used appropriate assumptions and trends with respect to the working capital allowance. The OPC makes several adjustments to working capital but as was shown in discovery and rebuttal, each was flawed because OPC failed to consider actual results in some instances or activities which would impact the calculation.

There was also an issue with respect to a replacement transformer and the recovery to be allowed. The Company has demonstrated the propriety of its request through testimony and schedules.

Miscellaneous. There are other issues which have been adequately addressed and supported in the testimony and record such as training, rate case expense and others which are supported and appropriate. Each of the expenses which the Company has included have been adequately supported and justified.

Finally, the OPC has taken the position that the Company has not substantiated its projections and requests. The Company responded to these suggestions during the hearing and demonstrated how incorrect this is. Each and every request was supported; OPC may not be happy with the timing of a response or they may "prefer" to see some other type of support but that does not require a conclusion that the request is unsubstantiated; nor is it required that the Company provide support that OPC would "prefer" to see.

The request is adequately supported and the need for rate relief has clearly been established and proven.

SPECIFIC ISSUES AND POSITIONS

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

SUMMARY OF POSITION: *Yes, the reasonable estimate of cost has been provided in the Storm Hardening Plan, subject to the appropriate modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and 10 point initiatives issues.*

ANALYSIS AND ARGUMENT: The costs associated with implementation of the initiatives are addressed in separate issues. The Storm Hardening Plan submitted in July, 2007 includes costs associated with plan and the costs for implementation of the initiatives are address in separate issues. A portion of the cost estimates included were based on bids from contractors while other cost were based on internal estimates for performing work with company personnel. The plan as filed in July has been modified based on issues stipulated in this proceeding and further modification may be necessary depending on the disposition of the specific cost issue. The benefits have not been provided due to the lack of reasonable data that is required. As noted in the plan FPUC does not have the supporting data to develop the benefits analysis for the programs. However, as these programs are implemented, data will be collected that can be used to develop the associated benefits." (Ex. 91, p 14). As further described by Mr. Cutshaw, "based upon a limited amount of data in some areas, the cost effectiveness cannot be provided without assumptions based upon management experience and have not been included". (Tr. 89, lines 19-22)

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

SUMMARY OF POSITION: *No information has been obtained from third party attachers but the Company will continue to communicate with attachers.*

ANALYSIS AND ARGUMENT: No testimony or evidence was submitted to support a conclusion that the plan is noncompliant and the Company submits that its position and plan are reasonable. In his testimony, Mr. Cutshaw states that information regarding cost and benefits to third party attachers was not included in the plan as the information was not available at the time of filing. Information has been received from Embarq which details the cost associated with the Storm Hardening Plan. The benefits associated with these could not be determined at this time. No other cost and benefit information was obtained from third party attachers. (Tr. 95, lines 22 through Tr. 96, line 4). Information may be available in the future as projects are completed and relevant data is collected.

ISSUE 13: Based on the resolution of the preceding issues, should the Commission find that the Company's Plan meets the desired objectives of enhancing reliability and reducing restoration costs and outage times in a prudent, practical, and cost-effective manner to the affected parties? [Rule 25-6.0342(1) and (2)]

SUMMARY OF POSITION: *Yes. If the plan was not approved at the hearing it should be approved with the agreed upon changes and the impact of stipulation agreements with third party attachers.*

ANALYSIS AND ARGUMENT: All parties have agreed to the necessary changes in the Storm Hardening Plan with stipulation to Issues 14, 16, 17 and 18 to ensure that the plans meet the necessary objections. The Company believes the revisions to the plan which were submitted as part of Exhibit 91 were approved as part of the approval of the stipulation.

10 POINT STORM PREPAREDNESS INITIATIVES

ISSUE 15: Has FPUC complied with the Commission's 10 point initiatives?

SUMMARY OF POSITION: *Yes. The Company's response filed and approved in Docket No. 060198-EI and as subsequently amended in this proceeding complies with the Commission's 10 point initiatives.*

ANALYSIS AND ARGUMENT: FPUC developed and filed it plans to implement the 10 point initiatives with a request for recovery of the costs associated with implementation of those initiatives. The amendments to the initiatives filed in this docket as part of a stipulated resolution to issues in this proceeding are reasonable and compliant with the Commission initiatives. There are additional initiatives that have a cost to implement that are addressed in individual issues in this proceeding and there remain costs to recover for full implementation. Also see response to Issue 13 as to the approval of the plan.

COSTS FOR STORM HARDENING AND 10 POINT INITIATIVES

ISSUE 19: Should FPUC's request to increase Account 593, Maintenance of Overhead Lines, by $141,367 per year for distribution pole inspections from an outside contractor be approved?

SUMMARY OF POSITION: *Yes. The costs for inspection of distribution poles is $141,367. The Company provided cost estimates to support this projection which are adequate for the projection.*

ANALYSIS AND ARGUMENT: The Company will be inspecting distribution poles as part of the Commission required initiatives. To do this, FPUC will be using an outside contractor to perform the required inspections on as scheduled basis. Approximately 3050 wood distribution poles will be inspected annually. There is no disagreement that these inspection need to be made

as they are required by the Commission (Tr. 522) but there is disagreement as to the cost for inspection and the sufficiency of the estimates on which the projections were made.

FPUC projected the increased expense based on an estimate from Osmose Utilities Services, Inc. (Tr. 520, 696; Ex. 3, p 2319; Ex. 43). According to that estimate, the cost to inspect each pole is $46.35. OPC has proposed an arbitrary adjustment to disallow 25% of the adjusted projected expense on the basis that there should have been more than one (1) bid. However, Mr. Cutshaw testified that two (2) additional bids were requested but the companies declined to submit a proposal (Tr. 703). The estimate used by the Company is reasonable and an appropriate basis. OPC proposes to adjust this estimate for no reason other than there was only one (1) bid; however, they have no basis for their adjustment whatsoever; there has been no evidence or suggestion that the estimate is not reasonable. The only reasons for this arbitrary adjustment is to reduce an expense that is appropriately recovered through rates. Even the Company is concerned with the rates paid by its customers but to arbitrarily reduce a supported estimate of expenses only places the Company in a position that its rates are inadequate to allow recovery of prudently incurred expenses and potentially requires additional rate relief sooner than necessary.

OPC also proposes that the bid be adjusted to remove that part of inspection costs which OPC asserts are caused by the presence of third party attachers. (Tr. 551). In the first place, other than simply to say the customers did not benefit, there is no basis whatsoever for the adjustment. FPUC received revenues from third party attachers which is included as regulated revenue and as such benefits consumers. Secondly, OPC proposes to disallow the costs associate with Load Calc™ which Mr. Cutshaw testified is required with or without attachers on poles (Tr. 711). To assert that the costs associated with Load Calc™ are caused by the attachers is

simply contrary to the testimony of an engineer, Mr. Cutshaw, who is much more familiar with the inspection process than is the OPC witness. Unlike the arbitrary adjustments proposed by OPC, the Company has provided sufficient testimony and evidence to support the projected expenses and they should be approved.

ISSUE 20: Should FPUC's request to increase Account 593, Maintenance of Overhead Lines, and Account 588, Distribution Maps, by a combined total of $99,375 for an additional employee and related travel expenses to handle joint use audits and pole inspections be approved?

SUMMARY OF POSITION: **Yes. Account 593 should be increased by $78,466 and Account 588 should be increased by $20,909 for an additional employee whose primary responsibilities will be to coordinate the pole inspection and joint use audit requirements and also to coordinate other storm hardening initiatives in order to ensure documentation and reporting is completed and submitted accurately.*

ANALYSIS AND ARGUMENT: Although the employee in this position will coordinate the pole inspection and joint use audits and the necessary documentation and reporting for both divisions, the job description includes performance of other storm hardening activities and the associated documentation and reporting as well. Additionally, the person in this position, an engineer, will also be responsible for a portion of the design of those facilities that require upgrading. (Tr. 694). The job description, along with the job advertisement, for this position which shows the general duties has been provided. (Ex. 70)

In addition to the job description and discussing the duties, the Company also provided a breakdown of the costs which included $76,609 for salary and benefits to fill the Engineer position in accordance with the job description identified above and $22,838 for transportation and expenses. (Ex. 3, Item 7 #57). This would include transportation cost from a company

provided vehicle, normal office supplies, and travel (lodging and meals) required to the other division to coordinate the efforts for the Company. (Tr. 694)

Ms. Merchant on behalf of OPC, appears to agree with the need for the position as she recommended "that the Commission allow the new position for storm hardening activities, for monitoring pole inspections and joint use audits." (Tr. 539). But she goes on to recommend that "this new position should also absorb some of the other incremental safety and training components that they've requested for Northwest Division ..." (Tr. 539). Her recommendation ignores the fact that the storm hardening position and the training/safety positions are totally separate job functions with different required education and expertise and that the amount of work required that prohibits them being combined. For those with experience in these operational areas such as Mr. Cutshaw and Mr. Myers, 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. As Mr. Cutshaw put it, "although combining these may appear reasonable on paper, this would not work in the real world." (Tr. 694). He has the background and experience to understand and make this statement.

ISSUE 22: Should FPUC's request for contractor expense of $18,540 in Account 566, for an additional expense for transmission inspections, be approved?

SUMMARY OF POSITION: *Yes. The storm initiatives require the inspection of the transmission system on a six year basis and a contractor will be utilized to perform the inspections. The amount to be included, $18,540, represents one sixth of the total inspection cost and is based on an estimate from a contractor who has worked for the Company and has an understanding of the facilities to be inspected. The estimate is reasonable and supports the amount.*

ANALYSIS AND ARGUMENT: Pursuant to the storm initiatives and Commission directives, the transmission is scheduled for inspection on a six (6) year cycle. Although the total estimated costs for the inspection, as based on a reasonable estimate, is $112,240, the Company has included in the projected test year one sixth of the overall climbing inspection cost ($18,540) each year. The total cost of the inspection will be incurred in either a one or two year period in order to perform these in a cost effective manner but the inclusion of the 1/6 amount is a reasonable method for including this cost in the rate case and should be included. (Tr. 695; Ex. 3, p 409).

Once again, however, OPC takes issue with the fact that the included amount was based on one estimate and proposes an arbitrary adjustment that has no basis whatsoever other than to reduce the requested recovery amount. (Tr. 545-546). In contrast to OPC's baseless proposal, Mr. Cutshaw explained that 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. (Tr. 695). 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. Additionally, the detailed inspection requires climbing each and every structure, checking every nut and bolt and connection, some of which are not easily accessible and some are only accessible by boat. This is much different than buying poles, or computers since the cost estimate is much more difficult, requires a site visit and the cost may vary based on the work performed. (Tr. 702). Mrs.

Merchant offered no testimony or suggested any knowledge on the Company's system but still offered her recommendation which is totally baseless.

ISSUE 23: Should the expense for an additional employee to handle joint-use audits be approved?

SUMMARY OF POSITION: *This issue is the same as Issue 20 and FPUC incorporates the comments in Issue 20 herein.*

ISSUE 26: Should FPUC's request to recover increased travel and PURC costs be approved?

SUMMARY OF POSITION: *Yes, the Company's increased travel and PURC costs should be approved. Rather than include the amount set forth in the MFRs, $2,870 should be included in the test year expenses based on information provided by the Company. These costs are necessary to comply with the storm hardening initiatives and beneficial.*

ANALYSIS AND ARGUMENT: One of the 10 storm hardening initiatives includes a requirement for the Company to participate in collaborative research associated with improving reliability and reducing restoration times after storms. This participation has been encouraged by the Commission and in fact, participation allows opportunities for FPUC to gather and share information and experiences with other utilities and expert analysts. Based on the agreement with PURC which is conducting the collaborative research, the total amount of payments for 2008 is projected at $870. (Ex. 3, Item 19, Depo p 43). In addition to this amount, $2,000 should be added to cover company labor, travel, expenses and possible overruns or charges from contractors working on the collaborative research projects. The total amount should be $2,870 for this project. (Tr. 690).

