State of Florida

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: April 14, 2008

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Slemkewicz, Baxter, Bulecza-Banks, Colson, Dickens, Draper, Gardner, Kaproth, Kummer, Kyle, Lee, Marsh, Maurey, Springer, Stallcup)
Office of the General Counsel (Brown, Fleming, Young) KEF for JSB/MCB

RE: Docket No. 070300-EI – Review of 2007 Electric Infrastructure Storm Hardening Plan filed pursuant to Rule 25-6.0342, F.A.C., submitted by Florida Public Utilities Company.

Docket No. 070304-EI – Petition for rate increase by Florida Public Utilities Company.

AGENDA: 04/22/08 – Regular Agenda – Post Hearing Decision – Participation is Limited to Commissioners and Staff

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Argenziano

CRITICAL DATES: 04/30/08 (8-Month Effective Date)

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\070300-070304.RCM.DOC

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Case Background

The hurricanes of 2004 and 2005 that made landfall in Florida resulted in extensive storm restoration costs and long-term electric service interruptions for millions of electric investor-owned utility (IOU) customers. On January 23, 2006, the Commission conducted a workshop to discuss the damage to electric utility facilities resulting from the recent hurricanes and to explore ways of minimizing future storm damages and customer outages. State and local government officials, independent technical experts, and Florida's electric utilities participated in the workshop.

On February 27, 2006, the Commission issued Order No. PSC-06-0144-PAA-EI (Pole Inspection Order), requiring the IOUs to begin implementing an eight-year inspection cycle of their respective wooden poles.[1]

Thereafter, on April 25, 2006, the Commission issued Order No. PSC-06-0351-PAA-EI (Ten Initiatives Order), requiring the investor-owned electric utilities to file plans and estimated implementation costs for ten ongoing storm preparedness initiatives (Ten Initiatives) on or before June 1, 2006.[2]

In addition to the Ten Initiatives Order, the Commission pursued rulemaking to address distribution construction standards that are more stringent than the minimum safety requirements of the National Electrical Safety Code (NESC) and the identification of areas and circumstances where distribution facilities should be required to be constructed underground.[3] Rule 25-6.0342, Florida Administrative Code (F.A.C.), was adopted as a result of these rulemaking efforts.[4] That rule requires each IOU to file an Electric Infrastructure Storm Hardening Plan (Plan) for review and approval by the Commission. The rule also requires the Plan to contain a description of construction standards, policies, practices, and procedures to enhance the reliability of overhead and underground electrical transmission and distribution facilities.

On May 31, 2006, Florida Public Utilities Company (FPUC or Company) filed its response to the Ten Initiatives Order, which provided details on how it planned to address each of the ten storm preparedness initiatives and the estimated implementation costs associated with each. In its response, FPUC stated that the incremental cost of each initiative would have a substantial financial impact on the Company. FPUC proposed that the Commission provide the Company with rate relief to reduce the financial hardship. Docket No 060638-EI was opened to address FPUC's surcharge request. The Office of Public Counsel (OPC) intervened in the case, and the Commission conducted customer service hearings in Marianna and Fernandina Beach to receive customer testimony and information on the surcharge request.

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[1] Docket No. 060078-EI, In re: Proposal to require investor-owned electric utilities to implement ten-year wood pole inspection program.

[2] Docket No. 060198-EI, In re: Requirement for investor-owned electric utilities to file ongoing storm preparedness plans and implementation cost estimates.

[3] Order No. PSC-06-0556-NOR-EU, issued June 28, 2006, in Docket No. 060172-EU, In re: Proposed rules governing placement of new electric distribution facilities underground, and conversion of existing overhead distribution facilities to underground facilities, to address effects of extreme weather events, and Docket No. 060173-EU, In re: Proposed amendments to rules regarding overhead electric facilities to allow more stringent construction standards than required by National Electric Safety Code.

[4] Order Nos. PSC-07-0043-FOF-EU and PSC-07-0043A-FOF-EU.

The Commission was scheduled to address FPUC's request at its June 5, 2007, Agenda Conference, but deferred consideration of the matter pending further discussions between OPC and FPUC to resolve their differences over the amount and timing of the request. OPC and FPUC agreed that FPUC would request Commission approval to modify its vegetation management plan, and, if the Commission approved the modification, FPUC would withdraw its request for a surcharge and seek cost recovery in its next rate case. FPUC filed its petition to modify its vegetation management plan on October 10, 2007.

During this time, Docket No. 070304-EI was established to address FPUC's petition for a permanent rate increase (Rate Case Docket). Also, Docket No. 070300-EI was established to consider whether FPUC's storm hardening plan was in compliance with the Commission's newly enacted storm hardening rule, Rule 25-6.0345, F.A.C. FPUC's new storm hardening plan included the modification to its vegetation management plan and other storm preparedness initiatives, and FPUC's rate case included requests to recover the costs associated with the storm hardening plan and the Ten Initiatives. The two dockets were consolidated for this hearing and FPUC subsequently withdrew its request to recover a surcharge.

In the Rate Case Docket, FPUC requested an increase in its retail rates and charges to generate $5,249,895 in additional gross annual revenues. This increase would allow FPUC to earn an overall rate of return of 8.07 percent or a 11.50 percent return on equity (range 10.50 percent to 12.50 percent). The Company based its request on a projected test year ending December 31, 2008. FPUC stated in its petition that this test year is the appropriate period to be utilized because it represents the conditions to be faced by the Company, and is representative of the actual revenues, expenses, and investments to be realized under the new rates.

FPUC also requested an interim rate increase in its retail rates and charges to generate $790,784 in additional gross annual revenues. This increase would allow the Company to earn an overall rate of return of 7.80 percent or a 10.50 percent return on equity, which is the minimum of the currently authorized return on equity range of 10.50 percent to 12.50 percent. The Company based its interim request on a historical test year ended December 31, 2006. By Order No. PSC-07-0897-PCO-EI, issued November 5, 2007, the Commission suspended FPUC's proposed permanent rate increase and authorized an interim rate increase of $790,784.

The Commission last granted FPUC a $1,820,373 base rate increase by Order No. PSC-04-0369-AS-EI.[5] In that order, the Commission found the Company's jurisdictional rate base to be $36,379,034 for the projected test year ended December 31, 2004. The allowed rate of return was found to be 7.86 percent for the test year using an 11.50 percent return on equity. In addition, the Northeast (Fernandina Beach) and Northwest (Marianna) Electric Divisions were consolidated into a single Electric Division for ratemaking purposes.

Customer service hearings were held in Marianna, Florida, on December 5, 2007, and in Fernandina Beach, Florida, on December 6, 2007. The purpose of those hearings was to allow the public to present testimony concerning FPUC's requested permanent rate increase and the quality of service provided by FPUC. A total of 15 customers presented testimony at the hearings, 4 in Marianna and 11 in Fernandina Beach.

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[5] Order No. PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030438-EI, In re: Petition for rate increase by Florida Public Utilities Company.

The evidentiary hearing in this matter was held in Tallahassee, Florida, on February 27-29, 2008. The parties to this proceeding are the Office of Public Counsel, AT&T Florida, Embarq Florida, Inc., and the Florida Cable Telecommunications Association, Inc.

This recommendation addresses FPUC's Storm Hardening activities, FPUC's implementation of Rule 25-6.0342, F.A.C., the Ten Initiatives, and FPUC's requested permanent rate increase. The Commission has jurisdiction over the subject matter by the provisions of Section 366, F.S.

The issues preceded by the heading "**APPROVED STIPULATION**" were previously voted on and approved by the Commission at the beginning of the hearings on February 27, 2008. No additional vote is required on these issues.

Discussion of Issues

STORM HARDENING AND RULE 25-6.0342, F.A.C.

At a minimum, the Plan required by Rule 25-6.0342, F.A.C., must address the following:

(a) Compliance with the NESC.
(b) Extreme wind loading (EWL) standards for: (i) new construction, (ii) major planned work, including expansion, rebuild, or relocation of existing facilities, and (iii) critical infrastructure facilities and along major thoroughfares.
(c) Mitigation of damage due to flooding and storm surges.
(d) Placement of facilities to facilitate safe and efficient access for installation and maintenance.
(e) A deployment strategy including: (i) the facilities affected, (ii) technical design specifications, construction standards, and construction methodologies (iii) the communities and areas where the electric infrastructure improvements are to be made, (iv) the impact on joint use facilities on which third-party attachments exist, (v) an estimate of the costs and benefits to the utility of making the electric infrastructure improvements, and (vi) an estimate of the costs and benefits to third-party attachers affected by the electric infrastructure improvements.
(f) The inclusion of Attachment Standards and Procedures for Third-Party Attachers.

APPROVED STIPULATION
Issue 1: Does the Company's Plan address the extent to which, at a minimum, the Plan complies with the NESC (ANSI C-2) that is applicable pursuant to subsection 25-6.0345, F.A.C.? [Rule 25-6.0342(3)(a)]

Position: Yes, the plan complies with NESC requirements, subject to the appropriate modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and Ten Initiatives issues.

APPROVED STIPULATION
Issue 2: Does the Company's Plan address the extent to which the EWL standards specified by Figure 250-2(d) of the 2007 edition of the NESC are adopted for new distribution facility construction? [Rule 25-6.0342(3)(b)l]

Position: Yes, the plan complies with NESC requirements, subject to the appropriate modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and Ten Initiatives (Per p. 6.) issues.

APPROVED STIPULATION
Issue 3: Does the Company's Plan address the extent to which the extreme wind loading standards specified by Figure 250-2(d) of the 2007 edition of the NESC are adopted for major planned work on the distribution system, including expansion, rebuild, or relocation of existing facilities, assigned on or after the effective date of this rule distribution facility construction? [Rule 25-6.0342(3)(b)2]

Position: Yes, the plan addresses EWL standards, subject to the appropriate modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and Ten Initiatives issues.

APPROVED STIPULATION
Issue 4: Does the Company's Plan reasonably address the extent to which the EWL standards specified by Figure 250-2(d) of the 2007 edition of the NESC are adopted for distribution facilities serving critical infrastructure facilities and along major thoroughfares taking into account political and geographical boundaries and other applicable operational considerations? [Rule 256.0342(3)(b)3]

Position: Yes, the plan includes projects for upgrading distribution facilities to critical infrastructure and major thoroughfares, subject to the appropriate modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and Ten Initiatives issues.

APPROVED STIPULATION
Issue 5: Does the Company's Plan address the extent to which its distribution facilities are designed to mitigate damage to underground and supporting overhead transmission and distribution facilities due to flooding and storm surges? [Rule 25-6.0342(3)(c)]

Position: Yes, the plan addresses mitigation of damage to underground and supporting overhead facilities due to flooding and storm surge, subject to the appropriate modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and Ten Initiatives issues.

APPROVED STIPULATION
Issue 6: Does the Company's Plan address the extent to which the placement of new and replacement distribution facilities facilitate safe and efficient access for installation and maintenance pursuant to Rule 25- 6.0341, F.A.C? [Rule 25-6.0342(3)(d)]

Position: Yes, the plan addresses the placement or replacement of distribution facilities, subject to the appropriate modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and Ten Initiatives issues.

APPROVED STIPULATION

Issue 7: Does the Company's Plan provide a detailed description of its deployment strategy including a description of the facilities affected; including technical design specifications, construction standards, and construction methodologies employed? [Rule 25-6.0342(4)(a)]

Position: Yes, the plan addresses the deployment strategy, subject to the appropriate modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and Ten Initiatives issues and subject to the approval and implementation of the Process to Engage Third Party Attachers. There are some additional more detailed design specifications, construction standards and construction methodologies that will be completed when the approval of Dockets are completed. These will be shared with third party attachers in accordance with the Process to Engage Third Party Attachers.

APPROVED STIPULATION

Issue 8: Does the Company's Plan provide a detailed description of the communities and areas within the utility's service area where the electric infrastructure improvements, including facilities identified by the utility as critical infrastructure and along major thoroughfares pursuant to subparagraph (3)(b)3. are to be made? [Rule 25-6.0342(4)(b)]

Position: Yes, the Plan addresses the areas affected by infrastructure improvements, subject to the appropriate modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and Ten Initiatives issues and subject to the approval and implementation of the Process to Engage Third Party Attachers.

APPROVED STIPULATION

Issue 9: Does the Company's Plan provide a detailed description of the extent to which the electric infrastructure improvements involve joint use facilities on which third-party attachments exist? [Rule 25-6.0342(4)(c)]

Position: Yes, subject to the appropriate modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and Ten Initiatives issues and subject to the approval and implementation of the Process to Engage Third Party Attachers. Additional details have been provided to third parties that were not included in the filed Storm Hardening Plan.

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)]

Recommendation: Yes, FPUC has provided detailed cost estimates related to the storm hardening initiatives, and has provided support for its projections by using expert estimates and bids to support those estimates. (Colson)

Position of the Parties

FPUC: 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.

OPC: No. FPUC's Storm Hardening Plan has not complied with the cost benefit requirement of Order No. PSC-06-0781-PAA set forth in OPC's positions on costs for storm hardening and 10 point initiatives.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: Witness Cutshaw stated that FPUC attempted to address all aspects of the storm hardening and pole inspection requirements in its Plan. He noted, however, that the Plan includes the cost of the projects but does not include the cost effectiveness analysis due to a lack of data needed to support the assumptions. (TR 89) He stated that FPUC's management experience indicates that the objective of the Plan is to enhance reliability and reduce costs in a practical, prudent, and cost effective manner. (TR 97) According to witness Cutshaw, FPUC has not experienced a severe storm condition in its service territory in many years. Should one occur, additional data would then be available to support the cost benefit analysis for all initiatives. (TR 98)

Since the cost estimates were filed in June, 2007, several have changed and the revised estimates were included in FPUC's rebuttal testimony. (TR 681; EXH 60) Some of FPUC's storm hardening cost estimates have further been adjusted during the course of these proceedings by stipulations on Issues 1 through 9, and Issues 12, 14, 16, 17, 18, 21, and 25. (EXH 91) Witness Cutshaw stated that FPUC has used expert estimates and bids to support its cost estimates. (TR 681)

The chart below is a summary of FPUC's estimation of the original costs and the appropriate modifications that FPUC believes will result from implementing the storm hardening rule and the Ten Initiatives in 2008. Staff agrees that the implementation of FPUC's Plan will result in additional costs. FPUC's service area is divided into the Northwest and Northeast Florida Division with a total of approximately 28,000 customers. Staff estimates that the stipulated and adjusted costs to implement the Plan for 2008 are $332,513. This represent an estimated Plan cost per customer of approximately $12 each year.