ISSUE 27: What adjustments, if any, should be made to rate base associated with the storm hardening Rule 25-6.0342 and 10 point initiatives requirements?

SUMMARY OF POSITION: *The Commission should determine the changes necessary to the Company's storm hardening plan and 10 point initiatives based on final rulings and stipulations and make any necessary adjustments to rate base.*

ANALYSIS AND ARGUMENT: The Company has expressed a willingness to modify the storm hardening plan in order to reduce the overall cost impact as a result of the plan. Should the plan be modified, the associated expenses can be reduced in accordance with the approved modifications. (Tr. 89, 267, 681)

ISSUE 28: What adjustments, if any, should be made to operating expenses associated with the storm hardening Rule 25-6.0342 and 10 point initiatives requirements?

SUMMARY OF POSITION: *Unless the Commission determines that the Company's storm initiatives should change based on other information, or if there are any other agreed upon adjustments relating to operating expenses, no adjustments should be made.*

ANALYSIS AND ARGUMENT: The Company has expressed a willingness to modify the storm hardening plan in order to reduce the overall cost impact as a result of the plan. Should the plan be modified, the associated expenses can be reduced in accordance with the approved modifications. (Tr. 89, 267, 681). The Company would also express a concern that the level of implementation may be affected by the ability to fund the costs to implement the initiatives. The expenses included in the test year are reasonable and based on a reasonable basis despite what OPC argues. OPC has consistently proposed the Commission approve less than the expenses projected as necessary by the Company on absolutely no basis whatsoever. FPUC acknowledges the projected expenses were based on estimates but they have explained the basis. The Company has also said they will utilize a bid process before entering into a contract for various services

(Ex. 3, p 3313). Consumers are not well served by making arbitrary adjustments simply to reduce expenses and thus possibly rates as OPC proposes. There is absolutely no evidence to suggest that the Company is doing anything but attempting to comply with the directives and expectations of this Commission.

RATE BASE

ISSUE 33: Should the Company's request to receive a full 13-month average recovery for a transformer that is not projected to be placed in service until the 2008 test year be approved?

SUMMARY OF POSITION: *Yes. FPUC will install a replacement transformer which will be used to provide service to consumers. Since the period of time this transformer will be placed in service will match the period of time of the final rates, and it is a necessary, long-lived, and materially large capital expenditure, it is appropriate to include the full 13 month average amount of this transformer in the test year for rate making purposes.*

ANALYSIS AND ARGUMENT: This replacement 40 MVA transformer is an ordinary and necessary transformer to the Company's distribution system. The Company is currently renting a temporary replacement transformer while waiting for the arrival of a new transformer. The 40 MVA transformer will be installed prior to the inception of the new rates and the high cost of the transformer should justify special consideration. (Tr. 126). This transformer was purchased to replace one that failed while in service.

During the bidding process consideration was given to cost, reliability, rental of a mobile transformer and the impact the purchase would have on this rate proceeding. The final decision resulted in the purchase of a $790,000 transformer with a 74 week delivery time with the understanding this may have an impact on recovery during this proceeding. However, a comparably reliable transformer could have been purchased for an additional $200,000 and with

a delivery time that would have avoided this issue. (Tr. 704). OPC agrees that the transformer is necessary (Tr. 496) but proposes an adjustment that would not allow full recovery of the investment. Moreover, they would also disallow the rental costs associated with the temporary transformer that is being used to provide service on the basis that it is going out of service. (Tr. 497). Full recovery of the transformer is appropriate; based on the fact that this transformer will go into service at approximately the same time as the new rates; it will be in service for many years; and it is absolutely essential to have in order to provide service. To provide for less than full recovery deprives the Company of the opportunity to recover its investment and earn a reasonable return on its investment. The transformer should receive a full 13-month average recovery.

ISSUE 38: Is FPUC's requested level of Plant in Service in the amount of $79,641,581 for the December 2008 projected test year appropriate?

SUMMARY OF POSITION: *Yes. The appropriate amount of Utility Plant in Service as filed is $79,641,581 however, this amount is a fallout amount of other issues and may require adjustment for any other issue adjustments within this docket that impact the account.*

ANALYSIS AND ARGUMENT: The amount filed by the Company was proper but is affected by adjustments made subsequent to the filing.

ISSUE 42: What adjustments, if any, should be made to accumulated depreciation to reflect the Commission's decision in Docket No. 070382-EI?

SUMMARY OF POSITION: *The 13-month average 2008 accumulated depreciation reserve should be increased by $60,111 for the results of the FPUC 2007 depreciation study under Docket No. 070382-EI.*

ANALYSIS AND ARGUMENT: The 13-month average reserve balance as adjusted using the existing rates should be $35,504,625. (Ex. 3, Item 2 #26, pp 210, 211, 215). This number was

revised by the referenced exhibit to correct the 2008 beginning balance brought forward from 2007 on Schedule B-9 (2008) (Ex. 4, Sch. B-9, p 56). The 13-month average balance using the newly approved rates is $35,564,736. (Ex. 90). The difference between these amounts is an increase of $60,111.

ISSUE 43: Is FPUC's requested level of accumulated depreciation for Plant in Service in the amount of $35,667,257 for the December 2008 projected test year appropriate?

SUMMARY OF POSITION: *No. Because of adjustments, the utility accumulated depreciation for utility plant in service should be $35,564,735.*

ANALYSIS AND ARGUMENT: This net reduction in accumulated depreciation of $102,522 reflects two adjustments determined during this proceeding. The first, a decrease of $162,633 as detailed in FPUC's response to Staff's Fifth Set of Interrogatories, Item 26, correcting the 2008 beginning balances being brought forward from 2007 on Schedule B-9 (2008) was referenced in Issue 42.

The second was an increase of $60,111 for the effects of the 2007 depreciation study in Docket No. 070382-EI and the decision in that docket. (Ex. 90).

ISSUE 46: What is the appropriate projection methodology and balance of cash to be included in the 2008 working capital requirement?

SUMMARY OF POSITION: *The treatment of cash should be the same as other typical balance sheet accounts included in Working Capital: 13-month average. The appropriate cash to be included in working capital is $70,678. This amount represents an appropriate and reasonable level of cash. FPUC has continually demonstrated conservative and responsible cash management practices while maintaining adequate and necessary cash balances.*

ANALYSIS AND ARGUMENT: The proposed $70,768 for 2008 13-month average cash to be included in working capital represents a conservative yet realistic level for the cash requirement

of the Company. In contrast, the $10,000 cash balance as proposed by OPC is simply not reasonable or realistic.

As reflected in the MFRs the 2008 average monthly accounts payable for the electric division combined accounts 2320, is projected to be $4,653,227. (MFR, schedule B-3 (2008), Page 6 of 6, Column (23), Lines 62,63, and 64). Assuming 22 business days in a typical month, an expected daily cash requirement to cover the payment of these accounts payable would be $211,510 ($4,653,227 ÷ 22). FPUC has not requested this level of cash but this a good barometer to review the reasonableness of the requested cash balance. The proposed $70,678 cash balance is more viable representation for a proper cash requirement than the $10,000 cash requirement proposed by OPC.

In the MFR, 2006 historical cash allocated to electric was $247,509; 2007 cash was projected to be $210,108; and 2008 cash was projected to be only $70,678. The efficient use of the FPUC cash management system will allow for this vastly reduced level of cash to provide for the efficient and reasonable cash requirements for the operation of the electric segment. (Tr. 620).

In his testimony, Mr. Larkin, acknowledged 2006 and 2007 cash allocated to electric as presented in the MFR were $247,509 and $210,108, respectively. He refers to these amounts as being "unusually large balances" and he further acknowledges the Company's 2008 projected test year cash balance allocated to electric in the MFR of $70.768; he then proceeded to propose $10,000 as the 2008 "working cash requirement" without a sound basis for this amount. (Tr. 283).

During cross examination Mr. Larkin acknowledged that he had done no analysis of the cash need of the company but agrees the company needs cash (Tr. 336-337). He further

acknowledges that he does not know what the total amount of bills would be payable by the Company each months. (Tr. 337). Mr. Larkin frequently refers to the "substantial" amounts of cash but ignores that the amount included by the Company is less than these historical amounts (Tr. 283, 620). Mr. Larkin did not recall the OPC recommendation for cash in the last proceeding but he did agree that would be reflected in Orders of the Commission (Tr. 339). The recommendation there was for approximately $30,000 (Order No. PSC-04-0137-PHO-EI). Although the Company would consider this too low, it does support the conclusion that Mr. Larkin's characterization of his cash amount as a "token" (Tr. 336) is precisely that. The Company has offered support for its amount and OPC merely presents a "token."

ISSUE 48: What is the appropriate balance of accounts receivable to be included in working capital?

SUMMARY OF POSITION: *Accounts receivable of $5,015,473 is the appropriate balance. This amount includes customer accounts receivables resulting from a detailed analysis of typical bills that included currently available estimates of base and fuel costs rates. Also included are projections for employee accounts receivables and other accounts receivable, both of which have been demonstrated to be ordinary and necessary for the operation of an electric utility.*

ANALYSIS AND ARGUMENT: In response to issues raised by the OPC, the Company conducted an extensive analysis and projection of Customer Accounts Receivable-Electric based on actual base and fuel cost rate increases for 2007 and projected base rate and fuel cost increases for 2008. The analysis indicated a projected 2008 13-month average for Customer Accounts Receivable-Electric in the amount of $4,906,472. This balance reflects the impact of actual and projected significant fuel rate increases, and interim projected approved increases in base rates. (Tr. 622-623). Employee Accounts Receivable and Accounts Receivable-Other were projected from 2006 to 2008 using inflation and customer growth projection factors, resulting in

2008 13 month average balances of $3,694 and $105,307, respectively. (Ex. 3, Item 18, #3299-3301). *A non-regulated account was erroneously included in the MFR balance initially but it has* been omitted from the subsequent analysis.

Employee Accounts Receivable and Accounts Receivable-Other accounts are rightfully included in working capital since they are ordinary and necessary to an electric utility's operations. Employee Accounts Receivable represent amounts due to the Company from employees/retirees for 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. Accounts Receivable–Other represents reimbursable costs incurred by the Company for damages to its 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. (Tr. 623-624).

Mr. Larkin testified that Employee Accounts Receivable and Accounts Receivables-Other should not be included in working capital since they are "not related to the delivery of electric service." (Tr. 284-288). To suggest that these accounts be excluded from working capital is erroneous and unrealistic, since the existence of the accounts is the direct result of typical electric utility operations.

Beginning with his prefiled testimony of December 27, 2007, Mr. Larkin has maintained a recommended total 2008 accounts receivable amount of $4,011,791. (Tr. 286-287). He has

also maintained that only customer accounts receivables should be included for this account in working capital. In the Company's response to the OPC deposition the Company filed late exhibit #16 on December 17, 2007. (Ex. 3, Item 18, #3299-3301). The same exhibits were also included with the Company's rebuttal testimony to the testimony of Mr. Larkin. (Ex. 88; JMR-2). During cross-examination of Mr. Larkin he indicated, that he had not reviewed or otherwise considered any of the information contained in this extensive exhibit or related testimony. (Tr. 340-342). The Company's proposed total 2008 Accounts Receivable of $5,015,473 includes all relevant accounts and is based on accurate and reliable data.

ISSUE 53: What is the appropriate balance of unbilled revenue to be included in working capital?

SUMMARY OF POSITION: *The appropriate balance for 2008 unbilled revenue for inclusion in working capital is $548,394. The Company has used proper escalation factors to project the balance for unbilled revenue.*

ANALYSIS AND ARGUMENT: In response to the OPC's First Set of Interrogatories, Item 3, the Company erroneously indicated a 2008 projection factor of 3.5%. (Ex. 3; Item 7; No. 3; Bates 448-449). This erroneous reply is the sole basis for OPC's response for a 3.5% escalation factor for this issue. (Tr. 290, 343). FPUC's response should have correctly indicated 23.5%; comprised of 3.5% for inflation and growth, plus 20% for an anticipated base rate increase resulting from this rate proceeding. (Tr. 625). A subsequent analysis was conducted of typical bills; comparing 2007 pre-interim base rates and 2008 projected base rates. The analysis showed an increase of 28%. (Ex. 90). The results of this analysis confirm that the 23.5% used for the MFR is a meaningful estimation for the increase in the account.

<u>ISSUE 54</u>: What is the appropriate balance of temporary services to be included in working capital?

SUMMARY OF POSITION: * The appropriate balance for temporary services is zero. The temporary services balance in the amount of $26,961 should be removed from working capital. The Company has proposed to increase the cost of providing these services on a going forward basis in order to collect the necessary revenue (See Issue 127). However, revenues should not be increased for the Miscellaneous Services Revenue account, as addressed by Issue 74, to offset the stated zero balance.*

ANALYSIS AND ARGUMENT: Prior to providing permanent service to a location, the Company will provide temporary service. A typical example of when temporary service is provided would be during construction of a residence or building. During the period prior to permanent service, the Company installs a service drop, meter and other necessary facilities at a cost as prescribed in its tariff. The Company does not have the ability to deviate from the Commission approved tariff rates which is well established in law and regulatory principles. The Company recognizes the issue with the cost for temporary service and has proposed the charges for temporary services be increased.

Mr. Larkin did not appear to know that temporary services are provided pursuant to a tariff (Tr. 344) and his proposed adjustment to working capital and miscellaneous revenues is based solely on the fact that customers are subsidizing this service. (Tr. 345-346). The Company agrees that the charges should be increased so that the revenues cover the cost (Ex. 4, Sch. E-14); however, to remove temporary services from working capital and increase miscellaneous revenue penalizes the Company for complying with its tariff. The appropriate adjustment is to remove the temporary service balance from working capital and make no adjustment to miscellaneous revenue.

ISSUE 55: Is the Company's working capital treatment of over and under recovery of fuel and conservation costs appropriate?

SUMMARY OF POSITION: *Yes. The Company's treatment of over and under recoveries is appropriate. Over or under recoveries are under the control of neither the customer nor the Company, and as such equality must exist with the inclusion of both accounts in working capital. As an alternative, since associated revenue and cost portions are already handled via separate dockets, the over and under recovery aspects should also be included in those separate dockets and excluded from working capital.*

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

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

The purpose of the fuel and conservation cost recovery clauses is to allow for the direct pass through of costs, and to be revenue neutral to the Company. Over and under recoveries are theoretically estimated to be $0 at the end of each projection period. Fluctuations from the projections result from differences for customer demand, market pricing, and weather

fluctuations which are out of the control of the Company and can result in either over or under recoveries but they are part of the normal course of business.

It may be more appropriate to exclude both over and under recoveries from working capital, since the interest is provided to the customers on over recoveries within the fuel clause, and all other components are removed for base rate making purposes. (Tr. 122-123, 626-629).

ISSUE 57: Is FPUC's balance of Accrued Interest on Customer Deposits appropriate?

SUMMARY OF POSITION: *Yes. The 2008 projected test year 13-month average of $66,955 included in the MFR for Accrued Interest-Customer Deposits is appropriate. The account was properly projected based on customer growth.*

ANALYSIS AND ARGUMENT: OPC used actual 9/30/07 trial balance information as their basis for disputing this single issue (Tr.304) but the methodology is not consistent with what has been generally accepted as appropriate throughout the MFRs. To apply the 9/30/07 trial balance methodology in this instance is arbitrary, inappropriate, and unnecessary and the projections, which are based on customer growth, as submitted by the Company are appropriate.

ISSUE 58: What is the appropriate balance of deferred debit rate case expense to be included in working capital?

SUMMARY OF POSITION: *The appropriate balance is $608,236 which is the 13-month average 2008 unamortized rate case expense. This amount represents reasonable and prudent expenses and it is a valid component of working capital. Excluding unamortized rate case expense from working capital would unfairly penalize the Company and does not follow appropriate working capital computations. It is also consistent with the treatment of Unamortized Rate Case expense in our rate proceeding in Docket 930400-EI.*

ANALYSIS AND ARGUMENT: Unamortized rate case expense represents that portion of past and present rate case expense which has not been recovered but which is in rate base and

thus earning a return. The Commission recognizes rate case expense as a necessary expense of doing business but generally amortizes the expense over a period of years — usually the time between rate cases. The expense has been incurred and paid thus it is proper to allow a return on the unamortized balance. The Company presented testimony that the unamortized amount should be included in working capital as it is a valid component (Tr. 580). On the other hand, OPC proposes to allow only ½ of the amount, after other adjustments which are addressed in Issue 107 are made. (Tr. 293-294). The effect of this is to deny the Company a return on this expenditure and in effect penalizes the Company (Tr. 580). Allowing only ½ of the expense also requires an offsetting book entry to accounts payable or cash. The proposal by OPC is little more than a proposal to lower rate case expense improperly. The inclusion of the unamortized amount is consistent with prior decisions of the Commission as well. See Orders No. 97-0847-FOF-WS, 07-1225-FOF-WU, and 94-0170-FOF-EI.

ISSUE 59: Is FPUC's requested projected 2008 balance for its storm damage reserve appropriate?

SUMMARY OF POSITION: *Yes. The Company has requested a storm reserve equal to 5% of their current transmission and distribution plant and the 13 month average storm reserve for the 2008 test year should be $1,809,677. The new storm accrual will provide a storm reserve of $3,338,800 over an eight year time period, provided there is no major storm damage in that period.*

ANALYSIS AND ARGUMENT: Although FPUC has not experienced a catastrophic storm event in either division for 19 years (Tr. 685) such should not be taken as an indication that the Company will not experience any such event for another similar period. As pointed out by Mr. Cutshaw, the service territories of the Company are relatively compact and a significant event could have a serious impact on the Company and its customers. Building an adequate reserve is

insurance for the customers and prudent business; to wait for a storm and then seek a surcharge is not beneficial but would be necessary without an adequate reserve (Tr. 685,700). The Company has proposed a storm reserve equal to 5% of the current transmission and distribution plant. This will provide a storm reserve of $3,338,800 over an eight (8) year time period, provided there is no major storm damage in that period. The increase to the projected test year 2008 related expense accrual would be $204,000. (TR 118).

FPUC believes this to be a very conservative estimate and on the low side of what may be needed in the future. Based on the location and potential damage which may incur as the result of a major storm, a storm could easily surpass the reserve of 5%. (Tr. 710). It is not possible to obtain reasonable insurance coverage for hurricane damage, and utility companies like FPUC 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 the two electric locations, and reducing the future impact to one of these locations.

Customers expect the Company to have adequate reserves to at least partially offset the impact of a major storm, and an increase to our storm reserve would help defray the impact of a future storm surcharge required to cover the cost of a major storm or provide coverage for a large storm.

ISSUE 60: Is FPUC's requested level of Working Capital in the amount of a negative $1,310,654 for the December 2008 projected test year appropriate?

SUMMARY OF POSITION: *Yes, the appropriate level of Working Capital is a negative $1,310.654 for the December 2008 projected test year adjusted for the effects any other issue adjustments within this proceeding. The other issue adjustments have not been finalized or calculated. This issue is a fallout issue of other issues within this proceeding.*

ANALYSIS AND ARGUMENT: The Working Capital amount is a direct fallout of other issues within this proceeding. There are not separate issues identified within this issue. Since this issue is a fallout issue of other issues within this proceeding and the effects have not been finalized, the appropriate Working Capital amount for 2008 should be adjusted for any appropriate issues in this proceeding.

ISSUE 61: Is FPUC's requested rate base in the amount of $43,020,996 for the December 2008 projected test year appropriate?

SUMMARY OF POSITION: *Yes. The projected test year 2008 rate base is appropriate as filed. There are adjustments and issues which are still under consideration which will have an effect on the final rate base.*

ANALYSIS AND ARGUMENT: The rate base amount is a direct fallout of other issues within this proceeding. There are not separate issues identified within this issue. Since this issue is a fallout issue of other issues within this proceeding and the effects have not been finalized, the appropriate Rate Base amount for 2008 should be adjusted by any appropriate issues in this proceeding.

COST OF CAPITAL

ISSUE 62: What is the appropriate return on common equity for the projected test year?

SUMMARY OF POSITION: *The appropriate mid-point return on common equity is 11.50%. This return on equity level is based on well founded methods including DCF, CAPM, Rick Premium, and Realized Returns, as applied to comparable risk sample companies. This return is the minimum required in order to satisfy fair rate of return standards, including the maintenance of the financial integrity of the Company*

ANALYSIS AND ARGUMENT: The establishment of an appropriate Return on Equity ("ROE") and related cost and capital structure issues is an important part of a rate case. The

proper ROE is a process which requires substantial analysis and review and the expertise of experts familiar with the various mechanisms used to determine the ROE. On this case, FPUC engaged the services of Christensen Associates Energy Consulting, ("CA") and Robert J. Camfield to conduct the necessary studies and review and arrive at a recommendation as to the proper ROE. Mr. Camfield has longstanding experience in the economics of regulation and the electricity industry, and having served with two regulatory agencies and a major electricity service provider, as well as his current position. He has provided testimony on behalf of utility companies, offices of public advocacy, regulatory commission and associations, regulatory staff groups, integrated utility companies, and utility associations on numerous topics including cost of capital. His back ground and experience with regulatory agencies, consumer advocates and utilities gives him a unique understanding of ROE and financial integrity from the perspective of these sometimes competing interests.

Mr. Camfield's general approach to determining the appropriate ROE stands in stark contrast to the information presented by Professor J. Randall Woolridge on behalf of the Office of Public Counsel. Dr. Woolridge draws upon studies and information that doe not have firm footing in capital market experience, and is inappropriately applied and presented. The result is a systematic understatement of the cost of capital of investors in Florida Public Utilities Company. In his rebuttal testimony, Mr. Camfield offered point by point responses to Dr. Woolridge on the relevant issues. The Commission should not utilize the analysis and recommendations of Dr. Woolridge as his recommendation is not consistent with fair rate of return principles as set forth by the U. S. Supreme Court and widely followed by regulatory institutions and would, in essence, give rise to the confiscation of the capital of FPUC and its investors.

The cost of capital study developed by Mr. Camfield begins by defining rate of return guidelines anchored in Supreme Court decisions regarding fair rate of return and allowed returns (Tr. 163-165). He summarized the principles as:

1. Returns Equivalent to those Realized On Investments of Comparative Risk;
2. Maintenance of Financial Integrity; and
3. Ability to Raise Capital on Fair Terms When Needed.

Mr. Camfield's approach to determining the appropriate ROE applies four well-recognized methodologies including Risk Premium ("RP"), Discounted Cash Flow ("DCF"), and Capital Asset Pricing Model ("CAPM") techniques, and an assessment of Historical Realized Returns. This application of a multiple approach is necessary because the cost of equity capital cannot be directly observed (Tr. 195, 654, Exh. 11).