Issues	Projects	Projection Costs Rate Filing MFR	Projection Costs With Stipulations and FPUC Adjustments
19 (EXH 60)	Wood Pole Inspections	$219,833	$219,833
18* (TR 17)	Vegetation Management	$352,260	$0
20 (EXH 60)	Joint Use Attach. Audit	$20,909	$20,909
22 (EXH 60)	Transmission Inspection	$18,540	$18,540
16* 17* (TR 17)	Trans. Storm Hardening	$354,600	$20,000
(EXH 60)	GIS	$38,000	$38,000
21* (TR 17)	Post Storm Forensics	$27,000	$0
(EXH 60)	OH/UG Data	$0	$0
25* (TR 17)	Utility Coordination	$19,991	$0
26 (EXH 60)	Collaborative Research	$25,750	$870
(EXH 60)	Disaster Preparedness	$0	$0
(EXH 60)	Depreciation - GIS	$38,000	$38,000
(EXH 60)	Return on Capital	$12,297	$12,297
**(EXH 60)	Extreme Wind Loading	$0	$0
	Total	$1,093,180	$332,513

* Project Costs that have been Stipulated.

** Costs not included in the Rate Filing MFR.

In the chart above, FPUC has identified eight projects that will require incremental cost increases in order to implement the Plan. Of these eight projects, four were stipulated to by the parties (see Issues 16, 17,18, 21 and 25), which resulted in smaller or no incremental cost increase to FPUC's ratepayers. The storm hardening projects in the chart above that have zero cost ($0) means that FPUC can implement the storm hardening projects without increasing its existing authorized expense. For example, the chart above shows that FPUC initially requested $352,260 for increased Vegetation Management. This requested storm hardening expense was additional to FPUC's current annual budget of $527,507 for Vegetation Management. (EXH 3, p. 232) FPUC has modified Vegetation Management in the Plan from a four year tree trimming cycle to a three year feeder and six year lateral (three/six year) tree trimming cycle. By modifying its Vegetation Management plan to a three/six year tree trimming cycle, FPUC eliminated the need for additional crews and expenses for Vegetation Management. This issue was stipulated by the parties. (See Issue 18) The chart also reflects staff's recommendation that FPUC's Collaborative Research budget be reduced. FPUC stated that the $870 that they had budgeted in 2008 to pay PURC to share research on storm preparedness should be included in the storm hardening cost. FPUC is not planning on doing any additional research. (See Issue 26)

FPUC believes that specific electric infrastructure improvements will have to be made in order to assess future storm hardening benefits, due to the lack of verifiable data necessary to prepare a cost-effectiveness analysis. (EXH 91, p. 14) Also, as storm hardening projects are performed for new distribution facilities, or for major planned expansions, rebuilds, or relocations of distribution and critical infrastructure and along major thoroughfares, the EWL Criteria contained in the 2007 NESC will be included in the construction specifications. (EXH 3, p. 253) FPUC has purchased the Pole Foreman software that complies with the 2007 NESC requirements and will be used in conjunction with pole inspections, construction specifications, and the addition of third party attachments, to ensure compliance. The Pole Foreman software will be used in the design of EWL projects to ensure compliance without unnecessarily overbuilding to meet these requirements. This will ensure compliance without excessive expenditures. (EXH 3, p. 253) Based upon previous storm damage and winds experienced during storms, it appears that the Grade B construction standards, which provide for effective wind protection in excess of 115 mph, have performed adequately. (EXH 3, p. 258) However, completion of specific storm hardening projects as included in the Plan will allow a comparison to current Grade B construction standards. (EXH 3, p. 258)

OPC argues that FPUC has not provided the cost-benefit analysis required by Commission Order No. PSC-06-0781-PAA-EI. (OPC BR at 4) OPC believes that the portion of FPUC's Plan that addresses the distribution pole inspection program, the request for an additional joint use position, the transmission inspection contract, and the PURC costs and travel, are not cost beneficial as proposed. (OPC BR at 4) OPC argues that FPUC has failed to provide reasonable estimates for these proposed costs, which are discussed in detail under the specific issues (Issues 19, 20, 22, and 26). (OPC BR at 4-5) Once OPC's recommended adjustments are made, OPC believes that FPUC's plan will then be in compliance with the requirements of the storm hardening rules. (OPC BR at 5) Numerous issues in FPUC's Plan have been resolved through agreement of the parties. In particular, the proposed wood pole replacement program and the tree trimming program are stipulated. (OPC BR at 5) OPC believes that FPUC's Plan for these stipulated issues now provides a reasonable estimate of the costs and benefits to the Company of making the electric infrastructure improvements. (OPC BR at 4)

Staff disagrees with OPC's position because, as stated above, FPUC has not experienced a severe storm condition in its service territory in many years and therefore data to support cost estimates is simply not available. If a storm should occur additional data would be available to provide the cost benefit analysis for all initiatives. (TR 98) As the Commission stated when it approved FPUC's initial plan to implement the Ten Initiatives Order, the Plans "are living documents, and subject to constant revision as new lessons are learned."[6] The Plans will be reviewed and updated annually with lessons learned from storms and forensic data that is collected and analyzed. Also, as the Commission noted at page 2 of its Ten Initiatives Order, utility-specific information such as timelines for implementing the Ten Initiatives, program methodology, costs, and rate impacts, were substantially unknown at the time the initiatives were adopted.[7] Each utility was expected to evaluate existing programs, expansion of existing programs, and if necessary, develop entirely new programs to address the Ten Initiatives included in the Order. Since filing its Plan, FPUC has provided updates and modifications to the Plan that have reduced the costs of many of the projects in the Plan as shown in the previous chart. (TR 81-82)

Conclusion

The information available to FPUC at this time shows that the implementation of FPUC's Plan will result in additional costs. FPUC's service area is divided into the Northwest and

[6] Order No. PSC-06-0781-PAA-EI, issued September 19, 2006, In Re: Requirement for Investor Owned Electric Utilities to file ongoing Storm Preparedness Plans and Implementation Cost Estimates.
[7] Order No. PSC-06-0351-PAA-EI, issued April 25, 2006, In Re: Notice of Proposed Agency Action Order Requiring Storm Implementation Plans.

Northeast Florida Divisions with a total of approximately 28,000 customers. Staff calculated that the stipulated and adjusted costs to implement the Plan for 2008 is $332,513. This represents an estimated Plan cost per customer of $12 a year. Thus, throughout this proceeding FPUC has significantly reduced its estimated cost of compliance with Rule 25-6.0342, F.A.C. and the Ten Initiatives Order.

Therefore, staff recommends that FPUC's Plan contains an estimate of the costs and benefits to the utility of making electric infrastructure improvements that meets the requirements of Rule 25-6.0342(4)(d), F.A.C.

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)]

Recommendation: Yes. Staff recommends that FPUC has met the requirements of Rule 25-6.0342(4)(e), F.A.C., to provide an estimate of the costs and benefits for third-party attachers affected by planned electric infrastructure improvements, including the effect on reducing storm restoration costs and customer outages realized by third-party attachers. (Fisher, Vinson)

Position of the Parties

FPUC: No information has been obtained from third party attachers but the Company will continue to communicate with attachers.

OPC: The plan should be subject to the appropriate modifications proposed by Citizens to resolve Issue 19 set forth in the cost recovery for storm hardening and 10 point initiatives section.

ATT: No position.

Embarq: Embarq prepared a cost estimate based on FPUC's storm hardening plan as originally filed. A more specific estimate cannot be provided until FPUC makes additional details available through the Process to Engage Third-party Attachers. Potential benefits cannot be quantified at this time.

FCTA: No position.

Staff Analysis: FPUC requested that each third-party attacher provide an estimate of costs and benefits expected by the party, as a result of the proposed Plan. This approach is consistent with Rule 25-6.0342(4)(e), F.A.C., which requires, "[a]n estimate of the costs and benefits, *obtained pursuant to subsection (6) below,* to third-party attachers affected by the electric infrastructure improvements." (Emphasis added.) The referenced subsection (6) of Rule 25-6.0342, F.A.C., pertains to the IOUs seeking input from third-party attachers, instructing that "each utility shall seek input from and attempt in good faith to accommodate concerns raised [by the attachers]." Consistent with staff's recommendations on this issue in Docket Nos. 070299-EI, In Re: Review of 2007 Electric Infrastructure Storm Hardening Plan by Gulf Power Company and 070301-EI, In Re: Review of 2007 Electric Infrastructure Storm Hardening Plan by Florida Power & Light Company, staff notes that an IOU is at a disadvantage in estimating the costs and benefits that each third-party attacher may experience as a result of the IOU's storm hardening plan.

FPUC received only one cost benefit estimate from third-party attachers, but FPUC's Plan (Sections 7.4 and 7.5) indicates that an attempt was made to gather this information from other third-party attachers. (TR 33) To date, Embarq is the only attacher to have completed a cost benefit impact. (TR 33) Subsequently Embarq reviewed more detailed information provided by FPUC on December 21, 2007, and confirmed that it may be in a position to revise its estimate after completing a review of the information. (TR 33)

All parties have stipulated to the "Process to Engage Third-Party Attachers." (TR 39) The Process to Engage Third-Party Attachers requires FPUC to provide annually all third-party attachers detailed information for upcoming storm hardening projects. (TR 43) Staff believes this free exchange of information allows third-party attachers to request necessary detailed information and conduct a more thorough cost benefit analysis. Staff notes that Rule 25-6.0342(6), F.A.C., provides for third-party attacher input to the electric utility plan, which allows attachers to input comments regarding changes through the utility's annual plan status report to the Commission. Staff believes that by stipulating to the Process to Engage Third-Party Attachers, the parties have provided a mechanism for FPUC to provide greater detail as the Storm Hardening Plan is implemented.

In addition, Rule 25-6.0342(7), F.A.C., provides that any dispute over a utility's storm hardening plan can be brought before the Commission for resolution. Staff believes these mechanisms provide attachers sufficient opportunity to resolve future issues with utility storm hardening plans.

OPC believes this issue should be subject to modifications, if necessary, resulting from the resolution of the cost recovery for storm hardening and Ten Initiatives, and ties issue 11 to issue 19. Staff believes OPC's revenue concerns are more appropriately addressed in issue 19, and notes that Issue 11 deals only with whether or not FPUC has satisfied the requirements of Rule 25-6.0342(4)(e), F.A.C.

All third-party attachers have taken "no position," or have "no objection" to FPUC's Plan with respect to issue 11. Therefore, based on the evidence in the record, staff recommends that FPUC has met the requirements of Rule 25-6.0342(4)(e), F.A.C., to provide an estimate of costs and benefits for storm hardening improvements and reduced storm restoration outages for third-party attachers, and that sufficient information exchange and dispute resolution mechanisms are provided by the Process To Engage Third-Party Attachers and Rule 25-6.0342(7), F.A.C.

APPROVED STIPULATION

Issue 12: Does the Company's Plan include written Attachment Standards and Procedures addressing safety, reliability, pole loading capacity, and engineering standards and procedures for attachments by others to the utility's electric transmission and distribution poles that meet or exceed the edition of the NESC (ANSI C-2) that is applicable pursuant to Rule 25-6.034, F.A.C.? [Rule 25-6.0342(5)]

Position: FPUC agrees, and hereby clarifies its position that FPUC is not seeking the approval of the Florida Public Service Commission of its attachment standards and procedures for third party attachments beyond a finding that FPUC has attachment standards and procedures for third party attachment that meet or exceed the NESC.

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)]

Recommendation: Yes. FPUC's Plan meets the desired objectives of enhancing reliability and reducing restoration costs and outage times and, therefore, the Plan should be approved. (Colson)

Position of the Parties

FPUC: 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.

OPC: No. FPUC's Storm Hardening Plan has not complied with the cost benefit requirement of Order No. PSC-06-0781-PAA set forth in OPC's positions on costs for storm hardening and 10 point initiatives.

ATT: No position..

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: As stated, OPC believes that FPUC's Plan has not complied with the cost benefit requirement of Order No. PSC-06-0781-PAA. (OPC BR at 6) OPC argues that the portion of FPUC's Plan that addresses the distribution pole inspection program, the request for an additional joint use position, transmission inspection contract, and PURC costs and travel, as proposed, are not cost-effective methods for enhancing reliability and reducing restoration costs and outage times. (OPC BR at 6) OPC stated that FPUC has failed to provide reasonable estimates for these proposed costs. OPC argues that once its recommended adjustments are made to each specific issue aforementioned, FPUC's plan will then meet the desired objectives of enhancing reliability and reducing restoration costs and outage times in a prudent, practical, and cost-effective manner. (OPC BR at 6) Staff addresses each of OPC's adjustments in detail under the appropriate Issue (the distribution pole inspection program in Issue 19, an additional joint use position in Issue 20, transmission inspection contract in Issue 22, and PURC costs and travel in Issue 26).