Mr. Camfield's methodology begins with a carefully defined and highly structured selection process to determine a comparable risk sample of electric and natural gas utility companies (Tr. 203-208; Ex. 21) according to defined risk metrics including a) Equity Participation, b) CAPM Beta, c) Variation in Market Returns, and d) Coefficient of Variation in Cashflow per Share. Notwithstanding the implications of FPUC's exceptionally small size (market capitalization), which implies higher cost of capital than that for the larger sized sample utilities, the selected utilities closely match FPU and the inherent risks harbored by its investors. Moreover, conformity to the comparable risk principle is also borne out from the study results, where across-method cost of capital estimates for the electric and natural gas utilities are closely equivalent and thus confirm adherence to the comparable risk principle (Exh. 11). The ROE recommendation of 11.50%, based on the four-method approach, accurately captures the opportunity cost of equity capital to FPU. Significantly Dr. Woolridge utilizes—and thus

implicitly accepts—the selection methodology and resulting sample of electric and gas utilities. (Tr. 471).

While the sample of comparable risk utilities are comparatively small with respect to the electric and gas distribution utility industries as a whole, none of the sample utilities approach the very small capitalization of FPUC. Specifically, FPUC is 3.7% the size of average of the comparable risk sample of electric utilities. It is generally known and accepted that smaller capitalized utilities require higher ROEs than larger capitalized utilities. (Exh. 3, Item 6, #24)

Mr. Camfield's equity debt risk premia, which is the risk-based interest rate spread between equity markets as a whole and debt, is utilized within the application of CAPM and Risk Premium (sometimes referred to as buildup approach) cost of capital analyses. For these two methods, Mr. Camfield draws upon historical experience that is consistent with plausible expectations of investors, at the time that market experience was sampled. Indeed, Camfield's general approach is to select market returns and equity-debt risk for the market as whole from historical periods on a basis of productivity. (Exh. Item 6, #123). While interest rates, following inflation, have declined over recent years when compared to the 1970s to early 1990s, equity returns have remained largely unchanged, when stated in nominal terms, though there has been and remains substantial variation and risks (Tr. 215), and the equity-debt risk premia has expanded to levels not wholly unlike that of the 1950s. This is because stable monetary policy, comparatively low inflation, and comparatively robust productivity contribute to improved returns to equity capital. That overall market returns have not declined in recent years—though interest rates have declined somewhat is amply demonstrated by the realized overall market returns over extended timeframes ending in 2006, which range from 11.90% to 13.60% and remain highly stable, with no observed decline in recent years though, as discussed, market

returns from one year to another—or within a defined decade—can vary substantially. In short, the case for overall equity market returns over the foreseeable future of greater than 11 – 12% is highly likely. Moreover, there exists substantial demand for capital worldwide which buttresses the assessment that capital costs remain high (Tr. 211) and there exists no evidence of declines in equity market return levels or equity risk premia currently, particularly when there is strong reasons to believe that the demand for capital and productivity will remain at or near current levels.

The risk premia research is more focused on explaining the reasons underlying the observed risk premia than necessarily suggesting that historical risk premia are inappropriately high or that there exists any discernable downward trend, which unlikely in view of, on a contemporary level, the significant downside risks harbored by investors in equity markets today. This view is supported by the studies cited by Dr. Woolridge. Nonetheless, if such studies are to be relied upon, in any way, it is essential to sort through and utilize only comparable risk premia metrics that are relevant to the context at hand. As stated by Mr. Camfield:

> "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. (Tr. 657).

Mr. Camfield's cost of capital study consistently draws upon and applies both recent and sufficiently deep history, measured unconditionally, captures the risk premia and market return data for overall equity markets stated in nominal terms, and measures risk premia with reference to intermediate term (10-year) government debt.

During cross-examination and re-direct on rebuttal Mr. Camfield was asked to read some recently authorized ROEs (Tr. 665-667, 674). He also referenced ROEs that were on an exhibit of Dr. Samuel Hadaway in testimony before the Missouri PSC. This schedule, which has been filed in this docket as Exhibit 96, is a summary of authorized return levels by regulatory agencies for electric utilities during the years 2004-2006 of 10.75%, 10.54% and 10.57%, respectively. This is in addition to Exhibit 55 sponsored by Doreen Cox who cites recently authorized rates of return for Georgia Power of 11.25% in 2007. (Tr. 64). Importantly, these authorized return levels are for electric utilities that range from modest-sized entities to some of the very largest electric systems in North America, including Georgia Power and Entergy. *All* of the utilities represented by these authorized return on equity levels will be upwards of two orders of magnitude greater in size than FPUC. In view of the documented fact that cost of capital rises as size declines, and in view of the fact that FPUC resides within the *lower half of the tenth size decile* (Exh. 3, Item 6, pp. 305-308), the conclusion that the opportunity cost of equity capital—and, thus, fair rate of return—for FPUC must be significantly greater than that of the authorized returns of these much larger entities cannot be escaped. The estimates of the cost of equity

capital, as determined by Mr. Camfield using the four method approach, and accompanying recommendation for an authorized return on equity level of 11.50%—which is Company's current authorized return by the Florida Commission—is fully consistent with the numerous return on equity decisions, nationally.

Mr. Camfield also addressed several additional issues regarding cost of capital including:

a. *Issuance Costs*: The inclusion of issuance costs within allowed equity return is complete justified and appropriate because it is a true cash cost to the Company (Tr. 647-648). The estimated issuance costs are 6% of the expected gross proceeds of the sale of new common shares of FPUC and these issuance costs should be incorporated using Mr. Camfield's approach, which translates into 33 basis points (Exh. 3, Item 7 #131).

b. Arithmetic or Geometric Returns: It is appropriate to utilize arithmetic methods to determine risk premia and to also assess realized historical returns. However, as Mr. Camfield details, both methods are utilized in analysis and reported results, and for this reason reports risk premia and realized market returns both ways. (Tr. 652; Exs. 17, 18).

c. *Definition of Forward Year Dividend*: Dr. Woolridge misinterpreted Mr. Camfield's approach to the determination of the Forward Year Dividend (Tr. 6). Mr. Camfield provides lengthy rebuttal on this detailed point of contention that provides a clarification of the methodology and why approaches used by Mr. Camfield and Dr. Woolridge are both approximations to the expected dividend rate for the forward year and closely equivalent. (Tr. 649-650)

d. *Changes in the Cost of Capital, 2006 to 2007 Forward*: Dr. Woolridge discusses that risks and costs of capital have changed, and that equity costs have declined and the debt costs have risen. While this is true following the decline in inflation from levels during

1980s through the early-1990s, with reference today, debt costs and interest rates have remained approximately unchanged, on average, since the. For 2006 – 2007, interest rates and equity risk premia have remained remarkably similar (Tr. 168, 169). Dr. Woolridge, in response to a cross examination question indicated that Baa bonds were currently at 6%. More precisely—and importantly—as Mr. Camfield testified in rebuttal testimony, investment grade Baa bonds are at 6.79% currently, a significant rise from 6.48% shown for both 2006 and 2007. (Tr. 168). Thus, while short-term Treasury securities and Fed Funds have declined since 2007, corporate debt costs have increased, very clearly reflecting the higher perceived risks associated with private firms.

FPUC needs to provide adequate return to investors in order to provide continued service to retail consumers, and to adequately compensate investors for the risks that are entailed with investment in a small entity that cannot readily diversify risks as larger entities. The Company's current authorized equity return level of 11.50% satisfies this requirement, and provides the Company with the capability to remain competitive and to attract capital when required. Fair rate of return is particularly relevant in the immediate case because the realized returns by the Company's electricity division have fallen consistently short of the authorized return level, and fast rising resource costs for electric utilities generally. In view of the recent history, the Company is concerned about maintaining adequate returns in view of prospective costs pressures. The return on equity of 11.50% requested by FPUC is reflective of the capital markets currently, as shown by the recent comparable authorized return approved for much larger companies. FPUC, as a smaller company with more volatile earnings, inherently presents higher risks for investors. (Tr. 64). Sustaining the authorized equity return at the current level (11.50%) is necessary, fully justified, and appropriate.

ISSUE 63: What is the appropriate capital structure for the projected test year?

SUMMARY OF POSITION: *The appropriate conventional capital structure for FPUC is as follows: Short-Term Debt is 5.62% capitalization amount and 6.81% cost rate; Long-Term Debt is 43.45% capitalization amount and 7.96% cost rate; Preferred Stock is 0.52% capitalization amount and 4.75% cost rate; and Common Equity is 50.41% and cost rate of 11.50%. Although for Company utilized an average capital structure and 13-month average rate base in their MFRs; a year end capital structure is more appropriate.*

ANALYSIS AND ARGUMENT: Although the Company utilized an average capital structure and use of 13-month average rate base in their MFRs and in the request for rate recovery, a year end capital structure is more appropriate. (Tr. 166). The year end approach is more appropriate as it is more reflective of the cost of capital to FPUC during the time frame in which rates will be in effect. If the year end capital structure is used, then an adjustment would be required to the requested base rate increase and the 13 month average rate base (Ex. 10) would have to be updated to be the yearend rate base.

ISSUE 65: What is the appropriate projected cost rate for short-term debt?

SUMMARY OF POSITION: *The projected cost rate for short term debt of 6.81%, as filed is appropriate.*

ANALYSIS AND ARGUMENT: The projected cost rate for short term debt of 6.81%, reflects the observed and expected Fed Funds target rate over the foreseeable future, at the time of FPUC's filing in the immediate docket. The interest charge on the short-term line of credit facility of the Company is linked to the One Month Floating London Interbank Offer Rate ("LIBOR"). In its recent rate case filings, the Company has proposed the use of the target rate for Federal Funds, as the basis for determining the appropriate LIBOR. Historically, LIBOR

resides above, and varies with, Fed Funds in a reasonably consistent pattern. However, the interest rate spread between LIBOR and Fed Funds can reveal periods of sharp differences, such as the latter part of 2007, where the LIBOR – Fed Funds interest spread expanded considerably.

For determining the short-term debt cost rate, the Commission should utilize the Fed Funds interest rate as the baseline for setting the appropriate LIBOR and incorporate the LOC fees and interest rate spread above LIBOR. (Tr. 650,651).

In establishing the short-term rate the Commission should use a short term cost rate that is more indicative of cost rates that are likely to be in effect over the term in which retail prices will be effect. Accordingly, for this proceeding the Commission should use a Fed Funds rate of either: 1) An average of Fed Funds target interest rates, as observed historically of 4.06% which would result in a cost rate of 5.62% after margins and fees; or, 2) The observed Fed Funds target rate at year end 2007 of 4.25%, which would result in a cost rate of 5.80%. (Tr. 651).

ISSUE 67: What is the appropriate amount of accumulated deferred taxes to include in the capital structure for the projected test year?

SUMMARY OF POSITION: *As filed, the appropriate amount of accumulated deferred taxes to include in capital structure is $6,078,743, adjusted for any other issue adjustments within this docket that impact accumulated deferred taxes. This issue is a fallout issue of other issues within this proceeding adjusted for the effects of other adjustments contained within this proceeding.*

ANALYSIS AND ARGUMENT: The appropriate amount of accumulated deferred taxes to include in capital structure is $6,078,743, adjusted for any other issue adjustments within this docket that impact accumulated deferred taxes. (Exh. 4, Schedules B-1, B-3, B-22, C-25).

ISSUE 68: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure for the projected test year?

SUMMARY OF POSITION: *As filed, the appropriate amount of unamortized investment tax credit to include in capital structure is $81,965. The appropriate cost rate is 9.67% adjusted for any effects of within this docket that impact investment tax credits or the overall cost of capital structure. This issue is a fallout issue of other issues within this proceeding adjusted for the effects of other adjustments contained within this proceeding.*

ANALYSIS AND ARGUMENT: This is a fallout issue and the unamortized ITC as filed (Exh. 4, Schedules B-23, B-1, and B-3) should be revised to recognize adjustments.

ISSUE 69: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ending December 31, 2008?

SUMMARY OF POSITION: *The overall cost of capital for regulatory purposes is 8.07%.*

ANALYSIS AND ARGUMENT: The cost rates and components as filed by the Company are appropriate and the overall cost of capital for regulatory purposes is 8.07%. This is a calculated number subject to revision depending on any changes to the cost rates, capital structure or components. (Ex. 4, Sch D-1a).

NET OPERATING INCOME

ISSUE 70: Should FPUC's request for recovery for an additional expense to inspect and test substation equipment costs be approved?

SUMMARY OF POSITION: *Yes. The additional expense to inspect and test substation equipment costs of $73,050 should be approved. The Company has provided information regarding the increased level of substation maintenance required to increase the reliability of substation equipment and the associated reduction of repair cost that will result from the increased level of maintenance.*

ANALYSIS AND ARGUMENT: The inspection, testing and maintenance of substation equipment is an important element for providing service and even OPC agrees it is prudent to inspect and test the substation equipment. (Tr. 359). Contrary to Mr. Larkin's characterization, this projected increase is well supported and necessary. The Company used the information provided by the International Electric Testing Association Inc. to develop the substation maintenance plan. (Ex. 67) Based upon these guidelines, a plan for the 2008 -2012 time period was developed which 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. (Ex. 68).

The maintenance requirements included 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. (Tr. 688).

Mr. Larkin indicates that unless there are specific maintenance programs which deal with individual substations and what is over and above current program, the increases should not be granted. (Tr. 313, 360). Mr. Cutshaw acknowledged voluntarily that the detailed information on specific maintenance was inadvertently omitted when responding to previous interrogatory request (Tr. 700) but that support has been provided and Mr. Larkin's objection should be

eliminated. The issue for the Commission is whether the projected expenses are reasonable, not the timelines of the response, and it is clear that they are. Mr. Cutshaw has provided a detailed response, in fact, it was in his prefiled rebuttal testimony which was filed and available to parties six (6) weeks before the hearing. Based on this and the detailed information provided on the additional substation maintenance requirement, the expense should be included in the projected test year.

ISSUE 71: Has the Company properly estimated an appropriate amount of forfeited discounts in calculating the revenues for 2008?

SUMMARY OF POSITION: *The Company has properly projected forfeited discounts (late fees) of $342,133 for the projected test year 2008.*

ANALYSIS AND ARGUMENT: The Company receives revenues from customers in the form of late fees when bills are not timely paid. The Company has projected that the revenue from late fees will decline in the test year as compared to prior years. In fact, actual revenues from January through November for late payments for 2007 ($315,179) compared to 2006 ($323,038) a decline of 2.4% and indications are that this trend may continue. (Tr. 686)

The OPC through Mr. Larkin argues that revenue projections from late fees should be increased as a result of a change to the tariff to shorten the payment time and growth in bills due to higher fuel costs and delivery costs and customer growth (Tr. 305). In the first place, the analysis of Mr. Larkin is wrong as proven by the actual results for January to November 2007, a period which includes higher bills due to fuel in Fernandina. Secondly, Mr. Larkin fails to recognize that the Company has acknowledged that it did not intend to shorten the time for customer to pay their bills and in fact, may not do so because of rules of the Commission (Tr. 686). The tariff language as to the payment period will remain as it now provides (Tr. 686).

The basis for Mr. Larkin's proposed adjustment simply does not exist and the Company has properly projected forfeited discounts (late fees) of $342,133 for the projected test year 2008.

<u>ISSUE 74</u>: What is the appropriate projected test year miscellaneous service revenue?

SUMMARY OF POSITION: *The appropriate projected test year miscellaneous service revenues are $225,209.*

ANALYSIS AND ARGUMENT: The appropriate projected test year miscellaneous service revenues are $225,209. (Ex. 4, Schedule E-7, and C-5). The Company has properly projected these revenues and included the support within the filing. In Mr. Larkin's testimony, he proposed that miscellaneous service revenues should be increased due to the under collection of temporary service charges. (Tr. 233). As stated in Issue #54, this amount has been removed from working capital for the purposes of this proceeding. However, the Company takes issue with Mr. Larkin's recommendation that Miscellaneous Revenues be increased to include temporary service revenues as addressed in Issue 54. To do so is arbitrary and punitive and the Company has done nothing but comply with its tariff as to temporary service charges.

<u>ISSUE 75</u>: Is FPUC's projected level of Total Operating Revenues in the amount of $17,186,965 for the December 2008 projected test year appropriate?

SUMMARY OF POSITION: *Yes. Revenue before a base rate increase of $17,186,965 projected for the December 2008 test year is appropriate. This issue is a fallout issue of other issues within this proceeding and subject to other adjustments contained within this proceeding.*

ANALYSIS AND ARGUMENT: This issue is a fallout issue of other issues and adjustments.

<u>ISSUE 76</u>: What are the appropriate escalation factors and trend rates for use in forecasting the test year projected Operation and Maintenance Expenses?

SUMMARY OF POSITION: *The escalation and trend factors as used by the Company are appropriate. The results after application of these factors produce anticipated and expected

results for 2008 operation and maintenance expenses, and accordingly the end results of the applied factors are reasonable. The Company used factors for inflation, payroll, customer growth and unit sales and also used some combined factors as appropriate such as customer growth and inflation when it was reasonable to expect that those expenses would increase by both components.*

ANALYSIS AND ARGUMENT: The factors and trend rates used by the Company were explained in direct testimony (Tr. 116) and the results after application of these factors produce anticipated and expected results for 2008 operation and maintenance expenses which are reasonable. (Ex. 4, Schedule C7 and Section C Page 95). When appropriate combined factors such as customer growth and inflation are appropriate they were used. It is realistic to expect that some expenses will increase not only as a result of the inflationary effects on prices, payroll, and costs in general, but also as a direct result over time from the increased customer base. To adequately provide service to customers, all areas will need increased services and employees to handle additional levels of customers, plant in service, and the related volume of work that increases with an increase in the customer base.

In the event that there is a belief that some accounts should be separated and factors should be applied differently to the payroll versus nonpayroll amounts, the Company has provided this information by account number. (Ex. 77). However, annualizing the 2007 expenses or reviewing the results compared to the trended numbers, does not produce an accurate picture of the expected expenses as they relate to the 2008 projected amounts. The Company had some delays in 2007 relating to storm hardening initiatives, salary survey implementation, accelerated filer status delay and related audit fees as well as other budgetary

delays that contributed to the result differences in 2007.(TR 583) These would not be appropriate as adjustments to 2008 projections.

Also, if adjustments are made to the trend factors, careful consideration should be given to other O&M adjustments within other issues, to ensure there is not a double removal of expenses. Some expenses have been proposed to be adjusted for other reasons, but a trend factor adjustment could be a duplicate adjustment if made to an account that has already been adjusted within other issues.

ISSUE 77: Should the Company's requested position in Corporate Accounting for a Compliance Accountant for the audit of inventory, cash and other processes be approved?

SUMMARY OF POSITION: *Yes, the new position for the Compliance Accountant is justified and needed and should be allowed full annual recovery. This position will be filled at the very latest by April 2008 and since it will coincide with the implementation of the final rates it is appropriate for full recovery. The calculation of the overhead was incorrect and 11% or $2,640 should be removed from the total projected expense.*

ANALYSIS AND ARGUMENT: The Company is adding a position which it believes to be necessary to the Company based on the requirements of Sarbanes Oxley Act of 2002, and Section 404 Management Assessment of Internal Controls. The Company continues to be faced with increasing internal control requirements and has 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.

The OPC acknowledges the need for the position noting that

> ". . . the work load continues to increase within the Accounting Department on a whole an increase in staff is required at this time to meet the work load of the department on a whole." (Witness Merchant, Tr. 527).

However, OPC proposed an adjustment on the belief that the position would not be filled until late in the test year. However, as Mrs. Martin testified, an offer has been made to someone to fill this position and at the time of the hearing, the Company was awaiting a response. (Tr. 134). She also testified that in any event, either a full-time employee will be hired for this position in April or a temporary staff will be hired to fill the position (Tr. 578). Clearly this position will be filled before the rates go into effect.

Mrs. Merchant's proposed adjustment is further flawed in that it would not allow the Company to recover the full expense associated with the position. Her proposed adjustment to include only ½ of the projected salary means that the other ½ does not get recognized in the test year. Rates are established based on the test year and to ignore an amount that is known effectively establishes rates which are not sufficient to recover that amount. The salary for this position was included at $60,000 annually. Including only $30,000 as an expense in the test year means that the rates are only set to recover the $30,000 and not the full expense, thus full recovery of this expense never happens.

The Commission should recognize the full amount of salary for the position; however, there is one adjustment that should be made and that is to the overhead. The original estimate for this position was a salary of $60,000 plus overheads of 37%. This was allocated to electric at 40% for a total of $32,880. This overhead rate should have been 26% allocated at 40% or a total

of $30,240. This requires an adjustment to reduce 2008 expenses by $2,640. (Tr. 135; Ex. 4, Schedule C page 96)

ISSUE 78: Should the Company's requested position in Customer Relations for a CR Analyst/Coordinator for work on SOX 404 Internal Control requirements be approved?

SUMMARY OF POSITION: * Yes. The new position of CR Analyst position is supported and necessary and should be allowed full annual recovery. This position or a temporary staff will be hired at the very latest by April 2008 and since it will coincide with the implementation of the final rates it is appropriate for full recovery. There was a slight error in the computation of overheads, and 11% should be removed, or $1,373.*

ANALYSIS AND ARGUMENT: The position of CR Analyst in the Customer Relations department is needed to enable the Company to operate more efficiently. This position or a temporary staff will be hired at the very latest by April 2008 and will be used to monitor the compliance of the local offices with SOX 404 internal audit requirements. Many of the duties of this position are currently being performed by personnel in each office (Tr. 591) and by creating this position, the Company will be able to centralize the oversight and insure uniform compliance. The addition of this position will also relieve the local personnel of the duty thus freeing them up to concentrate on their local responsibilities. This will result in improved services to customers.

The Company has not hired anyone yet but expects to do so at approximately the same time that new rates go into effect thus full recovery of the expense is appropriate. (Tr. 593) The job requirements and salary range are appropriate for these duties (Tr. 591; Ex. 3, Item 7, p 414). Also the CR department is currently incurring additional payroll expense over 2006 as a result of the use of a temporary staff person (Tr. 139).

There is one adjustment that would be appropriate. The original estimate for this position was a salary of $41,600 plus overheads of 37%. This was allocated to electric at 30% for a total of $17,098. This overhead rate should have been 26% allocated at 30% or a total of $15,725.This requires an adjustment to reduce 2008 expenses by $1,373. (Tr. 135; Ex. 4, Schedule C, page 96).

ISSUE 81: Should an adjustment be made to test year expenses to Account 916, Miscellaneous Sales Expenses related to a customer survey?

SUMMARY OF POSITION: *No adjustment is necessary. The Company has used customer surveys and finds it a very effective tool for determining what is important to customers, and how to better service them. These surveys will be used on an ongoing basis and the projected 2008 test year includes $27,397 for these types of surveys.*

ANALYSIS AND ARGUMENT: In prior years, the Company did not utilize customer surveys on a regular basis, if at all. However, partly as a result of increased activity which directly affects customers, the Company has made use of surveys and has developed some valuable and useful information from these surveys. With surveys the Company can gather information from customers regarding service; customer satisfaction and other issues that can be used by the Company to improve the way it offers services to customers in how to react to certain issues. In some instances surveys reveal customer acceptance of changes but with use of a different approach to implementation such as was the case with the implementation of fuel changes. Surveys are still an effective and appropriate means of collecting information from customers even with computers and today technology. Although a large percentage of customers have computers, not all use the internet extensively and not all regularly refer to the Company website. Moreover, to get input from customers, they should be asked; it is not their responsibility to seek out surveys to answer. The Company expects to use this type of service in

conjunction with our awareness and advertisement campaigns on an ongoing basis thus the projection amount included in our test year is appropriate but is amenable to approval of an amortization of these costs over a period of time. (Tr. 53).