FPUC believes that its Plan should be approved with the agreed upon changes and the impact of stipulation agreements with third party attachers, (FPUC BR at 7) and Staff agrees. FPUC's Plan includes pole inspections and the Ten Initiatives that were approved by the Commission in Order No. PSC-06-0781-PAA-EI. (EXH 91, pp. 3-10) FPUC's Plan also adopts Grade B construction standards on new construction and major planned projects. (EXH 91, p. 11; EXH 3, p. 252) FPUC is using an EWL pilot project approach to determine the effectiveness of EWL on critical infrastructure facilities. All of FPUC's new transmission construction is designed using EWL criteria. (EXH 3, p. 255; EXH 91, p. 11)

Also, FPUC's Plan emphasizes learning from experience by gathering and evaluating storm forensic data to determine the benefits of particular approaches to hardening as they might be applied to new construction and major planned work, including expansion, rebuilding, and relocation of existing facilities. (EXH 91, p. 9)

Moreover, FPUC's Plan provides an adequate description of the communities and areas within its service area where electric infrastructure improvements will be made, including facilities identified by the Company as critical infrastructure and along major thoroughfares. (EXH 91, p. 11-12)

Staff believes FPUC'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, and recommends that the Commission approve FPUC's Plan. FPUC should be expected to prudently manage its resources and assets for the benefit of the general body of ratepayers.

10 POINT STORM PREPAREDNESS INITIATIVES

The Ten Initiatives outlined in the Commission's Ten Initiatives Order are:

1) A Three-year Vegetation Management Cycle for Distribution Circuits;
2) An Audit of Joint-Use Attachment Agreements;
3) A Six-year Transmission Structure Inspection Program;
4) Hardening of Existing Transmission Structures;
5) A Transmission and Distribution Geographic Information System;
6) Post-Storm Data Collection and Forensic Analysis;
7) Collection of Detailed Outage Data Differentiating Between the Reliability Performance of Overhead and Underground Systems;
8) Increased Utility Coordination with Local Governments;
9) Collaborative Research on Effects of Hurricane Winds and Storm Surge; and
10) A Natural Disaster Preparedness and Recovery Program.

The Ten Initiatives Order provided that a utility could modify the initiatives if it provided justification for doing so.

APPROVED STIPULATION

Issue 14: Should the Commission approve FPUC's request to implement a 3/6 tree trimming cycle instead of a 3/3 cycle?

Position: Yes, the Commission shall approve FPUC's request to implement a 3/6 tree trimming cycle as the most appropriate and cost-effective storm preparedness vegetation management plan for FPUC's system and approve that modification to FPUC's Plan.

Issue 15: Has FPUC complied with the Commission's Ten Initiatives?

Recommendation: Yes. FPUC's Plan filed and approved in Docket No. 060198-EI and as subsequently amended in this proceeding complies with the Commission's Ten Initiatives. (Colson)

Position of the Parties

FPUC: 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.

OPC: No. FPUC's Storm Hardening Plan has not complied with the cost benefit requirement of Order No. PSC-06-0781-PAA set forth in OPC's positions on costs for storm hardening and 10 point initiatives.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: Commission Order No. PSC-06-0781-PAA-EI evaluated the adequacy of the investor-owned electric utility plans for implementing the ten ongoing storm initiatives. All of FPUC's Ten Initiatives were evaluated for adequacy as provided below.

Addressing Initiative One, the Commission found that FPUC's Plan complies with the three-year trim cycle requirement. Order No. PSC-06-0781-PAA-EI, p. 7. Initiative Two requires an audit of joint use attachers' agreements. In its plan, FPUC proposed to audit all joint-use agreements including pole strength assessment for all FPUC-owned and third-party-owned poles. This audit will be performed in conjunction with FPUC's eight-year wood pole inspection cycle. Order No. PSC-06-0781-PAA-EI, pp. 8-9. The Commission agreed and approved FPUC's Plan for auditing joint-use attachment agreements as consistent with the intent of the Ten Initiatives Order. Order No. PSC-06-0781-PAA-EI, pp. 8-9. Initiative Three requires FPUC to develop and implement a six-year transmission structure inspection program. The Commission found that FPUC's Plan complied with the requirement of this initiative. Order No. PSC-06-0781-PAA-EI, p. 10. Initiative Four requires the hardening of existing transmission structures. FPUC's Plan proposed to replace 180 wooden transmission poles on its system with concrete poles as necessary and economically practicable. Order No. PSC-06-0781-PAA-EI, p. 11. To date, FPUC has not established a timeline for completing the pole change outs because the poles are currently sound, and transmission line upgrades that may require stronger poles have not been scheduled at this time. The Commission found that FPUC's Plan complied with this requirement. Order No. PSC-06-0781-PAA-EI, pp. 11-12.

Initiatives Five, Six, and Seven required a transmission and distribution geographic information system, post-storm data collection and forensic analysis, and collection of detailed outage data differentiating between the reliability performance of overhead and underground systems. Commission found FPUC's Plan was adequate for carrying out initiatives five, six, and seven. Order No. PSC-06-0781-PAA-EI, p. 14. The Commission found that FPUC's Northwest Florida Division had a GIS capable of collecting all of the necessary information, and additional procedures would be developed to enable the division to track all specific hurricane outages, identify the causes of the outages, and count the numbers of customer outages. Order No. PSC-06-0781-PAA-EI, p. 14. FPUC's Northeast Florida Division had only limited GIS capabilities but, FPUC planed to upgrade the Northeast GIS to have the same capabilities as its Northwest Division. The Commission found this plan acceptable. Order No. PSC-06-0781-PAA-EI, p. 14.

Addressing Initiative Eight, Increased Coordination with Local Government, the Commission found that FPUC's Plan was in compliance with this initiative. The Commission stated that FPUC is in the unique position of serving two small compact service territories that enable it to maintain an ongoing close relationship with local governments as a regular business practice. Order No. PSC-06-0781-PAA-EI, p. 17. The Commission stated that due to limited resources, FPUC was not able to have employees at all government locations throughout storm related activities; but could relocate staff from undamaged areas to assist in areas hit hardest by weather activity. Order No. PSC-06-0781-PAA-EI, p. 17.

In Initiative Nine, Collaborative Research on Effects of Hurricane Winds and Storm Surge, the Commission found that FPUC's Plan was in compliance with this initiative. The Commission found that each investor-owned electric utility filed plans supporting a non-profit, member supported organization to coordinate all research efforts directed at better understanding storm effects on utility infrastructure and development of technologies that reduce storm restoration costs and outages to customers. Order No. PSC-06-0781-PAA-EI, p. 18. The Commission noted that the investor-owned electric utility plans for collaborative research do not establish a sufficiently detailed schedule for selecting collaborative research activities and establishing project levels, but each utility had made progress in establishing a plan that may increase collaborative research, establish continuing collaboration, identify objectives, promote cost sharing, and fund necessary work. Order No. PSC-06-0781-PAA-EI, p. 19.

Initiative Ten addressed natural disaster preparedness and recovery programs. The Commission found that FPUC has a formal disaster preparedness and recovery plan. The plan is reviewed and updated by FPUC on an annual basis. The plan contains pre/post emergency procedures and safety procedures for natural disasters. Order No. PSC-06-0781-PAA-EI, p. 20. The Commission also noted that FPUC would develop a procedure for gathering forensic data per their response to Initiative Six. Order No. PSC-06-0781-PAA-EI, p. 20. Thus, it found that FPUC had complied with this initiative.

The Ten Initiatives Order stated that:

> Utility specific information such as the timeline for implementing the initiative, program methodology, costs, and the rate impacts, are substantially unknown. Each utility is expected to evaluate existing programs, expansion of existing programs, and if necessary, develop entirely new programs to address the above ten initiatives. Accordingly, utilities may propose alternatives to the requirements . . . . Any alternatives must include a complete description of the alternative as well as the reason why the alternative is equivalent or better in terms of cost and avoiding future storm damages.

Ten Initiatives Order, p. 3.

The Order also provides that a utility could modify the initiatives if it provided justification for doing so.

In its Plan in this docket, FPUC asked (also OPC agreed with FPUC) to implement a 3/6 tree trimming cycle because it was the most appropriate and cost-effective storm preparedness vegetation management plan for its system. At the hearing the Commission approved FPUC's request to implement the 3/6 tree trimming cycle modification. (See stipulated Issue 14) Also, as stated in Issue 10, several cost estimates have changed and the revised estimates were included in FPUC's rebuttal testimony. (TR 681; EXH 60) Some of FPUC's storm hardening cost estimates have further been adjusted during the course of these proceedings by stipulations on Issues 1 through 9, and Issues 12, 14, 16, 17, 18, 21, and 25. (EXH 91) Witness Cutshaw stated that FPUC has used expert estimates and bids to support its cost estimates.

OPC argues that the FPUC's Plan does not comply with the Ten Initiatives because the company has not complied with the cost benefit requirements of Order No. PSC-06-0781-PAA-EI. (OPC BR at 7) Specifically, OPC argues the portions of FPUC's Plan that address Issues 19, 20, 22, 23, and 26 (the distribution pole inspection program, the request for an addition joint use position, transmission inspection contract, and PURC costs and travel), as proposed are not cost-effective. (OPC BR at 7) However, staff believes that with the approved modifications and recommended approval of FPUC's Plan under Rule 25-6.0342, F.A.C., (See Issues 1-13), and its recommendation in Issues 19, 20, 22, 23, and 26, FPUC's Plan complies with the Ten Initiatives. Therefore, staff recommends that the Commission find that FPUC has complied with the Ten Initiatives Order.

COSTS FOR STORM HARDENING AND 10 POINT INITIATIVES

APPROVED STIPULATION
Issue 16: Should the Company's projected plan to accelerate the replacement of the existing wood 69 kv transmission system with concrete poles be approved?

Position: Yes, with the exception of any agreed upon changes to the Plan or changes to our Storm Hardening Plan, the replacement of wood poles with concrete poles will continue based on current practice with an average of one pole per year being replaced. The Company has recently provided actual cost estimates based on bids received for the purchase and installation of concrete poles along with actual cost associated with previous jobs. This information verifies the accuracy of the projected cost for pole replacement within the proposal. This revised proposal and the associated modification of the Storm Plan will comply with the storm hardening initiative to address transmission structures.

APPROVED STIPULATION
Issue 17: Should amortization expense be increased by $354,600 annually to collect the projected $7,092,000 total plant cost of FPUC's proposed 20 year storm hardening project to replace its wood transmission poles with concrete poles?

Position: No, since an average of one transmission pole will be replaced each year, only the rate base shall be increased for the amount of the transmission pole. Based upon recent cost information provided in rebuttal testimony, the increase shall be in the amount of $20,000 with corresponding increases to accumulated depreciation and depreciation expense and a full 13-month average for the test year shall be allowed for recovery. The amortization of $354,600.00 shall be removed from test year expenses.

APPROVED STIPULATION
Issue 18: Should FPUC's request to increase Account 593, Maintenance of Overhead Lines, by $352,260 for three additional tree trimming crews be approved?

Position: No, the Company will be able to comply with a 3/6 trim cycle with existing crews and no increase is required, and requests a modification to the Vegetation Management section of the Storm Plan. This includes the modification of items in the Vegetation Management Plan that address "[a]nnual inspection of main feeders to critical infrastructure prior to the storm season to identify and perform the necessary trimming," and "actively address danger trees located outside the normal trim zone and located near main feeders." The modification is based upon using the current tree trimming crew level and that the Company will make reasonable efforts if and when tree trimming crews become available to address annual inspection of main feeders and address danger trees.

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

Recommendation: Yes. Three contractors provided bids to allow FPUC to comply with an eight year inspection cycle on all wooden distribution poles required by the Commission's Ten Initiatives Order. The amount of $141,367 submitted by Osmose Utility Services, Inc. should be the cost estimate for FPUC's wood pole inspections. (Colson)

Position of the Parties

FPUC: 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.

OPC: No. The requested distribution inspection cost of $141,367 includes $8.46 per pole directly related to joint use pole attachments which is not related to providing service to electric customers. Deducting this cost rounds to $38 per pole cost, for a reduction of $25,467. Moreover, the Company has not fully supported its requested expense by obtaining multiple estimates. The Commission should disallow 25% of the projected expense resulting in an additional reduction of $28,975, for a total expense of $86,925.

ATT: Yes. Moreover, nothing determined in the rate case should be deemed to supersede or conflict with AT&T Florida's rights obtained through contract or stipulation, or under Federal law.

FPUC has proposed an increase in account 593, Maintenance of Overhead Lines by $141,367 to recover the increased expenses caused by pole inspection activities required by its storm hardening plan. It is clear from the record in this proceeding that these increased expenses are attributable to activities required by FPUC's storm hardening plan. It is even clearer that the expenses of FPUC's pole inspection program should not be disallowed as advocated by the Office of Public Counsel.

OPC suggests that the expenses attributable to FPUC's pole inspection program involving the use of LoadCalcTM be disallowed because they are "directly caused by joint use attachments" and "do not relate to the cost or providing electric service to the electric customers." [Tr.520] Importantly, OPC does not dispute the use of LoadCalcTM as part of FPUC's pole inspection program. However, OPC's conclusions that the costs attributable to LoadCalcTM are directly "caused" by joint pole users or "unrelated to electric service" are simply incorrect. As clearly stated by witness Cutshaw on cross-examination, the use of LoadCalc is one step in the storm hardening required pole inspection program and is used regardless of whether there are any joint users' facilities on a pole. [Tr. 711]. Because LoadCalcTM is used even where there are no other facilities on a pole than FPUC's, the cost of LoadCalcTM can not be caused by or attributable to third party attachers. Moreover, as also stated by witness Cutshaw, the revenues that are derived from FPUC's joint pole use agreements cover all the associated expenses of those agreements. [Tr. 711]. Since the revenues from the agreements cover the associated costs of the agreements, there can be no suggestion that FPUC's rate-payers are somehow subsidizing the costs of pole attachments attributable to joint users. Finally, since the revenues derived by FPUC from the joint use agreements have been taken into consideration as revenues in the rate case, it would be wrong and patently unfair to also disallow the expenses attributable to joint use. Accordingly, the Commission should allow FPUC to recover its proposed increase in expenses to Account 593 related to FPUC's pole inspection program.