ISSUE 86: Should FPUC's requested increase in training expense for apprentice linemen be approved?

SUMMARY OF POSITION: *Yes. The requested increase in training expense has been shown to be necessary and beneficial to the Company and customers. Because of unanticipated changes on the available options for training the proposal was modified after the MFRs were filed. The revised amount of $127,135 includes trainers in each division and the necessary training modules and program.*

ANALYSIS AND ARGUMENT: Training of apprentice linemen has been an area of review for the Company for several years. For several years the Company used a program administered by the State; essentially a home study or book program that took four (4) years to complete and 8,000 hours on the job training under the review of a qualified journeyman. (Ex. 3, Item 19, p 8). In reviewing its training program, the Company recognized that a more formalized program with specific criteria and goals and records was necessary. (Tr. 702; Ex. 3, pp 3321-3325). Initially, the approach was to use the state program and the TECO training program. The Company purchased a training program with numerous modules in 2004 and had nearly completed the customization of those modules when the MFRs were prepared. (Tr. 701). The TECO program would have had FPUC apprentices training at TECO facilities periodically. This would have included the four year home study course, some classroom work and more formal field training signed off by an instructor. After the MFRs were prepared and projections presented, the Company learned that the TECO option was not available and other options were then examined. (Ex. 3, p 3320) There were other programs considered but they did not offer the

level of training deemed necessary. After considering the options it was determined that the best course of action was to establish a training program (Tr. 701; Ex. 3 Item #7, #45 and #45.1; Ex. 69).

The training program approved consists of two separate programs: A state apprenticeship training program, and the in-house training program, which consists of 204 separate training modules, are now being used which have been adopted for FPUC. In order to administer the training program and continue the existing safety program, the Company determined that a safety and training position will be required in each division.

The options considered by FPUC were discussed in documents submitted to OPC and Staff as part of the discovery in this proceeding. OPC Witness Merchant noted that the option selected by the Company was not the least cost option (Tr. 507) but she fails to point out that for each option considered, the Company gave consideration to both the positive and negative concerns with each option. The options other than the one selected all used supervisors, lineman or other personnel to conduct the training as an "additional duty." This would have taken these personnel away from their primary duties which would have diminished the effectiveness of the training and diverted attention from their primary job (Ex. 3; Item 7 #45.1). The option selected by the Company to use a separate trainer/safety coordinators in each division provides the most efficient way to provide training for the apprentices and also allows greater flexibility to minimize the unproductive time of employees that would occur if other options were used. This option also allows for expansion of the training program as needed.

All parties agree that training of line personnel is important. The Company acknowledges that the inability to use the TECO facilities resulted in some changes that required some revision of the initial plan. Such revision was not foreseen or the fault of the Company.

Of the options available and considering the expenses for the program, travel cost to other utilities, different specifications and practices used by other utilities, etc. we considered during the process. (Tr. 705) However, the final decision was made based on the most efficient and effective method to provide the training while considering the productivity of all personnel during the process. (Ex. 69). Overall, the $127,135 being requested is very reasonable to ensure a trained, safe and efficient workforce.

<u>ISSUE 88</u>: Should the Company's requested position in Corporate Services for a Corporate Services Administrator to assist in maintaining compliance be approved?

SUMMARY OF POSITION: *Yes. The expenses for the new position of Corporate Services Administrator should be allowed full annual recovery. This position has not been hired yet, but a hire is anticipated to coincide with the implementation of the final rates. There was a slight error in the computation of overheads, and 11% should be removed, or $923.*

ANALYSIS AND ARGUMENT: The Corporate Services Administrator position in the Corporate Services Department will be responsible for assisting with administrative responsibilities currently assigned to safety professionals, allowing more time for safety professional to focus on developing new safety programs, revising current safety programs, and performing an increased number of safety inspections. This position will also be responsible for maintaining safety compliance records, an increasingly important activity. Since this position is expected to be filled by early 2008 and it the first full year the final rates will be in effect will also have one full year of this expense in that same period, it is appropriate for full recovery. (Tr. 141).

As with the other positions that are being added; the addition of this position will enhance the effectiveness and efficiencies of the office operations. Duties now being performed by others will be consolidated to one and thus free up time of other employees.

The original estimate for this position was a salary of $33,280 including overheads of 37.5%. This was allocated to electric at 28% for a total of $9,318. This overhead rate should have been 26.5% allocated at 28% or a total of $8,395. This requires an adjustment to reduce 2008 expenses by $923. (Tr. 135; Exhibit 4, MFR Schedule C, page 96).

ISSUE 89: Should the Company's requested increase for travel expenses related to the requested new position in Corporate Accounting for compliance accounting be approved?

SUMMARY OF POSITION: **Yes. The increase in annual travel and miscellaneous costs associated with the increased internal audit functions of the Company and the new Compliance position should be approved. The total Company increase is $20,000 with $ 5,200 allocated to the electric divisions for the test year. This related new position will be filled by April 2008, and the new expenses will coincide with the first full year of final base rates.*

ANALYSIS AND ARGUMENT: The total annual travel and miscellaneous costs associated with the new Compliance position in Corporate Accounting is $20,000, and the electric allocated share of those expenses is $5,200. (Ex. 4, Section C page 96). These are necessary and reasonable expenses.

This position will be responsible for compliance and audit to insure compliance with SOX 404 and other requirements. Since the position will be working with the various local offices, travel will be acquired. The Company anticipates completing four to six additional trips per year, two people including this new position per trip as well as other miscellaneous costs for an increase in 2008 of $20,000. (Tr. 585; Ex. 3, Item 7, Question 65). OPC agrees that the position is necessary (Tr. 527) and given the travel that would be required, the expense should be approved.

ISSUE 90: Should an adjustment be made to Account 901, Operation Supervision-Administrative and General, related to the test year amount of moving expenses?

SUMMARY OF POSITION: *No. It is common to have moving expenses on an ongoing basis associated with hiring new personnel or for relocation. Moving expenses are a necessary expense of doing business and appropriate for recovery.*

ANALYSIS AND ARGUMENT: The Company included $3,835 in the 2008 projected test year for moving expenses. This was trended from actual amounts incurred in 2006 and although the Company may not have moving expenses for this particular position, it is very common to have this type of expenditure on a recurring basis. The Company will have moving expenses associated with hiring new personnel or relocation of personnel on an ongoing basis, and accordingly this expenditure is valid for recovery. (Tr. 54-55).

ISSUE 91: Should an adjustment be made to Account 588.2, Other Distribution Expense, related travel expenses for an employee's spouse?

SUMMARY OF POSITION: *No. Travel costs associated with hiring is a recurring expenditure as is the expense for a prospective employee's spouse. The expense is appropriate for recovery.*

ANALYSIS AND ARGUMENT: The Company has included $773 in the 2008 projected test year for travel related expenses associated with hiring a new employee. The actual expense was for the prospective employees spouse to view the area during the interview. It is not an uncommon practice to include a spouse when interviewing potential new hires — especially in upper management positions. Employees do not generally relocate families from distant locations until at least the spouse has had an opportunity to view the area. The minimal expense involved to include the spouse is a prudent investment to insure satisfaction with the new location. This is common practice and appropriate. (Tr. 54)

ISSUE 97: Should the Company's requested increase in customer information expense be approved?

SUMMARY OF POSITION: *Yes. The Company has increased its level of consumer information to inform and educate customers on a variety of issues. This level of information will be continued to keep customers informed of future fuel price changes, storm hardening initiatives, vegetation management programs and other information as deemed appropriate and necessary.*

ANALYSIS AND ARGUMENT: The Company included $159,543 in the projected test year for Customer information expense. This amount was trended from the 2006 actual amount plus an additional $14,904 which was determined to be necessary to inform and educate our customers. (Ex. 4, Schedule C-7 and Schedule C page 96). Over the past 4 – 5 years the Company has encountered several events when it was important to communicate with its customers. Although the Company has always tried to provide information useful to its customers, the importance of such activity was emphasized as the Company found itself in a more active role in Commission dockets and community activities. Part of the increased activity is in response to Commission inquiries and suggestions to be more proactive with custom information. (Ex. 3, p 3180-3183). Although much of the recent consumer contacts have been related to fuel contracts, and there may be a decrease for this issues, there are other items that will impact service and customer bills that will require additional information on an ongoing basis.

With rates increasing and expected to remain high, increased focus on vegetation management, interest in undergrounding of electric lines within cities, emphasis on photovoltaic systems/renewable energy generators, automated meter reading, franchise negotiations deposit requirements, etc. customers will expect information on these subjects from their utility. In order

to provide this information in a consistent and effective manner, communication must be maintained and the needed information must be supplied.

As part of the ongoing storm hardening activities the Company has been asked about brochures, hand outs flyers and similar communications with customers on storm issues. During questioning of Mr. Larkin on an issue in the case he agreed that information about right-of-way clearing and customer responsibilities in this regard would be appropriate topics to communicate with customers. (Tr. 365). He did later agree that use of the Company web site would be an appropriate means of communication (Tr. 378). While use of the web site is indeed a method to use to communicate with customers it is not an ideal solution. Not all customers have access to the web site and many of those that do are not regular visitors to the web site. Also, by simply posting on the web site, the burden is switched to the customer to check the web site for updates. The Company does not believe this is the answer to the need to increase consumer communications. It is but one tool that is available. As the economy changes, as storms continue to be an issue and as customers continue to experience increases, the Company agrees that increased customer information is appropriate.

ISSUE 98: Should an adjustment be made to FPUC's requested level of Salaries and Employee Benefits for the December 2008 projected test year related to the salary survey?

SUMMARY OF POSITION: *Yes, the increase in expenses should be included but the actual impact for 2008 is projected to be $27,928 which is $4,161 less than was included in the MFRs thus the total expense included in the test year should be adjusted. This expense is a reasonable and required expense and should be approved.

ANALYSIS AND ARGUMENT: Prior to the test year the Company undertook a review of salary ranges for its non-union employees. There was a recognition and concern by management

that salaries for Company employees was not at a par with other companies and thus the survey was initiated. The survey was not complete when the MFRs and case was filed but the MFRs did include a projection based on management estimates and copies of the preliminary results and expected impact was provided to OPC and Staff in discovery. In an on-site visit by OPC (Ex. 3, Item 18. pp 3257, 3259-3261). These preliminary projections were adjusted and actuals confirmed by Mrs. Martin in her rebuttal and during the hearing (Tr. 593; Ex. 85).

As with several other issues, the OPC has portrayed the salary survey and use of the survey as "unclear" (Tr. 535) when in fact the Company was quite clear throughout the process that the survey was not complete but then explained how the survey would be used. OPC also states that the adjustments would depend on the outcome of the rate case (Tr. 537) which is absolutely incorrect (Tr. 580).

The Company undertook the salary review in order to correct ranges and salaries for non-union employees. The company conducted the survey utilizing data from various sources to arrive at the adjustments (Tr. 579). It is important that employees be appropriately compensated for their work and it is equally as important that the Company compensate its employees to be competitive with other employees. There are benefits to the Company's customers in having a stable, experienced staff of employees and the Company cannot maintain such a staff unless they offer competitive salaries and benefits.

The expenses in the test year with the exception for $4,161, is based upon the actual results of the final survey and the impact to 2008 and are appropriately recovered through rates as a cost of doing business. There has been no showing that these adjustments are unreasonable and the company has adequately supported the adjustments.

ISSUE 99: Should the Company's requested salary adjustment for executives be approved?