Embarq: Embarq takes no position on this issue.

FCTA: Nothing determined in the rate case should be deemed to supersede or conflict with cable operators rights obtained through contract or stipulation, or under Federal law.

Staff Analysis: According to the Commission's Ten Initiatives Order each electric IOU shall implement an inspection program of its wooden transmission and distribution poles based on an eight-year inspection cycle. (Ten Initiatives Order, p. 4)

According to FPUC's Plan, the inspection will consist of a visual inspection to determine if any defects are found that would require that the pole be replaced. If the pole is found acceptable on the visual inspection, the pole will be inspected using a sound and bore technique to determine the internal condition of the pole. If the pole is found acceptable in the sound and bore test, all non-chromated copper arsenate (CCA) poles and all CCA poles will be excavated and tested. If this test indicates the pole is suitable for continued use, the pole will be treated and backfilled. Should this test indicate that the pole is not suited for continued use, it will be rejected and the corrective action taken. The loading assessment (LoadCalc) will consider actual attachments on the pole. In performing this test, field measurements such as span lengths, attachments heights, wire size and other attachments (including third-party attachments) will be analyzed in order to determine if current FPUC specifications are met and if this application meets NESC requirements. Should this test indicate that the pole is not suited for continued use, the pole will be rejected and corrective action taken. (EXH 91, p. 4)

The wood pole inspections described above will require an outside contractor, who will inspect approximately 3,050 poles per year at a cost of approximately $46.35 per pole. (TR 695-696; EXH 91, p. 5) According to the rebuttal testimony of FPUC's witness Cutshaw, FPUC solicited bids from three contractors. (TR 695) Two companies contacted declined to bid on the project due to the fact that they did not perform the excavation around the base of the pole. (TR 695) According to the rebuttal testimony of witness Cutshaw, pole inspection estimates were obtained from Osmose Utilities Services, Inc., which is a recognized expert in this area, and performs numerous pole inspections for utilities throughout the nation. (TR 695) The contracted costs for pole inspections are based on the information and specifications included in FPUC's Plan for pole inspection. (EXH 91, pp. 3-5) The External Treat ($29.88), Sound and Bore ($7.75), and LoadCalc ($7.26) are combined and then increased by 3.5 percent (adjusted for inflation), for a total of $46.35 per pole. (TR 696) The outside contractor's bid price for pole inspections was $141,367. (EXH 3, p. 410) According to the Pole Inspection Order, the

Commission noted that Florida Power and Light's (FPL) sound and bore pole inspection costs between 1999 and 2004 averaged $45.20 per pole.

OPC's position is that FPUC has not fully supported its requested expense. (OPC BR at 7) According to OPC, the requested distribution inspection cost should be reduced by $8.46 per pole, which is directly related to joint use pole attachments. (TR 521) This deduction results in a rounded cost per pole inspection of $38, or a reduction of $25,467. (TR 521) In addition, OPC believes that FPUC has not decided which inspection parameters it wants to pursue. (TR 522) OPC stated that FPUC submitted only one rough estimate of what the cost might be and has not initiated the competitive bid process. (TR 521) Therefore, OPC believes that FPUC has not fully supported its requested expense because it did not obtain multiple estimates or bids to justify the costs. (OPC BR at 9) OPC witness Merchant recommended an adjustment to disallow 25 percent of the Company's projected expense resulting in an additional reduction of $28,975. (TR 522) This results in a per-pole inspection cost of $28.50, with an incremental distribution pole expense of $86,925 ($141,367 less $25,467 less $28,975), allocated 100 percent to electric operations.

Staff disagrees with OPC's position on this issue. FPUC's proposed inspection program is similar to other IOUs' inspection programs required by the Commission's Pole Inspection Order. FPUC's Plan states that both strength and LoadCalc will be performed on each pole to determine if the current condition of the pole meets the requirements in Table 261-1A of the NESC. (EXH 91, p. 4)

As stated above, FPUC solicited bids from three contractors, but two of the companies contacted declined to bid on the project. The pole inspection estimates were obtained from Osmose Utilities Services, Inc., a recognized expert in this area. (TR 695) The bid price per pole submitted by Osmose Utilities Services, Inc. ($46.35 per pole) is consistent with actual pole inspection costs cited in the Pole Inspection Order for FPL at $45.20 per pole. Witness Cutshaw provided a break-out of what each component (external treat, sound and bore, and LoadCalc) would cost for each pole inspection. (TR 695) During cross-examination at the hearing, witness Cutshaw also stated that all three components of the inspection will occur whether or not any third-party attachers are included on the pole. (TR 703) Staff believes that if the costs to perform the LoadCalc were removed, this would penalize FPUC for implementing part of its Plan.

Conclusion

The contracted costs for pole inspections are based on the information and specifications included in FPUC's Plan for pole inspection. FPUC will incur approximately $141,367 per year in distribution pole inspection costs from an outside contractor ($46.35 per pole x 3,050 poles). The bid price per pole submitted by Osmose Utilities Services, Inc. is consistent with actual pole inspection costs cited in the Pole Inspection Order for FPL. Even though FPUC obtained only an estimate, the comparison to FPL's cost is significantly similar thus, FPUC's cost is reasonable. Therefore, staff recommends that FPUC's request to increase Account 593, Maintenance of Overhead Lines, by $141,367 per year for distribution of pole inspections from an outside contractor is reasonable and 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?

Recommendation: Yes. Staff recommends that 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 should be approved. (Colson)

Position of the Parties

FPUC: 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.

OPC: No, the additional position should be approved but at a reduced salary of $58,930, with benefits of $15,321 (overhead rate of 26%, not 38%) resulting in $74,251, annually, and a $2,358 decrease. This position should be considered for the Northwest division and responsible for joint use audits, administering the pole inspection program and the safety coordinator. No travel expense is necessary since the position is in the Northwest Division; thus, the requested travel expense of $22,838 should be removed.

ATT: Nothing determined in the rate case should be deemed to supersede or conflict with AT&T Florida's rights obtained through contract or stipulation, or under Federal law.

Embarq: Embarq takes no position on this issue.

FCTA: Nothing determined in the rate case should be deemed to supersede or conflict with cable operators rights obtained through contract or stipulation, or under Federal law.

Staff Analysis: According to FPUC's witness Cutshaw, FPUC will hire an additional employee to coordinate pole inspections and joint use audits for both divisions. (TR 693-694) This position will also be used to coordinate other storm hardening initiatives to ensure that documentation and reporting are completed and submitted accurately. (TR 693-694; EXH 91, p. 5) This position will also be responsible for a portion of the design of those facilities that require upgrading. (TR 694) As stated in Issue 19, FPUC will collect all relevant information on the pole inspections on an annual basis for all FPUC-owned poles. This information will be maintained in a format by location, pole size, pole class, and test results, and FPUC will submit a summary report, as required by Order PSC-06-0781-PAA-EI, to the Division of Economic Regulation by March 1st of each year. (EXH 91, pp. 4-5) FPUC will work closely with third-party owners to share information on all poles in order to ensure work is completed in a timely manner. (EXH 91, p. 4) FPUC's Plan estimates that the annual cost to perform the wood pole inspections (including the $78,466 cost of hiring an additional employee) is $219,833. (EXH 60; FPUC BR at 10)

According to OPC, FPUC has requested one new employee to handle joint use audits and administer pole inspections. (TR 510) FPUC asked for $76,466 for salary and benefits for this position with an additional $22,838 for travel. (TR 510-511) FPUC allocated this expense between joint use audits (21 percent or $20,909) and pole inspections (79 percent or $78,538). (TR 511) OPC supports the use of FPUC's original requested salary for the joint use/pole inspection of $58,930, with benefits of $15,321 (26 percent overhead rate) for a total of $74,251, which is 100 percent allocated to electric. (TR 515-516)

In addition, OPC's position is that the travel expense requested for the joint use audit and pole inspection position, now a combined position, should be eliminated. (TR 516) OPC's witness Merchant pointed out that each of the service territories is limited in size, and certainly an employee located in each division will not incur incremental travel costs on a regular basis as originally projected by FPUC. (TR 516) Therefore, OPC argued FPUC's request for $22,838 for travel associated with the new combined position should be removed. (TR 516)

The record shows that FPUC asked for $76,466 for salary and benefits for one new position, plus an additional $22,838 for travel, for a total cost of approximately $99,375. (FPUC BR at 10) The record supports $22,838 for travel. According to FPUC, the pole inspection program will use contractors to perform very detailed inspections and loading analysis, which will be an entirely new program for FPUC. (EXH 3, p. 410) Witness Cutshaw pointed out that this amount should not be reduced due to travel requirements between the two divisions and the fact that the normal transportation cost is included in this amount and travel between the divisions will be necessary. (TR 694) Witness Cutshaw stated that the position will coordinate the pole inspection and joint use audits and the necessary documentation and reporting for both divisions. (TR 693-694) Witness Cutshaw does not agree with the position taken by OPC's witness Merchant that this position could be combined with the training position. (TR694) Witness Cutshaw stated that the storm hardening position and the training/safety positions are totally separate job functions with the amount of work required that prohibits them being combined. (TR694) FPUC has allocated 21 percent of $99,375 (the total cost of the new position) or $20,909 for joint use audits. (EXH 3, p. 410)

<u>Conclusion</u>

FPUC proposes to hire an additional employee to coordinate pole inspections and joint use audits for both divisions. (TR 693-694) As stated in Issue 19, FPUC will collect all relevant information on the pole inspections on an annual basis for all FPUC owned poles. (EXH 91, p. 5) The Plan estimates that the annual costs to perform the wood pole inspections, including the $76,466 cost of hiring an additional employee, are $219,833. (EXH 91, p. 15) FPUC requested $22,838 for travel associated with the new position (30 percent of $76,466). (TR 516) Witness Cutshaw pointed out that normal transportation costs are also included in this amount. (TR 694) FPUC has allocated 21 percent of the total cost of the new position ($99,375 -the costs for salary and benefits plus the costs of transportation and expenses) or $20,909 for joint use audits. (EXH 3, p. 410) Staff believes that FPUC's allocations of expenses-$20,909 to handle joint use audits and pole inspections are appropriate. Therefore, staff recommends that FPUC's total of $99,375 for an additional employee and related travel expenses to handle joint use audits and pole inspections should be approved.

APPROVED STIPULATION

Issue 21: Should FPUC's request to increase Account 593, Maintenance of Overhead Lines, by \$27,000 for the development and implementation for Post Storm Data Collection and Forensic Review be approved?

Position: No. Test year O&M expenses in Account 593, Maintenance of Overhead Lines, shall be decreased by \$27,000. Any additional expense associated with post-storm data collection and forensic review shall be accounted for in compliance with Rule 25-6.0143(1), F.A.C.

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

Recommendation: Yes. FPUC's request for contractor expense of $18,540 in Account 566, for an additional expense for transmission inspections should be approved. (Colson)

Position of the Parties

FPUC: 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.

OPC: No, the Company has not adequately justified the level of the annual expense it would incur for the contractor expenses. The Company only went to one vendor and submitted a very rough estimate of what the inspection costs would be over the next five years. Because FPUC only submitted one rough non-binding, estimate, the Commission should disallow 25% of the requested cost for lack of support. An expense level of $4,635 should be disallowed and the allowed test year expense should be $13,905.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: In response to the Commission's Ten Initiatives Order, FPUC filed its six-year transmission structure inspection program as part of its Plan. (EXH 91) Section 2.3 of FPUC's Plan states that transmission inspections will be completed on all transmission facilities and will include climbing patrols of all 138 KV and 69 KV transmission lines owned by FPUC. (EXH 91, p. 7) The inspection will ensure that all transmission towers and other transmission line supporting equipment such as insulators, guying, grounding, conductor splicing, cross-braces, cross-arms, bolts, etc. are structurally sound and firmly attached. Similarly, all transmission substations will be inspected. (EXH 91, p. 7) According to FPUC's Plan, the total cost to perform a complete inspection cycle on all structures will be $110,000 ($18,000 annually). (EXH 91, p. 7) Each inspection will be fully documented in accordance with Commission guidelines and reported annually. (EXH 91, p. 8)

OPC witness Merchant testified that the Company's request was based on only one estimate from Pike Electric, Inc., dated November 7, 2006, and the estimate was effective until December 31, 2006. (TR 518) As witness Merchant further noted, the Company could not definitively state how often the Company will inspect its system and did not provide the actual amounts that would be incurred each year. (TR 518) Witness Merchant stated that due to the Company's failure to obtain more than one estimate or bid for the transmission inspection, Witness Merchant recommended disallowing 25 percent of the Company's projected normalized expense for lack of support. (TR 518-519) Thus, $4,635 of the expense level should be disallowed and only $13,905 in test year expense should be allowed. (TR 519)

Staff believes that FPUC has adequately supported its request for additional contractor expense. According to the rebuttal testimony of witness Cutshaw, FPUC solicited estimates from a contractor working for FPUC on a daily basis who was familiar with the system and the area to be inspected. (TR 695; 703) Witness Cutshaw stated that FPUC believed that the most effective way to get a realistic estimate was to use a contractor who was familiar with FPUC's system. (TR 702-703) According to witness Cutshaw, soliciting bids for transmission inspections is much different than buying poles, computers, or even cabinets. The cost estimate was much more difficult, required a site visit, and costs may vary based on the work performed. (TR 703)

Conclusion

According to FPUC's Plan, the total cost to perform a complete inspection cycle on all structures will be $110,000 ($18,000 annually). (EXH 91, p. 7) Each inspection will be fully documented in accordance with Commission guidelines and reported annually. (EXH 91, p. 8) Witness Cutshaw stated that FPUC believed that the most effective manner to receive a realistic estimate was to use a contractor who was familiar with the system. (TR 702) The cost estimate was much difficult, required a site visit, and costs may vary based on the work performed. (TR 703) Therefore, staff recommends that FPUC's request for contractor expense of $18,540 in Account 566, for an additional expense for transmission inspections, should be approved.

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

Recommendation: Yes. Staff recommends that the expense for an additional employee to handle joint use audits be approved. (Colson)

Position of the Parties

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

OPC: No, the additional position should be approved but at a reduced salary of $58,930, with benefits of $15,321 (overhead rate of 26%, not 38%) resulting in $74,251, annually, and a $2,358 decrease. This position should be considered for the Northwest division and responsible for joint use audits, administering the pole inspection program and the safety coordinator. No travel expense is necessary since the position is in the Northwest Division; thus, the requested travel expense of $22,838 should be removed.

ATT: Nothing determined in the rate case should be deemed to supersede or conflict with AT&T Florida's rights obtained through contract or stipulation, or under Federal law.

Embarq: Embarq takes no position on this issue.

FCTA: Nothing determined in the rate case should be deemed to supersede or conflict with cable operators rights obtained through contract or stipulation, or under Federal law.

Staff Analysis: Staff recommends that the expense for an additional employee to handle joint use audits be approved. This issue is discussed in depth in Issue 20.

Issue 24: **DROPPED**. Number retained for continuity.

APPROVED STIPULATION

Issue 25: Should FPUC's request for recovery of an additional expense to provide personnel for county emergency operating centers be approved?

Position: No, the additional expense associated with providing Company employees for county emergency operating centers shall be removed. The amount of $19,991 shall be reduced from the Company's rate proceeding MFRs for the 2008 projected test year. Any incremental storm-related expense incurred to provide personnel for county emergency operating centers prior to or during a storm shall be accounted for in compliance with Rule 25-6.0143(1), F.A.C.

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

Recommendation: No. FPUC's PURC costs for the utility's collaborative research projects should be increased by $870. (Colson)

Position of the Parties

FPUC: 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.

OPC: In its filing, FPUC requested $25,750 for travel and PURC costs in the utility collaborative research projects. In a data response the Company initially revised the cost down to, $5,170 and at deposition, further reduced it to $832. Test year expenses should be reduced by $24,918 to reflect the actual amount that will be incurred by the Company.

ATT: No position.

Embarq: No position.

FCTA: No position.

Staff Analysis: Section 2.9 of FPUC's Plan states that FPUC is currently participating with the Public Utility Research Center (PURC) as well as other investor-owned, cooperative, and municipal electric utilities in order to perform beneficial research regarding hurricane winds and storm surge within the state. (EXH 91, p. 9) FPUC will continue to support this effort, but does not intend to conduct other types of research at this time. (EXH 91, p. 9) FPUC originally projected that the cost for Collaborative Research (PURC and travel) would be $25,750. (EXH 60) According to the rebuttal testimony of witness Cutshaw, FPUC overstated the Collaborative Research projects in the MFRs by $22,880. (TR 690; EXH 3, p. 3348) Witness Cutshaw stated that FPUC's 2008 projected budget of $870 for Collaborative Research projects was based on its PURC budget. (TR 690) In addition to this amount, witness Cutshaw stated that $2,000 should be added to cover company labor, travel, expenses, and possible overruns or charges from contractors working on Collaborative Research projects. (TR 690)

According to OPC, FPUC overstated its first estimate for PURC costs. (OPC BR at 14) As witness Cutshaw acknowledged in his deposition, he did not know whether the Collaborative Research project would continue for two years, three years, or twenty years. (EXH 3, p. 3349) Given that it is unclear whether the travel associated with PURC will be recurring or not, OPC has recommended disallowing the additional $2,000 annually for travel to PURC. (OPC BR at 14) Thus, OPC recommends an adjustment of $24,918 to FPUC's filing. (OPC BR at 14)

Staff believes that FPUC has overstated its expenses for Collaborative Research by $24,880. As FPUC stated above, FPUC will continue to support the efforts of PURC, but does not intend to conduct other types of research at this time. According to witness Cutshaw's deposition, the total amount budgeted for PURC in 2008 was $870. (EXH 3, p. 3348) FPUC's future efforts in implementing its Collaborative Research program will be to continue its participation with PURC as well as other investor-owned, cooperative, and municipal electric utilities. The only incremental cost that FPUC identified was the $870 budget to PURC for Collaborative Research projects. (EXH 3, p. 3348) Staff agrees with OPC that the additional $2,000 for travel is not a necessary incremental cost to support the efforts for Collaborative Research.

Conclusion

As stated above, FPUC will continue to support the efforts of PURC research regarding hurricane winds and storm surge within the state, but does not intend to conduct other types of research at this time. According to witness Cutshaw's deposition, the total amount budgeted for PURC in 2008 was $870. (EXH 3, p. 3348) Staff believes that FPUC can carry out its Collaborative Research program as part of its storm hardening plan by continuing to participate with PURC as well as other investor-owned, cooperative, and municipal electric utilities in order to perform beneficial research regarding hurricane winds and storm surge within the state. Staff also believes that the incremental cost to FPUC is the $870 budgeted to PURC for Collaborative Research projects. (TR 690) Therefore, staff recommends that FPUC's PURC costs for the utility's Collaborative Research projects should be increased by $870.

Issue 27: What adjustments, if any, should be made to rate base associated with the storm hardening Rule 25-6.0342 and Ten Initiatives requirements?

Recommendation: The adjustments to rate base associated with the storm hardening Rule 25-6.0342, F.A.C., and Ten Initiatives requirements should be made as stipulated in Issues 16, 17, 18, 21, 25, and as recommended by staff. (Colson)

Position of the Parties

FPUC: 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.

OPC: The Parties have stipulated Issues 16 and 17. Since an average of one transmission pole will be replaced each year, only the rate base should be increased for the amount of the transmission pole. Based upon recent cost information provided in rebuttal testimony, the increase should be in the amount of $20,000 and a full 13 month average for the test year should be allowed for recovery.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: This a fall out issue. Based upon the resolution of Issues 16 and 17, staff recommends that the adjustments to rate base associated with the Storm Hardening Rule 25-6.0342, F.A.C., and Ten Initiatives requirements be made as stipulated in Issues 16 and 17.

Issue 28: What adjustments, if any, should be made to operating expenses associated with the Storm Hardening Rule 25-6.0342, F.A.C., and Ten Initiatives requirements?

Recommendation: The adjustments to operating expenses associated with the storm hardening Rule 25-6.0342, F.A.C., and Ten Initiatives requirements should be made as stipulated in Issues 16, 17, 18, 21, 25, and as recommended by staff. (Colson)

Position of the Parties

FPUC: 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.

OPC: The operating expenses associated with the storm hardening Rule 25-6.0342 and 10 point initiatives requirements should be adjusted in accordance with Citizens' adjustments and the stipulations for Issues 16-26.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: As stated in Issue 27, this is a fall out issue. Based upon the resolution of Issues 16-26, staff recommends that the adjustments to operating expenses associated with the Storm Hardening Rule 25-6.0342, F.A.C., and Ten Initiatives requirements be made as stipulated in Issues 18, 21, 25, and discussed in staff's analysis of Issues 19, 20, 22 and 26.

<u>TEST PERIOD</u>

APPROVED STIPULATION
<u>Issue 29</u>: Are the historical test year ended December 31, 2006, and the projected test year ending December 31, 2008, the appropriate test years to be utilized in this docket?

<u>Position:</u> Yes, with appropriate adjustments.

APPROVED STIPULATION
<u>Issue 30</u>: Are FPUC's forecasts of Customers, KWH and KW by Rate Class for the projected 2008 test year appropriate?

<u>Position:</u> Yes, FPUC's forecasts for the projected test year are appropriate.

<u>QUALITY OF SERVICE</u>

APPROVED STIPULATION
<u>Issue 31</u>: Is the quality of electric service provided by FPUC adequate?

<u>Position</u>: Yes. Expert and customer testimony, as well as FPUC's annual distribution report and the Commission's service reliability review show that the quality of electric service provided by FPUC is adequate.

<u>RATE BASE</u>

<u>Issue 32</u>: **DROPPED**. Number retained for continuity.

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?

Recommendation: Yes. The Company should be allowed to include the full 13-month average amount of this transformer and associated accumulated depreciation and depreciation expense in the test year for rate making purposes, subject to any adjustments necessary to reflect the Commission's decision in Docket No. 070382-EI. Test year expenses for 2008 should be reduced by $25,680 to remove the cost of a temporary rental of a transformer that will no longer be incurred as a result of this plant replacement. (Marsh)

Position of the Parties

FPUC: 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.

OPC: No. The Company has not justified why the transformer should be given a full year recovery when it is projected to be placed into service April 2008 which would violate the test year matching concept. Plant and accumulated depreciation should be decreased by $243,077 and $5,013, respectively, with a corresponding decrease to depreciation expense of $5,925. Further, $22,162 should be removed for the cost of a temporary rental of a transformer that will no longer be incurred.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: In his direct testimony, FPUC witness Mesite stated that the Company included a transformer, which was ordered in 2006, in rate base for the projected test year. He advised that Company anticipates the final cost of the transformer to be $790,000. (TR 125-126) He explained that, due to circumstances beyond the Company's control, the transformer was not delivered by December 2007. He argued that it is appropriate for the purposes of rate setting to include the full 13-month average cost of the transformer in 2008 average rate base to allow for full recovery, and that the item is significant to Company operations. (TR 122)

Witness Mesite stated that the original transformer ceased functioning late in 2006. He explained that it first required testing and other evaluation in order to determine the feasibility of having it rebuilt. Once the determination was made that it could not be rebuilt, bids were solicited, an order was placed, and contracts were signed. He testified that "[n]ew transformers are custom-built out of the country, and a final delivery timeline is typically uncertain until far along in the construction process." (TR 634)

Witness Mesite contended that the full 13-month average should be included because the transformer is not a discretionary addition to plant, it is an ordinary and necessary replacement of a major component of the distribution system, and the transformer will be in service for a number of years into the future. (TR 634-635) He noted that, "while the Company is waiting for the transformer to be delivered and installed, a temporary replacement transformer is being rented at a cost in excess of what the annual depreciation expense of the new transformer would be." (TR 635)

At the hearing, FPUC witness Cutshaw asserted that the new substation transformer will be installed during February 2008. He explained that the installation and testing should be completed by the end of February, and the rental transformer can then be removed from service. He added that once the new transformer is operating properly, additional work will be required to physically remove the rental transformer from the substation and make preparations to transport it back to the vendor. He expected that this procedure would be completed by the end of March 2008. He argued that rental expense of $6,420 should be included in the test year, representing three months of service for the temporary transformer. (TR 691) He agreed that the Company did not remove the rental expense for the remainder of the test year, after the new equipment was to be installed. (EXH 3, p. 3386) The monthly rental cost is $2,140. (EXH 3, p. 929)

FPUC notes in its brief that "[t]o provide for less than full recovery deprives the Company of the opportunity to recover its investment and earn a reasonable return on its investment." (FPUC BR at 16)

In her testimony, OPC witness Merchant argued that "FPUC's approach to the recovery of the transformer costs has the effect of considering the plant on a year-end basis as opposed to a required 13-month average basis consistent with its test year." (TR 496) She testified that she does not believe the Company has justified why this particular item should receive full recovery, although she does agree that the transformer is necessary. (TR 496) She contended that allowing this one item to be brought into rate base without other matching items that might reduce the revenue requirement calculation violates the test year concept. (TR 497) Witness Merchant explained that:

> [t]he test year matching concept provides that the average rate base is matched with average cost of capital, revenues, expenses, and customer billing factors. If you mismatch one of the individual components, the risk increases that the resulting rates will be skewed and unreasonable.
> (TR 542)

Witness Merchant noted that the plant is projected to be placed in service in February 2008, with an estimated cost of $790,000. She added that the full year of depreciation expense and accumulated depreciation requested are $23,700 and $11,850, respectively, while the 13-month average plant and accumulated depreciation are $668,462 and $8,356, respectively, with depreciation expense of $19,750. She explained that her recommended adjustments to plant and accumulated depreciation are decreases of $121,538 and $3,494, respectively, and a corresponding decrease to depreciation expense of $3,950, which represents a partial year. (TR 497) She also recommended that it is appropriate to remove $28,582, based on the annual rental expense of $25,680, plus the Company's projected escalation factor of 1.1130 for 2007 and 2008. (TR 497)

She added that the Commission could, as an alternative, apply an expense reduction of $24,302 instead of $28,582, to recognize two months of the rental expense at a cost of $2,140 per month (or $4,280 total for the year) for the 2008 test year. (TR 497) However, in its brief, OPC updated the amount to remove $22,162 of nonrecurring rental costs for 2008 [($2,382 x 12 months) minus (2,142 x 3 months)]. (OPC BR at 17)

OPC also updated the plant amount to reflect the most recent in-service date, as provided by FPUC witness Cutshaw. OPC provided revised 13-month average plant and accumulated depreciation amounts of $546,923 and ($6,837), respectively, and the depreciation expense of $17,775. As a result, OPC recommended adjustments to decrease plant and accumulated depreciation of $243,077 and $5,013, respectively, and a corresponding decrease to depreciation expense of $5,925. (OPC BR at 17)

Most of the facts in this issue are uncontroverted. There is no dispute regarding dollar amounts, or whether there will be a transformer in service in early 2008. Nor do the parties dispute that, for a portion of the test year, there is rental expense for a temporary transformer, although they differed on whether any portion of the expense should be included in the test year. Through the proceeding, including the hearing, FPUC asked for both inclusion of the full 13-month plant in service amount, with associated accumulated depreciation and depreciation expense, as well as a partial year of rental expense for the temporary transformer. OPC, on the other hand, wanted to allow only a partial year of plant, accumulated depreciation and depreciation expense, with no rental expense. However, in their briefs, the Company and OPC have come closer together in position. It appears that FPUC is no longer asking for the rental expense, while OPC is willing to allow a partial year of rental expense and a partial year of plant in service, with associated accumulated depreciation and depreciation expense.