SUMMARY OF POSITION: * Yes. The projection for 2008 was based on a historical average increase and the overall wages have been supported as appropriate with a salary survey of peer group executives. Executive salaries should be commensurate with responsibilities and the increase is both warranted and supported.

ANALYSIS AND ARGUMENT: The Company has included an adjustment for executive salary increases of an average 11% in the test year. For executives responsible for the successful operation of a business the size of FPUC, the Company's executives remain below those of comparable executives.

The overall increase of 11% is the actual average historical increase for the past three (3) years. In response to requests at the hearing, the Company provided Exhibit 93 showing the Executive Salary Incentive goals and Exhibit 94 which is an update of Exhibit 85 and provides more details on the comparisons of compensation for executives with similar companies.

With respect to the Incentive goals, all of the goals which relate to the regulated operations are beneficial to customers. Increasing the number of customers, reducing customer losses, reducing interruptions, reducing complaints and employee accidents are all goals which if achieved benefit customers. With respect to Exhibit 94, that clearly indicates that FPUC executives are significantly below the average of similar utility operations; especially the CEO.

The issue of executive compensation is one which has been much discussed publicly over the years and it is difficult not to think of those discussions when considering executive salaries. OPC objects to the increases because the Company has not provided documentation and the executives take the position their salaries are more important than those of employees. The first reason advanced is not correct; the Company has provided documentation and the second reason

is little more than an unsubstantiated emotional charge. The executive compensation is below market salary ranges and is not excessive.

The Company has demonstrated its concern with employee salaries with a review and adjustment of alary ranges — and this was initiated long before this rate case was contemplated. But just as employees should be fairly compensated so should the executives. Employees may have their duties and responsibilities but the executives have ultimate responsibility for the operations of the Company. The incentive portion of the salary earned provides reward for achieving customer beneficial goals thus the executives manage with service and satisfaction in mind. The Company has provided documentation that the compensation is reasonable and there has been no demonstration that the amount of expense for executive compensation in the test year is anything but reasonable for the responsibilities of their positions.

ISSUE 101: What is the appropriate amount of annual storm expense accrual?

SUMMARY OF POSITION: * The appropriate amount of annual storm damage accrual is $204,000 for a total storm reserve of $3,338,800 over an eight (8) year time period. This is equivalent to insurance costs, spreads the risk of storm damage costs and reduces any future large impacts to customers that may result from a major storm or hurricane.*

ANALYSIS AND ARGUMENT: The Company has requested a storm reserve equal to 5% of the current transmission and distribution plant (Tr. 256). This equates to a storm reserve of $3,338,800 over an eight (8) year time period, provided there is no major storm damage in that period. The increase to the projected test year for 2008 for this reserve would be $204,000.

This is conservative in nature, and on the low side of what may be needed for future but it is a reasonable amount. Based on the location and potential damage to the utility locations it is a prudent decision to increase the reserve. It is not possible to obtain reasonable insurance

coverage for hurricane damage, and utility companies like FPUC have been forced to be self insured or to collect for storm damages after the storm occurs. Mr. Cutshaw offered testimony that earlier quotations for a $10 million dollar limit with a $1.5 million dollar deductible would have an annual cost of $1.2 million (Tr. 258). Collecting the storm reserve up front is the same as insurance coverage customers carry and it would be most beneficial to the customers to have this storm reserve up front rather to collect after a storm.

Customers expect the Company to have adequate reserves to at least partially offset the *impact of a major storm, and an increase to the storm reserve would help defray the impact of a* future storm surcharge required to cover the cost of a major storm or provide coverage for a large *storm.*

ISSUE 104: Should the projected 2008 economic development donations be approved?

SUMMARY OF POSITION: *Yes. Economic development provides benefits to customers and it is a reasonable expense for the Company. These costs cannot be precisely estimated for each year and may vary from year to year and to insure that the customers continue to receive the full benefit of this expense the Company will continue to place any unused economic development costs in its storm reserve.*

ANALYSIS AND ARGUMENT: In recognition of the importance of economic growth to a community the Commission has adopted Rule 25-6.0426, Florida Administrative Code, which allows, among other things, for the recovery of certain expenses associated with economic development. Mr. Hugh Larkin's testimony, he accurately re-states the portion of the rule cited by the Company (Tr. 314) but proposes an adjustment because the level of expenditures did not equal what the Commission had previously allowed (Tr. 315). The Company acknowledges the decreased expenditures and as explained by Mr. Cutshaw, "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." (Tr. 689)

That the expenses decreased does not mean that there is no or will be no economic development opportunities and it would not be prudent to disallow expenses which would be used for these purposes. In the prior rate proceeding the Commission required that unexpended funds be transferred to the storm reserve which is an appropriate option.

ISSUE 107: What is the appropriate total amount, amortization period and test year expense for Rate Case Expense for the December 2008 projected test year?

SUMMARY OF POSITION: *The total rate case expense, including the unamortized balance of the prior rate case expenses, is $728,000 which should be amortized over four years. The expenses which are included were prudently incurred expenses directly related to the preparation and presentation of this case. The Company used a combination of consultations, outside personnel and employees to prepare the filing in a cost effective manner. These are necessary expenses directly related to the provision of service and are appropriate for recovery.

ANALYSIS AND ARGUMENT: Rate case expense has long been recognized and allowed for recovery as a necessary cost of doing business for a utility. The preparation of the voluminous schedules, development of testimony, responses to discovery and audit requests, presentations and preparation consume not just hours but weeks and months of staff and consultant time. While much of a rate case can be prepared in-house there are some areas such as cost of capital that require outside assistance. For a Company such as FPUC that does not have a large staff to

begin with, consultants and outside assistance is required in order to compile the necessary filings in the most efficient manner. In this case, all of the Company's witnesses have duties and responsibilities on a daily basis related to the operation of the Company and the rate case is over and above those daily duties which must also be performed. For example, the division managers have to continue to run the day to day operations of their respective divisions and the accounting staff have duties not just related to the electric operation but to the other operations of the Company as well. Unfortunately rate cases do cause the Company to incur costs but in this case the Company has taken steps to keep those costs to a minimum. The Company used staff as well as consultants and outside personnel to conduct internal audits to provide a cost effective approach to the development of the case and all of the costs which were incurred were necessary and prudently incurred.

In order to assist with the preparation of the initial filing and cost of capital analysis, the Company utilized the assistance of Christensen & Associates ("CA"). The scope of the work was the subject of a fixed price contract. As the case developed, the consultants were required to provide assistance which went beyond the scope of the initial contract. The Company had utilized the services of CA on several matters including the last rate case which was a stipulated case. The extent of the work which required their assistance on this case went far beyond their involvement in the last proceedings, the discovery was more extensive, the preparation and participation in the proceeding was more extensive as was the hearing and posthearing. In short, CA provided advice, assistance and participation beyond that contemplated by the initial fixed contract. As a result of this the Company expended $45,000 beyond the initial contract — an amount OPC says should be disallowed. The recommendation to disallow this amount is based only on the existence of the fixed price arrangement and no review or any consideration was

given to the amount or scope of work performed (Tr. 347). In fact Mr. Larkin did not know what the participation of CA had been beyond the initial preparation and filing (Tr. 348). All of the work performed by CA was directly related to the rate case and there is not evidence or testimony that it was not. The only evidence in the records is of the work performed and the Company asserts that the costs were necessary, were directly related to the rate case and were prudent.

The other area of work addressed by OPC was the use of help from outside internal auditors to perform internal audit work which would normally have been performed by the accounting staff. The Company considered the cost to do the internal audit work in-house as originally planned and either use more consultants or additional temporary staff on the rate case however; it was more beneficial to use the internal staff to do additional rate case work instead of these internal audit assignments. The Company opted to use the outside personnel to do the internal audit work as that was the most cost effective. (Tr. 582). Using the internal auditors allowed Company personnel to devote time to the rate case and the work required on that issue. Had the Company used additional consultants or hired additional personnel it would have been more costly than the use of these additional internal audit related services. The Company utilized the most efficient, cost effective method to complete rate case related work and this expense should be allowed.

Finally, the Company has included additional expense to compensate Company staff for the work on the rate case. It is important to provide this additional compensation for the significant work efforts and time requirements in excess of normal work levels and increased skill efforts required on this rate proceeding because the normal salaries for these personnel do not compensate them for this level of work. The normal salaries for this staff are not set to

require this type of work, and the additional compensation is not only appropriate but fair and necessary for adequate pay. OPC argues that preparation of a rate case is a "normal" job responsibility but this is not the case. OPC is correct these are salaried employees but their job descriptions do not include rate case preparation nor is their regular salary set at a level to include all of the extra work involved with a rate case. These employees have responsibilities to all divisions of the Company, not just the electric division, and their duties with these other divisions and the electric division do not go on hold while the rate case is proceeding. The amount of compensation does not begin to reimburse these staff for each hour worked over a certain level, but it does provide adequate additional pay to compensate them for their valuable efforts and level of work that has been required on this rate proceeding and it is very appropriate for recovery. This additional compensation has been paid, is very appropriate for salaried individuals, and is entirely appropriate for recovery.

Mr. Larkin proposes adjustments to rate case expense to eliminate expenses that were necessary and prudently incurred. Mr. Larkin acknowledges that he had never put together a rate case (Tr. 356) and he was not familiar with the amount of discovery served on the Company by OPC. (Tr. 357). The Company through its staff and consultants responded to over 300 interrogatory and document requests from OPC and 134 or more from Staff (Ex. 3 provides a partial list of the scope of the discovery in this case). Mr. Larkin testified that there is not a lot of work necessary to prepare responses to discovery (Tr. 357) and that it only took him possibly an hour or hour and a half to respond to 25 questions posed by FPUC (Tr. 357). However, he acknowledged that his response to one of the questions was not correct (Tr. 366). Mr. Larkin is simply incorrect when he suggests that requests for detailed explanations for various accounts for several years, or actual millage rates for a 3 year period and similarly detailed requests can be

quickly answered. Despite the contention of OPC, this was a time consuming case and required use of resources not initially contemplated. All of the expenses which have been included in rate case expense were necessary and reasonable.

ISSUE 109: Should an adjustment be made to uncollectible expense in Account 904, Uncollectible Accounts, for the December 2008 projected test year?

SUMMARY OF POSITION: *Yes, the Company has revised Uncollectible Expense from $216,664 to $150,228 for Projected Year 2008. This revision reflects a write-off rate for 2006 based on the four-year period 2003-2006. The Company has increased the revised 2006 Uncollectible Expense of $53,653 by 180% to arrive at a final expense of $150,228 for Projected Year 2008. The 180% increase takes into consideration the Company's inability to increase customer deposits coverage due to the twelve-month rule in our tariff and FPSC rules.*

ANALYSIS AND ARGUMENT: The Company's original MFR filing, Schedule C-7 (2008) of $216,664 of Uncollectible Expense for 2008 was based on the actual book expense recorded in 2006 increased for higher fuel rates, higher base rates, declining economic conditions and currently inadequate customer deposit coverage due to FPSC rule restrictions in obtaining new or additional deposits. (Ex. 3, Item 7, pp 430-431). Although the Company continues to expect a significant increase in Uncollectible Expense in 2008, it has offered an alternative using a four-year (2003-2006) average write-off rate of .1360% for 2006. using this four-year average rate of .1360-%, the 2006 Uncollectible Expense would be adjusted to $53,653. (Tr. 588, Ex. 75).

The 2006 Uncollectible Expense of $53,653 would then be increased by 180% to $150,228 for Test year 2008 to include the increase in write-offs due to substantial increases in Purchased Power (fuel) costs effective January 1, 2007 and January 1, 2008. These increases in write-offs coupled with the existing level of customer deposits will cause the Uncollectible Expense in 2008 to increase approximately 180% over the 2006 level. This increase in expense

will continue until the Company is able to bill and collect the necessary customer deposit increases. (Tr. 588). The actual net write-offs of bad debts in 2007 ($83,185) have already increased substantially over 2006 ($58,025) due to the above reasons. (Tr. 589).

The Company has also adjusted the bad debt portion of the revenue expansion factor to the average write-off rate (.1470%) for the four-year period ended December 31, 2007 in keeping with Commission precedent. (Tr. 589, Ex. 76).

ISSUE 111: Should the Company's request for recovery of tree replacement costs be approved?

SUMMARY OF POSITION: *Yes, the costs associated with tree replacement should be approved. Although there will not be any noticeable short term benefits, the cost of $31,050 will begin to reduce both the tree trimming costs and outages associated with storms on a long term basis.*

ANALYSIS AND ARGUMENT: In this proceeding, the Company has included expenses to initiate a program to replace large trees in or near overhead lines with trees which are lower growing and more appropriate. As has been discussed at length with storm hardening issues before the Commission vegetation management is a critical effort to maintain clear lines and reduce the instances of outages caused by tree limbs.

In the program proposed by the Company, a limited number of trees appropriate to the location will be available to provide customers when trees are removed as part of the vegetation management efforts. Mr. Cutshaw testified that in many cases the Company is not able to trim to normal clearances because customers are 'attached" to the trees (Ex. 3, p 3444). In those cases the Company incurs additional expense for the more frequent need to trim. (Ex. 3, p 3444). With this program the Company would offer an appropriate replacement tree to customers so that an existing tree could be removed.

Mr. Larkin characterizes this program as one where the Company would "dig out and replace trees on private property with trees funded by rate payers," (Tr. 312) which is not a proper description. It is a combination of educating customers on proper trees to plant and use of offering a replacement tree to allow removal of a problem tree.

Mr. Larkin also testified that customers are responsible for planting and keeping trees away from power lines (Tr. 312) and that customers should know where they can and can't plant trees (Tr. 364). He then acknowledges that if a tree continues to grow then the customer has to cut it back or ". . . the company has a tree trimming program that will cut those back out of the right-of-way." (Tr. 364). It is precisely this last option that the Company is seeking to reduce with this program. Mr. Larkin's continued reference to right-of-way ignores Mr. Cutshaw's testimony that the trees at issue typically are trees on private property that overhang the right-of-way (Ex. 3, p 3456) but even for those that are on right-of-way, in some cases the Company is not able to trim because of customer objection (Tr. 3456).

The tree replacement program will not produce benefits for a period of time but is intended as part of a long term effort to control expenses associated with vegetative management. It involves education and use of proper trees and is a realistic, reasonable approach to avoiding and controlling trimming costs.

ISSUE 113: Is FPUC's requested level of O&M Expense - Other in the amount of $10,081,391 for the December 2008 projected test year appropriate?

SUMMARY OF POSITION: * Yes. As filed the appropriate amount of O&M expense is $10,081,391, however there may be adjustments within this case docket that impact O&M expenses. This issue is a fallout issue of other issues within this proceeding.*

ANALYSIS AND ARGUMENT: The O&M expense – Other should be adjusted by the effects of any appropriate issue within this proceeding. There are no separate issues identified within this issue and this issue is a fallout issue of other issues within this proceeding.

ISSUE 114: What adjustments, if any, should be made to the December 2008 projected test year depreciation expense to reflect the Commission's decisions regarding the depreciation study filed in Docket No. 070382-EI?

SUMMARY OF POSITION: *The utility depreciation expense portion of 2008 projected test year depreciation and amortization expense should be increased by $286,368 to reflect the effects of revised depreciation rates as determined in Docket No. 070382-EI.*

ANALYSIS AND ARGUMENT: FPUC has provided detailed schedules indicating the 2008 utility depreciation expense computation included in Schedule C-1(2008), Line 11 in the MFR, and the revised 2008 utility depreciation expense computation using the revised depreciation rates effective January 1, 2008. (Ex. 90). The initial 2008 utility depreciation expense was $2,935,033; the revised 2008 utility depreciation expense is $3,221,401; the increase in 2008 utility depreciation expense is $286,368.

ISSUE 115: What is the appropriate amount of Depreciation Expense for the December 2008 projected test year?

SUMMARY OF POSITION: *Depreciation expense should be increased by $286,368 to reflect revised depreciation rates effective January 1, 2008 from the FPUC 2007 Depreciation Study, Docket No. 070382-EI. This results in a 2008 Adjusted Jurisdictional Amount for Depreciation and Amortization of $3,705,215. This issue may also include fallout items resulting from other issues within this proceeding. The other issue adjustments have not been finalized or calculated.*

ANALYSIS AND ARGUMENT: In the MFR, 2008 Depreciation and Amortization on Schedule C-1 (2008), Line 11, was shown as $3,418,847. This amount must be increased by

$286,368 to $3,705,215, reflecting the effect of revised depreciation rates resulting from the 2007 FPUC depreciation study under Docket No. 070382-EI, and discussed in detail in Issue 114. The adjustment to this account is subject to the effects of additional agreed upon adjustments contained within the FPSC audit findings, and other issues which are still under consideration. The effect of these adjustments has not been calculated.

ISSUE 116: Should an adjustment be made to Taxes Other Than Income Taxes for the December 2008 projected test year?

SUMMARY OF POSITION: *Yes. To the extent necessary to recognize adjustments the tax effects of the resolution of other issues and adjustments made in this Docket. This issue is a fallout issue of other issues within this proceeding.*

ANALYSIS AND ARGUMENT: There are no separate issues identified within this issue and since this issue is a fallout issue of other issues within this proceeding it would be appropriate to make adjustments to recognize these.

ISSUE 117: Should an adjustment be made to Income Tax expense for the December 2008 projected test year?

SUMMARY OF POSITION: *Yes. To the extent necessary to recognize the income tax effect of any income statement related issue adjustment within this proceeding. This issue is a fallout issue of other issues within this proceeding.*

ANALYSIS AND ARGUMENT: Income Tax Expense should be adjusted by the tax effects of any appropriate issue within this proceeding. There are no separate issues identified within this issue. Since this issue is a fallout issue of other issues within this proceeding and the effects have not be finalized, the appropriate income tax expense for 2008 should be adjusted by the tax effect of any applicable issue in this proceeding.

ISSUE 118: Is FPUC's projected Net Operating Income in the amount of $206,341 for the December 2008 projected test year appropriate?

SUMMARY OF POSITION: *Yes. As filed the appropriate amount of Net Operating Income is $ 206,341 for the 2008 projected test year. This issue is a fallout issue of other issues within this proceeding and subject to adjustment for other issues.*

ANALYSIS AND ARGUMENT: The Net Operating Income should be adjusted by the effects of any appropriate issue within this proceeding. There are no separate issues identified within this issue. Since this issue is a fallout issue of other issues within this proceeding and the effects have not been finalized, the appropriate Net Operating Income for 2008 should be adjusted by any income statement issue in this proceeding.

REVENUE REQUIREMENTS

ISSUE 119: What is the appropriate net operating income multiplier for FPUC?

SUMMARY OF POSITION: *The appropriate net operating income multiplier is 1.6077, possibly adjusted for the effects of Issue 109 on the appropriate average bad debt rate that is a part of this computation.*

ANALYSIS AND ARGUMENT: As shown in MFR Schedule C-44 the appropriate net operating multiplier is 1.6077. If an adjustment is made to the uncollectible expense (Issue 109) for the appropriate average rate used to determine the expense, then an applicable change would be needed to the net operating income multiplier. Although the Company supports the bad debt rate of .2000% as appropriate, an alternative of .1470% which is the latest four year average was submitted. (Tr. 610). If that rate is used to determine the expense, then the multiplier would be 1.6069.

ISSUE 120: Is FPUC's requested annual operating income increase of $5,249,895 for the December 2008 projected test year appropriate?

SUMMARY OF POSITION: *Yes. As filed the appropriate net operating increase is $5,249,895 for the projected test year 2008, adjusted for the effects any other issue adjustments within this proceeding. This issue is a fallout issue of other issues within this proceeding. *

ANALYSIS AND ARGUMENT: The net operating income increase is a direct fallout of other issues within this proceeding. There are no separate issues identified within this issue. Since this issue is a fallout issue of other issues within this proceeding and the effects have not be finalized, the appropriate Net Operating Income increase for 2008 should be adjusted by any appropriate issue in this proceeding. It will be impacted by most issues within this proceeding.

COST OF SERVICE AND RATE DESIGN

ISSUE 125: What are the appropriate demand charges?

SUMMARY OF POSITION: *The appropriate demand charges should be approved using the factors determined in the cost of service study, adjusted for the effects of any agreed upon changes in the proceeding.*

ANALYSIS AND ARGUMENT: The determination of the appropriate demand charges based on the cost of service study are included as follows: (Ex. 4, MFR Schedule E-13C, Page 2 of 2)

GSD $3.47/KW

GSLD $4.34/KW

GSLD1 $1.12/KW $0.24/KVAR

The cost of service study was performed in accordance with long held ratemaking principles and practices of cost apportionment as specified in the Electric Utility Cost Allocation Manual. (Tr. 268).

ISSUE 126: What are the appropriate energy charges?

SUMMARY OF POSITION: *The appropriate energy charges should be approved using the factors determined in the cost of service study, adjusted for the effects of any agreed upon changes in the proceeding.*

ANALYSIS AND ARGUMENT: The determination of the appropriate energy charges based on the cost of service study are included as follows: (Ex. 4, MFR Schedule E-13C, Page 2 of 2)

RS	$0.01967/kwh
GS	$0.02206/kwh
GSD	$0.00323/kwh
GSLD	$0.00113/kwh
GSLD1	$0.00000/kwh

The cost of service study was performed in accordance with long held ratemaking principles and practices of cost apportionment as specified in the Electric Utility Cost Allocation Manual. (Tr. 268).

ISSUE 129: What are the appropriate Street and Outdoor Lighting rates?

SUMMARY OF POSITION: *The appropriate street and outdoor lighting rates should be approved using the factors determined in the cost of service study, adjusted for the effects of any agreed upon changes in the proceeding.*

ANALYSIS AND ARGUMENT: The determination of the appropriate street and outdoor lighting rates based on the cost of service study are included as follows. (Ex. 4, MFR Schedule E-13D) The details of these can be reviewed within the schedule referenced.

The rates were determined on the overall percentage increase necessary to provide the target rate of return for rate class. All lights and poles were increased based on that percentage

to arrive at the new rates. The Company does not have information on specific types of lights and poles to be able to determine increases based on the specific lights. (Ex. 3, Staff's 9th Interrogatory Questions 104, 105, 106 and Staff's 2nd Request for Production of Documents Question #6).

OTHER ISSUES

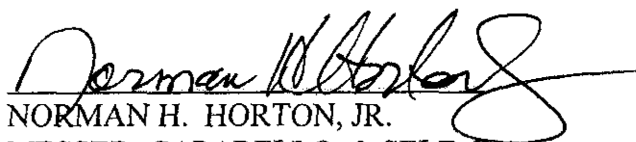
ISSUE 134: Should any of the $790,784 interim rate increase granted by Order No. PSC-07-0897-PCO-EI be refunded to the ratepayers?

SUMMARY OF POSITION: *No, the interim rate increase granted was appropriate and does not need to be refunded to ratepayers.*

ANALYSIS AND ARGUMENT: The final rate increase is expected to exceed the interim rate increase granted, and therefore the interim rate increase is deemed appropriate. No refunds are required to ratepayers.

Dated this 18th day of March, 2008.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that true and correct copies of the foregoing have been served by Electronic Mail (*) and/or U. S. Mail this 18th day of March, 2008 upon the following:

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