Although FPUC witness Mesite advised that the amount of rental expense would exceed the amount of depreciation for each month, he failed to take into consideration the impact of the rate of return, which is shown in the Company-provided revenue impact. (TR 635, EXH 3, p. 929) Using a return on investment of 8.07 percent as used in the MFRs, that amount would be $62,797 per year. (EXH 3, p. 929) Staff also notes that the deprecation rate was reduced as a result of the Company's depreciation study, from 3.0 percent, to 2.9 percent, although the amount is immaterial.[8] Thus, instead of $23,700 annually, it would be $22,910. Using these figures, the overall impact using the rate of return in the MFRs would be $7,142 per month [($62,797+$22,910)/12]. The difference for three months of recovery of the permanent transformer as compared to three months of rental expense would be an additional $15,006 [($7,142 - $2,140)*3].

Staff agrees with witness Merchant that, in some circumstances, a company should not arbitrarily choose items to adjust for full inclusion in the test year. However, in this case, the transformer is an integral part of the electric distribution system, such that a rental transformer had to be obtained to take the place of the old one until a new one could be built. As a result,

[8] Order No. PSC-08-0094-PAA-EI, p.9, issued February 14, 2008, in Docket No. 070382-EI, In re: 2007 depreciation study by Florida Public Utilities Company.

rental expense that will not be incurred in the future is included in the O&M expense. Staff calculated that the transformer represents about one-tenth of the amount of plant in service in account 362, station equipment [$790,000/$7,069,889]. (EXH 4, Schedule B-7 (2008), p. 1 of 3) Thus, all of the facts show that the transformer is a major item with significant impact.

Although allowing a full 13-month average recovery of the transformer increases the impact on rates, staff believes it is more representative of the future than the inclusion of a rental transformer that will be gone before the rates even go into effect, as noted by FPUC. (FPUC BR at 15) Accordingly, staff believes it is appropriate in this instance to allow recovery of the transformer as if it were in service December 31, 2007.

As to the rental expense, FPUC witness Cutshaw advised that rental expense had not been removed for the remainder of the test year, when the temporary transformer would no longer be needed. (EXH 3, p. 3386) As discussed above, the full inclusion of the permanent transformer provides more compensation than the use of a partial year of rent, so staff believes it is inappropriate to include any rental expense. Thus, a full year of rental expense should be removed. FPUC's position in its brief appears to be in agreement with this approach. (FPUC BR at 15-16)

Staff disagrees with the amount of rental expense used by OPC witness Merchant, noting that she applied a projection factor of 1.113 to the amount of rental expense. This is actually a payroll factor. (EXH 4, Sch. C, p. 95) Witness Merchant provided no explanation for the use of a payroll factor on rental expense. Further, the Company provided the amount of $2,140 per month as the rental amount for 2008. (EXH 3, p. 930) Therefore, staff recommends that this is the amount to use in calculating any deduction of rental expense. The deduction for rental expense should be $25,680 ($2,140 * 12).

Conclusion:

The Company should be allowed to include the full 13-month average amount of the transformer and associated accumulated depreciation and depreciation expense in the test year for rate making purposes, subject to any adjustments necessary to reflect the Commission's decision in Docket No. 070382-EI. Test year expenses for 2008 should be reduced by $25,680 to remove the cost of a temporary rental of a transformer that will no longer be incurred as a result of this plant replacement.

Issue 34: **DROPPED**. Number retained for continuity.

APPROVED STIPULATION

Issue 35: Should Plant in Service, Accumulated Depreciation and Depreciation Expense be reduced to reflect missing invoices?

Position: Supporting documentation was provided by FPUC subsequent to the audit. No adjustments are necessary.

APPROVED STIPULATION

Issue 36: Should Plant in Service, Accumulated Depreciation, Depreciation Expense and Operation and Maintenance Expense be adjusted to capitalize construction of an office wall?

Position: Yes. Plant in Service shall be increased by $1,707 for 2006 and by $2,219 for 2008. Depreciation expense shall be increased by $36 for 2006 and by $44 for 2008. The 13-month average accumulated depreciation shall be increased by $15 for 2006 and by $102 for 2008. Maintenance expense shall be reduced by $2,219 for 2006 and by $2,375 for 2008, as reflected in issue 79.

APPROVED STIPULATION

Issue 37: Should Plant in Service, Accumulated Depreciation, Depreciation Expense and Operation and Maintenance Expense be adjusted to capitalize construction of a transformer pad?

Position: A transformer pad is not a retirement unit. The Company properly accounted for the change-out as an expense. No adjustment is necessary.

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?

Recommendation: No. The appropriate level of Plant in Service is $79,663,822 for 2008. The appropriate level of total plant in service is $81,459,754 which includes $1,853,396 for Common Plant. (Marsh)

Position of the Parties

FPUC: 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.

OPC: No. Adjusted Plant in Service should be reduced by $219,129 to reflect a 13-month average balance of $79,422,452. Since this is a fall-out issue, it is subject to further revision based on the resolution of other issues.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: This is a fall-out issue. Staff examined Plant in Service records of the Company for 2008 to determine the proper projected test year amount. Staff made several adjustments, including those stipulated to by FPUC and by OPC. The effect of the adjustments is to increase Plant in Service by $22,241 to $79,663,822 for 2008. The appropriate level of total Plant in Service is $81,459,754, which includes $1,853,396 for Common Plant.

Issue 39: **DROPPED**. Number retained for continuity.

APPROVED STIPULATION

Issue 40: Should an adjustment be made for Plant Retirements for the projected test year?

Position: No adjustment for 2008 retirements is needed.

APPROVED STIPULATION

Issue 41: Should Accumulated Depreciation and Depreciation Expense be adjusted for trucks transferred from FPUC's Water Division?

Position: Yes. The Plant in Service 13-month average balance for both 2006 and 2008 shall be increased by $22, due to booking of transferred vehicles at incorrect amounts. Accumulated Depreciation shall be decreased by $14,531 for 2006 and increased by $1,373 for 2008. Depreciation expense shall be increased by $4,465 for 2006. Using the rates set in Docket No. 070382-EI, depreciation expense for 2008 shall be increased by $1,936.

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

Recommendation: The 13-month average 2008 accumulated depreciation reserve should be increased by $58,292 for the results of the FPUC 2007 depreciation study in Docket No. 070382-EI. (Marsh)

Position of the Parties

FPUC: 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.

OPC: The adjustments that are approved in the Company's current depreciation study in Docket No. 070382-EI should be made to the rate case.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: The adjustment in this issue is essentially a fall-out number. While OPC and FPUC are in agreement that an adjustment should be made, the amount remains at issue.

FPUC stated in its brief that the 13-month average reserve balance as adjusted using the existing rates should be $35,504,625. (EXH 3, Item 2 #26, pp. 210, 211, 215). The Company added that the amount was revised to correct the 2008 beginning balance brought forward from 2007 on Schedule B-9 (2008). (EXH 4, Sch. B-9, p. 56) Thus, the Company advised that the 13-month average balance using the newly approved rates is $35,564,736. (EXH 90) FPUC concluded that the difference between the two amounts is an increase of $60,111. (FPUC BR at 16-17)

Although OPC took a position in its brief, no dollar amount was provided. (OPC BR at 18)

Staff agrees with the Company's calculation with one exception. FPUC's composite exhibit shows that the depreciation rate used to calculate the depreciation for Account 396, Power Operated Equipment, was 6.3 percent. (EXH 90) However, that rate was changed to 4.8 percent.[9] The difference in accumulated depreciation for that account is $1,819. Thus, the amount of accumulated depreciation should be $58,292 [$60,111 – $1,819].

Staff recommends that the 13-month average 2008 accumulated depreciation reserve should be increased by $58,292 for the results of the FPUC 2007 depreciation study in Docket No. 070382-EI.

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[9] Order No. PSC-08-0094-PAA-EI, p.9, issued February 14, 2008, in Docket No. 070382-EI, In re: 2007 depreciation study by Florida Public Utilities Company.

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?

Recommendation: No. The appropriate level of accumulated depreciation for Plant in Service and Common Plant is $37,241,015 for 2008. (Marsh)

Position of the Parties

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

OPC: No. Accumulated depreciation should be reduced by $3,272 to reflect a 13-month average balance of $35,663,985. Further, the adjustments that are approved in the Company's current depreciation study in Docket No. 070382-E1 should be made to the rate case. Since this is a fall-out issue, it is subject to further revision based on the resolution of other issues.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: This is a fall-out issue. Staff examined accumulated depreciation records of the Company for 2008 to determine the proper projected test year amount. Staff made several adjustments, including those stipulated to by FPUC and by OPC. The effect of the adjustments is to increase accumulated depreciation by $58,292 to $37,241,015 for 2008, including Common Plant.

APPROVED STIPULATION

Issue 44: Is FPUC's requested level of accumulated depreciation for Common Plant Allocated in the amount of $660,224 for the December 2008 projected test year appropriate?

Position: Yes, subject to any adjustments necessary to reflect the Commission's decision in Docket No. 070382-EI.

Issue 45: **DROPPED**. Number retained for continuity.

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

Recommendation: The appropriate projection methodology to be used in the calculation of the 2008 working capital requirement is the 13-month average. Staff recommends that the requested amount of $70,678 is the appropriate cash to be included in 2008 working capital. (Gardner)

Position of the Parties

FPUC: 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.

OPC: Since FPUC has not shown that the substantial balances it is requesting are necessary for the day-to-day operations of its electric divisions, the amount of cash included in the working capital requirement should be $10,000. This reduces working capital by $60,678.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: The Company's MFRs indicated a 13-month average in working capital for the 2008 projected test year of $70,678. Provided below in Table 1 are the Company's 2006 through 2008 average cash balances and allocations to electric operations.

Table 1 – FPUC's Average Cash Balances and Allocations

Year	Average Cash Balance (a)	Projected Cash Balances Working Capital (b)	Allocation Factor (c)
2006 Historical Year	$850,000	$247,509	29% Gross Profit
2007 Projected Year	678,000	210,108	31% Gross Profit
2008 Projected Year	227,993	70,678	31% Gross Profit

OPC witness Larkin testified that the Company maintains an unusually large balance of cash in its bank account. The average balances are shown in Table 1 for 2006 through 2008. He contended that the Company has not shown the need for such substantial cash balances. (TR 283) In addition, the Company has only provided through testimony, verbal statements and arguments, that it carries the appropriate cash balances to meet its immediate needs. He asserted that there has been no documentation, such as a study or analysis, to show why such large cash balances were necessary. The Company was asked to provide documentation, but none was provided. (TR 338)

OPC witness Larkin testified that since the ratepayer is providing the up front cash and the Company vendors are providing terms, only a limited amount of cash is needed. In his opinion, the Company should include only $10,000 in its Working Capital Allowance. He further stated that the $10,000 is a token amount, or a balance the Company may need to keep in the bank. (TR 336-337)

Finally, witness Larkin stated that in the last rate case, the cash balance was a settled amount, and in the prior case it was $10,000. (TR 339) Witness Larkin stated, "[t]he Commission, in the past, has reduced FPU's request for cash balances in working capital requirements to a level which is more reasonable given the fact that working capital is designed only to provide the return on those funds necessary for the day to day operations of the utility." (TR 283)

In his rebuttal testimony, FPUC's witness Mesite asserts that the 13-month average cash balance of $70,678 is the appropriate balance for the Company's working capital requirement. In his opinion, the Company maintains the appropriate cash balances to meets its needs and they do not represent substantial amounts as presented by witness Larkin. (TR 620) He believes witness Larkin's recommendation of a $10,000 cash balance is not viable for the Company's day-to-day operations. Witness Mesite stated that, "a cash balance must cover several factors including payment of current account payable, employee net payroll, and various corporate, withheld payroll, and collected taxes." (TR 620) Also, this should include consideration for outstanding checks and non-recurring immediate cash needs. In addition, witness Mesite argued that the Company has appropriate procedures and processes in place for the purpose of maintaining an efficient cash balance. (TR 620)

FPUC witness Martin testified that the Company carries a balance of cash that is appropriate to meet its immediate cash needs and fluctuating daily cash requirements. Also, the Company's projections are based on historical cash balances. (EXH. 3, No. 18, pp. 11-12)

In its brief, FPUC contended that in the previous rate case, a settlement agreement was reached between the parties for the appropriate cash balance to be $30,000.[10] Although the Company considered that amount as low, in this rate case proceeding, the $10,000 cash balance recommended by witness Larkin is a token. (FPUC BR at 19)

Conclusion:

In conclusion, staff believes it would be detrimental to the ratepayers if the Company could not meet its day to day operations. Staff agrees with OPC that the Company did not provide adequate documentation to address the large average cash balances and allocations as shown in Table 1. Staff disagrees, however, with OPC's recommendation that the Company should be allowed only $10,000 in Working Capital Allowance. Based upon the above discussion, staff recommends the 13-month average is the appropriate projection methodology to be used in the calculation of the 2008 working capital requirement. Also, staff recommends that the requested amount of $70,678 is the appropriate cash to be included in 2008 working capital.

[10] Order No. PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030438-EI, In re: Petition for rate increase by Florida Public Utilities Company.

APPROVED STIPULATION

Issue 47: What is the appropriate balance of special deposits to be included in the 2008 Working Capital requirement?

Position: For Account 1340 Special Deposits-Electric, the appropriate balance is zero. These deposits totaling $317,836, and the associated interest, shall be removed from Working Capital. The Company earns interest on the deposits; therefore it is not appropriate to include them in Working Capital.

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

Recommendation: The appropriate balance of accounts receivable to be included in working capital is $4,011,791. The 2008 balance of accounts receivable should be reduced by $1,030,667. (Gardner)

Position of the Parties

FPUC: 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.

OPC: The appropriate balance of accounts receivable is $4,011,791. Accounts receivable should be reduced by $302,140 because of jobbing, third-party damages owed to the Company and other below the line activities, including employee receivables, that are unrelated to the provision of electric service. Additionally, the Company has over projected Customer Accounts Receivable for 2008. The Company should use the 12-months ended August 2007 percentage of accounts receivable to revenue of 6.42% to project 2008, decreasing the 13-month average balance by $728,527.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: In his rebuttal testimony, FPUC witness Mesite stated that during the initial preparation of the Schedules-B in the MFRs, the Company placed all categories of accounts receivable in a single line item, "accounts receivable". (TR 621) He further stated the Company updated the accounts detail by classification as a result of the telephonic panel deposition with OPC. (TR 621; EXH 88) According to witness Mesite, the Company's initial filing for the 2007 and 2008 customer receivables were based on an estimation of the forthcoming increases in the purchased power costs and the anticipated increase in base rates from this proceeding. (TR 622) He stated that to arrive at the updated 13-month average customer accounts receivable of $4,906,472 for 2008, the Company's calculation included actual and estimated bill changes from December 2006 through 2008 from purchased power filings, midcourse correction filing, interim rate relief, customer growth, and the anticipated rate increase from this rate proceeding. Finally, the increases were applied on a month-by-month basis for 2007 and 2008. (TR 622; EXH 88)

Witness Mesite asserted that the Company's computations mathematically adjusted customer accounts receivable by the same percentage change that it anticipated for operating revenues resulting from increases in fuel costs and this rate proceeding. (TR 623) FPUC contends that its 2008 Accounts Receivable should be $5,015,473. (FPUC BR at 21)

According to witness Mesite, Account 1430.1 - Accounts Receivable-Employees should be included in working capital as ordinary and necessary in the normal course of business. (TR 623) He contended that this account represents amounts due to the Company from retirees and employees owing for employment related transactions. He further stated that the transactions may include an individual's share of Company-paid medical, health, and disability insurance; Company-required uniforms and equipments; garnishment of wages required by governmental authorities; and prepaid expense advances to employees for business trips. The reimbursement of these amounts to the Company is from direct repayment by employees or by payroll deduction. (TR 623; EXH 88) He further stated that Account 1430.2-Accounts Receivable-Electric Other should be included in Working Capital. He stated, "the account represents reimbursable costs incurred by the Company for damages to the Company's electric facilities by others, or for other special services performed on FPUC's electric facilities at the request of customers, municipalities, or other entities." (TR 624) Also, the items included may be for damages by contractors or homeowners to distribution facilities, damages caused by traffic accidents, or temporary relocation of electric facilities as directed by municipalities within the Company's electric service areas. (TR 624)

OPC witness Larkin stated, "the Company included in the accounts receivables' balance receivables which are not related to the delivery of electric service." (TR 286) The accounts included are: Account 1420.21-Customer Accounts Receivable-Billed; Account 1420.22-Accounts Receivable–Jobbing; Account 1430.1-Accounts Receivables-Employees; and Account 1430.2-Accounts Receivable-Miscellaneous. He contended that the Company has included for both divisions $206,380 of receivables which relates to the stated Accounts. He further stated that these are below the line revenues and expenses and should be removed from rate base. He asserted that the ratepayer should not be required to pay a rate of return on receivable balances associated with non-regulated activities like jobbing or third party damages. (TR 286)

According to witness Larkin, the Company used the 13-month average of receivables as of December 31, 2006, as the first month in its calculation for the 13-month average for 2007, as shown on Schedule B-3 (line 18), page 1 of 6. This amount was escalated by approximately 24 percent, and then that balance was used for each of the 12 months in 2007. The December 31, 2007, receivables were used as the first month in the calculations of the 13-month average for the 2008 receivables, and the balance was used for each of the 12 months in 2008. This resulted in an overall escalation factor of approximately 46.4 percent being applied to the 13-month average accounts receivable from 2006 to 2008 and including the $206,380 of nonregulated receivables. Total escalated amount is $302,140 ($206,380 x 1.464 = $302,140). (TR 285-286)

Witness Larkin contended that the methodology the Company used to project Customer Accounts Receivables for the projected test year was not reasonable. He stated the Company escalated the 2006 balance by approximately 46.4 percent, and this is not the methodology FPUC used to project sales growth. He further states that the accounts receivable balance is related to revenues. (TR 287) Witness Larkin contended that since the Company's level of accounts receivables as a percentage of revenues has been in a decline, the use of the most recent historical test year seems to be the most reasonable way to project the 2008 accounts receivable balance. (TR 287) According to witness Larkin, the 2008 projected revenue 12 months ended August 2007 percentage of accounts receivable to revenue was 6.42 percent, which he applied to the Company's 2008 projected revenue of $62,488,964. (Schedule C-5, 2008) This resulted in the projected accounts receivable 13-month average balance of $4,011,791. (TR 287) The Company's 2008 projected accounts receivable balance is $5,042,458, which includes other accounts receivable of $302,140, less the calculated 2008 projected accounts receivable balance of $4,011,791. This reflects a $1,030,667 reduction. (TR 287)

Witness Mesite disagreed with OPC's testimony on how to handle customer accounts receivables. He argued that OPC's testimony was based upon averaging customer accounts receivable balances for the past ten years. (TR 638) He contended that such an analysis is inappropriate, since over the historical period FPUC's fuel costs were well below market rates, and current receivables would be understated by using historical data. (TR 638) He further argued that employee accounts receivables and other accounts receivables are regulated accounts, whereas OPC witness Larkin believes they are nonregulated accounts. (TR 638)

Conclusion:

In summary, the Company believes that Accounts 1430.1-Accounts Receivable-Employees and Account 1430.2-Accounts Receivable-Other should be included in the Working Capital Allowance. (TR 623, 624) It also believes that the Company's calculation of accounts receivables are reasonable and appropriate for the 2008 projected test year. (TR 622) The Commission's policy has been to exclude from rate base non-utility operations such as merchandising and jobbing (expenses and revenues).[11] Also, in the Company's prior rate case, the Accounts Receivable account was calculated based upon receivables to revenue as shown by OPC, and the non-utility portion of Account 1430.1–Accounts Receivable-Other and Account 1430.2-Accounts Receivable-Other Miscellaneous were removed. Finally, in this rate proceeding, for Stipulated Issue 49, the Company accepted OPC's accounts receivable calculation in the amount of $4,011,791 to calculate the provision for the uncollectible account. Based on the above discussion, staff recommends that the appropriate balance of accounts receivable to be used in Working Capital is $4,011,791. Also, the 2008 balance of accounts receivable should be reduced by $1,030,667.

[11] Order No. 5471, issued June 30, 1972, in Docket No. 71342-EU, In re: Petition of Gulf Power Company for authority to increase its rates and charges so as to give said utility an opportunity to earn a fair return on the value of its property used and useful in serving the public; pp 9-10.

APPROVED STIPULATION

Issue 49: Has the Company estimated an appropriate balance in its accumulated provision for uncollectible accounts?

Position: No. The balance of the accumulated provision for uncollectibles in Account 1440 shall be increased by $7,986.

APPROVED STIPULATION

Issue 50: Should an adjustment be made to pension liability in the calculation of working capital?

Position: No, The Company has properly included the pension liability reserve as it pertains to the electric division in working capital. This is directly related to employee benefits, and is appropriate for recovery in working capital.

APPROVED STIPULATION

Issue 51: What is the appropriate balance of regulatory assets retirement plan to be included in working capital?

Position: The Company has properly included $450,155 as the regulatory asset associated with Pensions and FASB 158 as it pertains to the electric division in working capital. They have also filed a petition with the FPSC similar to other investor owned utility companies in the state of Florida, for regulatory treatment of pension as it relates to FASB 158 and this regulatory asset. Since this account only represents regulated amounts, the appropriate allocation factors have been used to allocate between the regulated natural gas and electric segments.

APPROVED STIPULATION

Issue 52: What is the appropriate allocation methodology and amount for prepaid insurance to be included in Working Capital for electric operations?

Position: The appropriate allocation methodology shall be based on payroll instead of gross profit. Allocating the 2008 test year prepaid insurance of $629,658 by the payroll allocation factor of 25 percent results in electric operations prepaid insurance for Working Capital purposes of $157,415. The electric operations allocation of prepaid insurance included in Working Capital shall be reduced by $37,779.

Issue 53: What is the appropriate balance of unbilled revenue to be included in Working Capital?

Recommendation: The appropriate balance of unbilled revenue to be included in working capital is $459,586. This is an $88,808 reduction to the 2008 balance for unbilled revenue. (Gardner)

Position of the Parties

FPUC: 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.

OPC: In response to OPC discovery, FPUC stated that it increased the historical 13-month average of unbilled revenue by 3.5% to project the 13-month average for 2008, but its projected balance reflects an increase of approximately 23.5%. To correct this apparent calculation error, the 13-month average balance of unbilled revenue should be reduced by $88,808.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: In its 2008 Working Capital Allowance, as shown in the MFRs, Schedule B-3, Page 2 of 6, the Company projected $548,394 for unbilled revenue.

According to OPC witness Larkin, in FPUC's response to OPC's First Set of Interrogatories, Interrogatory No. 9, FPUC increased the historical 13-month average of unbilled revenue by 3.4 percent to project year ending 2007, and by 3.5 percent to project the 13-month average for 2008. Witness Larkin's analysis revealed that the Company increased its unbilled revenue by 3.4 percent for 2007, but for 2008, increased the 13-month average by approximately 23.5 percent. Witness Larkin assumed this was a calculation error. He asserted that the adjustment to the 13-month average was to show the 3.5 percent increase which the Company used to escalate unbilled revenue for the 13-month average for 2008. (TR 290)

In his rebuttal testimony, witness Mesite stated that in the Company's response to OPC Interrogatory No. 9, the narrative explaining the calculation of the 2008 13-month average was incomplete. He further stated that to project the 2008 unbilled revenue, the 2007 amount was increased by an additional 20 percent, which is an update to the initial 3.5 percent, to represent an anticipated increase in base revenue as the result of this rate proceeding. He further asserted that the 20 percent was in addition to the 3.5 percent projection which produced the appropriate 23.5 percent increase for 2008 that witness Larkin alluded to in his testimony. (TR 625)

During cross-examination of witness Larkin, he was asked if he agreed that there would be an increase to unbilled revenue as a result of an increase in base rates. He stated :

> There would be an increase in unbilled revenue, but it is difficult to tell what that increase would be because it is a factor of the number of days which remain unbilled at the end of the year, or the number of kilowatt hours that were not billed. (TR 344)

Conclusion:

Staff agrees that the adjustment to increase unbilled revenue for the 2008 projected test year should be the 3.5 percent escalation factor for inflation and growth. The Company inappropriately assumed that it could include an anticipated 20 percent or more increase in base revenue as a result of this rate proceeding in Working Capital Allowance. Staff recommends that the appropriate balance of unbilled revenue to be included in Working Capital should be $459,586. Also, the 2008 balance of unbilled revenue should be reduced by $88,808.

Issue 54: What is the appropriate balance of temporary services to be included in Working Capital?

Recommendation: The appropriate balance of temporary services to be included in Working Capital is zero. Also, the 2008 balance of temporary services should be reduced by $26,961 and the miscellaneous services revenue should not be increased by $27,150. (Gardner)

Position of the Parties

FPUC: 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.

OPC: The appropriate balance is zero. The Company is not collecting sufficient amounts of money for temporary facilities or services to offset all the costs of providing that service. Ratepayers should not be required to subsidize these services. The temporary service debit balance of $16,961 should be removed from working capital with a corresponding increase to test year miscellaneous service revenues of $27,150 to reflect the amount written off since ratepayers would otherwise be subsidizing this service without the adjustment.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: In his rebuttal testimony, FPUC witness Cutshaw stated that the Company proposed an adjustment to temporary services for $200 per overhead service and $170 per underground service, as well as additional charges for required excess facilities. He further stated that the currently approved tariff includes $150 per overhead service and $110 per underground service, which has resulted in an under collection of revenues for temporary service installation. (TR 684)

FPUC witness Cutshaw contended that the service charges were evaluated to determine the appropriate cost and revenue requirement. He further contended that labor cost, transportation cost, and overheads were applied to typical tasks associated with each service charge. (TR 264) He further stated that the temporary charges are included within the tariff and an increase has been requested. (TR 700) In his direct testimony, witness Cutshaw stated that the service charge for connecting a temporary service was increased to $52.00 from the existing amount of $44.00. (TR 264) He argued that the issue with the under-collection of revenue for the temporary service charge account is being handled according to the currently approved tariff. Also, if any adjustment is made, it should be contingent upon the approval of the proposed temporary service fees. (TR 684 - 685)

OPC witness Larkin stated the Company included in working capital an amount which it terms "Temporary Services." The corresponding FERC Uniform System of Accounts (USOA) Account No. 185 is "Temporary Facilities." The definition of temporary facilities in the USOA is as follows:

> 185 - Temporary Facilities (Major Only)
>
> This account shall include amounts shown by work orders for plant installed for temporary use in utility service for periods less than one year. Such work orders shall be charged with the cost of temporary facilities and credited with payments received from customers and net salvage realized on removal of the temporary facilities. Any net credit or debit resulting shall be cleared to account 451, Miscellaneous Service Revenues. (TR 292)

OPC witness Larkin contended that the Company is not collecting the appropriate amount of revenue for temporary services to offset the cost of providing the service. In a response to OPC's Interrogatory Number 11, FPUC stated the following:

> The installation and removal costs of temporary services are charged to account 1850.1. As customers are billed for the temporary services, revenues are charged against 1850.1. Additionally, at December of each year, the previous year's December 31 balance in the account is written-off to miscellaneous service revenue, Account 4000.451. (TR 293)

Witness Larkin contended that the ratepayers will subsidize the service, and be required to provide a return on services provided at below cost, once the debit is written off on December 31. To make sure the ratepayers are not subsidizing the cost, witness Larkin recommended removing the temporary service debit balance from rate base and increasing miscellaneous service revenue by the amount written off. This would be a reduction to working capital of $26,961, and a $27,150 increase to miscellaneous service revenue at December 31, 2007 from Schedule B-3 (2007), page 1 of 6. (TR 293)

Conclusion:

Staff agrees with witness Larkin's $26,961 reduction to working capital for the 2008 projected test year temporary services, but does not agree with his request to increase miscellaneous service charge in the amount of $27,150. Currently, the Company is not collecting enough revenue to cover the cost of providing these services under the current Commission-approved tariff. The last-filed schedules of rates or charges for FPUC were authorized by the Commission in Order No. PSC-04-0369-AS-EI. As stated in Commission Rule 25-6.033 (2) and (4), F.A.C., Tariffs, "[e]ach utility shall file with the Commission tariffs containing schedules for all rates and charges and copies of all rules and regulations governing the relation of customer and utility," and; "[n]o rules and regulations, or schedules of rates or charges, or modifications or revisions of the same, shall be effective until filed with and approved by the Commission as provided by law."

The Company proposed in Issue 127, an adjustment to increase the cost of providing these services on a going-forward basis. Staff believes that by increasing the cost for temporary services from $44 to $52, as addressed in Issue 127, there should not be a corresponding increase to the Miscellaneous Services Revenue Account, as addressed by Issue 74, to offset the stated zero balance. Also, FPL had a similar issue in a previous rate case proceeding for the cost of electric power used for construction.[12] It was proposed in a rate proceeding that a portion of the cost be removed from rate base since FPL received a return on the service. The cost of electric power used for construction was established within the tariff's schedule and rate charges. The Commission authorized in Order No. 10306 that the electric power was provided pursuant to tariffs and rate schedules required by the Commission, and found that no adjustment was warranted.[13] Staff recommends that the appropriate balance for temporary services should be zero. Also, the 2008 temporary services account should be reduced by $26,961, and the miscellaneous services revenue account should not be increased by $27,150.

[12] Order No. 10306, issued September 23, 1981, in Docket No. 810002-EU (CR), In re: Petition of Florida Power and Light Company for authority to increase its rates and charges.
[13] Order No. 10306, at page 20.

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

Recommendation: No. Staff recommends the removal of $1,143,777 for under recovery of fuel from Working Capital Allowance. (Gardner)

Position of the Parties

FPUC: 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.

OPC: No. The Commission has a long-established policy which excludes under-recoveries and includes over-recoveries in the working capital requirement. The Company receives its rate of return on these assets through the fuel adjustment clause and conservation adjustment clause mechanisms, which add interest for any under-recovery. If the receivable is included in working capital when base rates are established, then ratepayers would pay a double return on these under recoveries. Accordingly, working capital should be reduced by $1,143,377 related to purchased power under-recoveries.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: According to FPUC witness Mesite, the Company included over and under recovery of fuel and conservation costs in Working Capital. He testified that it is unfair and penalizes the Company to only include over recoveries. Witness Mesite further stated,

> The fuel is reviewed as well as the over and under recoveries in a special fuel hearing each year. Only those prudently incurred fuel expenses and appropriate fuel rates are approved. It is unfair to penalize the company for items outside of their control if an over recovery results from these approved fuel rates. (TR 122)

Also, the Company should not be penalized by including an over recovery and not an under recovery for fuel in Working Capital. Witness Mesite stated that the Company is seeking approval on a going-forward basis for fair treatment of including both the fuel under and over recovery in Working Capital. The Company's alternative to the Commission's practice of including over recovery instead of under recovery of fuel is to eliminate both from Working Capital since they are handled outside of base rate proceedings. (TR 122-123)

OPC witness Larkin stated that the Commission's policy properly reflects how and who should pay the carrying cost on over and under recoveries of fuel and conservation costs. He viewed the reasoning behind the Commission's policy as:

> first, the revenues and expenses related to fuel and conservation are eliminated from the operating income statement in the base rate case filing because these revenues and expenses are recovered by the Company through a separate mechanism included in the customer bills. These costs are not recovered through base rates and therefore, they should be eliminated from the income statement so that the costs and revenues associated with fuel and conservation costs are not included and recovered in base rates. (TR 297-298)

Witness Larkin further elaborated on the Commission rationale for excluding an under recovery from working capital. He stated that the under recovery of fuel and conservation costs are assets to the Company. When the balances are included in working capital, then the Company would be allowed to earn the overall rate of return on the increased rate base. Also, the Company receives its rate of return through the fuel adjustment and conservation adjustment clauses. (TR 298-299)

Witness Larkin further asserted that the alternative provided by witness Mesite to eliminate both over and under recoveries is not correct. He stated that when the Company collects more in fuel costs and conservation costs through its cost recovery mechanism than it actually incurred in expense on the income statement, then the ratepayers are due a refund. The Company has use of the funds and an interest calculation is made on the over recoveries and added to the refund to the ratepayers through the cost recovery mechanism. He contended that if the liability (over recovery) is not included in Working Capital as a reduction, then the ratepayer is paying his own interest to himself, because the Working Capital would be higher by the amount of funds that the Company has in its possession for use for Working Capital purposes. Furthermore, the inclusion of the over recovery in the Working Capital calculation assures that stockholders pay the interest, and that interest is charged below the line and not recovered from ratepayers. (TR 299-300)

Staff agrees with OPC witness Larkin's assessment of how the Commission has handled fuel under recovery in Working Capital in prior rate case proceedings.[14]

Conclusion:

The Commission's practice has been to exclude fuel under recoveries, which are assets, from Working Capital, and to include over recoveries, which are liabilities. The rationale for including over recoveries as a reduction to Working Capital is to provide the Company with an incentive to make its projections for the cost recovery clause as accurate as possible and avoid large over recoveries. In the Company's last rate proceeding, its fuel under recovery was removed from inclusion in the Working Capital Allowance. Based upon the above discussions,

[14] See, Order No. 12663, issued November 7, 1983, in Docket No. 830012-EU, In re: Petition of Tampa Electric Company for an increase in rates and charges and approval of a fair and reasonable rate of return, pp. 14-15. and Order No. PSC-93-0165-FOF-EI, issued March 29, 1993, In re: Application for a rate increase by Tampa Electric Company, p.38.

staff recommends that the under recovery in the amount of $1,143,377 be removed from Working Capital Allowance.

APPROVED STIPULATION

Issue 56: Should FPUC's requested level of Other Property and Investments/Other Special Funds in the amount of $3,100 for the projected test year be approved?

Position: Yes, this item was appropriately included in working capital in the MFR. The $3,100 represents consolidated electric's share of a $10,000 deposit held in escrow by the Company's insurance carrier to cover auto and general liability insurance claims against FPUC.

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

Recommendation: No. The appropriate balance of Accrued Interest on Customer Deposits for the 2008 projected test year 13-month average should be $77,133. This is an increase in the amount of $10,178 for the 2008 balance of Accrued Interest on Customer Deposits. (Gardner)

Position of the Parties

FPUC: 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.

OPC: No. The Company's projection methodology results in an understated balance of interest accrued on customer deposits. Using the actual 13-month average balance at September 30, 2007, the account should be increased by 8.6% to arrive at the December 31, 2008 balance of $77,133.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: FPUC witness Mesite testified that the Company projected the accrued interest-customer deposits in the MFRs using the appropriate methodology. (TR 630) Also, the 2008 projected test year 13-month average in the amount of $66,955 was based on customer growth.

In his direct testimony, OPC witness Larkin argued that the Company's projection methodology reflected too low of an interest accrued balance. Witness Larkin compared the Company's 13-month average ending December 31, 2008 to the actual 13-month average at September 30, 2007. The 13-month average at September 30, 2007 was $71,025. This is a 8.6 percent increase over FPUC's 13-month average at December 30, 2008. Witness Larkin escalated the 13-month average balance in the amount of $71,025 by an additional 8.6 percent to obtain the December 31, 2008 balance of $77,133. (TR 304)

Conclusion:

Staff believes that since FPUC's MFRs were filed August 30, 2007, the Company had enough time to include in it projections calculation the actual months of interest accrued on customer deposits. As shown in the MFRs, the 13-month average for 2007 and 2008 were projected based upon 2006's actual 13-month average and 2007's projected 13-month average times customer growth. In the MFRs, Schedule C-44, Projection Factors, page 95, the Company used customer growth of 2.4 percent for the period of 2006-2008. As shown in the MFRs, on page 17, line 71, the 2007 projected 13-month interest accrued was $66,161. This amount was used to calculate the 2008 projection. Staff recommends an increase of $10,178 to the current filing of $66,955 to arrive at the appropriate interest accrued balance of $77,133.

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

Recommendation: The appropriate balance of deferred debit rate case expense to be included in working capital is $303,400. Therefore, the balance of deferred debit rate case expense should be reduced by $304,836. (Gardner)

Position of the Parties

FPUC: 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.

OPC: The appropriate balance of deferred rate case expense to include in working capital is $303,400, which reflects a reduction of $304,836 from the Company's requested balance of $608,236. Adjustments are appropriate to reflect OPC's recommended balance of rate case expense and to allow one-half of the total rate case expense as a working capital allowance, consistent with the treatment afforded in the last FPU rate case.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: FPUC witness Mesite testified that the entire 2008 rate case expense should be allowed in Working Capital. (TR 123) He noted that in FPUC's previous rate case, the Commission disallowed one-half of the deferral in Working Capital. (TR 123) In his opinion, this action unfairly penalizes the Company and denies a return on its expenditures. (TR 123) Witness Mesite further contended that the Company does not have the staff or expertise to complete a rate case proceeding without assistance from outside sources. (TR 123)

In her rebuttal testimony, FPUC witness Martin testified that the Company has incurred only those costs that are reasonable, prudent and necessary in preparation of the rate proceeding. In her opinion, it would not be appropriate to include only one-half of the unamortized expenditures in Working Capital because it would unfairly penalize the Company. (TR 580)

OPC witness Larkin stated that the Company's total projected test year rate case expense from June 2007 through March 2008 should be $622,000. An additional $106,000 was added to the balance for the prior rate case expense as of January 1, 2008. (TR 294) The total rate case expense is $728,000, and the Company calculated the 2008 projected 13-month average balance to be $608,236. (TR 294) Furthermore, of the Company's requested $622,000 of rate case expense, witness Larkin removed $100,000, leaving a balance of $522,000. (TR 295) He stated that the removal of the $100,000 is discussed in the issue relating to rate case expense. (See Issue 107, TR 296) He further stated that to arrive at a rate case expense of $606,800, he added the unamortized balance of the prior rate case in the amount of $84,800 to the remaining $522,000 balance. (TR 295) Then, he applied Commission policy of allowing only one-half of rate case expense as a working capital allowance to arrive at $303,400. (TR 295) He stated "this reduces the Company's requested 13-month average balance of rate case expense of $608,236 by $304,836, leaving a balance of $303,400." (TR 296)

Witness Larkin asserted that the Company is not being penalized by the Commission for allowance of only one-half of the rate case expense in working capital. He testified:

> If the Commission were to reflect 100% of the 2008 deferred rate case expense in working capital, the Company would earn a return on that balance for the entire four-year amortization period. Ratepayers will be paying down the balance each month. On average one-half the balance would be outstanding. The Commission's policy is not a penalty, but fair treatment of both parties. (TR 295)

Conclusion:

The Company provided the necessary documentation outlining the calculations of the 2008 projected test year 13-month average of $608,236. As discussed in Issue 107, $100,000 should be removed due to disallowance of work performed for and by the Company. The disallowance of the $100,000 rate case expenses, reduced the 13-month average for the 2008 projected test year to $606,800. The Commission practice in prior rate cases, including FPUC's, is to allow one-half of the rate case expense in Working Capital. Therefore, the Company's 2008 projected 13-month average of $608,236 should be reduced by $304,836. Based on the above discussion and the adjustments of Issue 107, staff recommends that the appropriate balance of deferred debit rate case expense to be included in Working Capital is $303,400.

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

Recommendation: No. The projected 2008 balance for the storm damage reserve should be decreased by a net amount of $32,259. (Gardner, Slemkewicz)

Position of the Parties

FPUC: 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.

OPC: No, the appropriate balance for the storm damage reserve should be $1,818,548, reflecting an increase in the 13-month average credit balance of $8,871. This adjustment is the result of two errors. First, the Company has reflected a $50,000 reduction in the storm reserve in September 2007, which does not appear to be a storm related adjustment. Second, the Company started the test year calculation with the wrong balance at December 31, 2007.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: FPUC witness Mesite asserted that the 13-month average storm reserve for the 2008 test year should be $1,809,677. He stated that the Company projected charges totaling $50,000 for storm damage cost for September 2007. In addition, witness Mesite used September as the midpoint of the hurricane season. He contended that, using witness Larkin's exhibits, a 19-year average annual storm damage costs would be $36,700 ($697,472/19 years = $36,709). He also allowed for inflation and service area growth over the 19-year period. Based on his assumptions, he asserted that the $50,000 estimation for annual storm damage costs was proper. (TR 630)

OPC witness Larkin contended that the 13-month average calculation for storm damage reserve balance should be increased by $8,871. He contended that the Company miscalculated the 13-month average. (TR 303) Initially, the Company reflected a $50,000 reduction in the reserve in September 2007. (TR 303) Accordingly, the Company started the calculation with the wrong balance at December 31, 2007. He asserted that the 13-month average increased after the correction of the two errors. The balance increased because the two errors were larger than the accrual. Furthermore, during cross examination, witness Mesite conceded that there were no storms to hit FPUC's system, and no actual charges were made to the reserve in 2007. (TR 303, 639) Based on his analysis, witness Larkin recommended an increase in the storm reserve balance by $8,871. (TR 303-304)

Conclusion:

The appropriateness of the storm reserve balance of $1,809,677 was based on the calculation of the 2007 projected 13-month average, which included the September 2007 reduction of $50,000. In estimating its costs for the storm reserve, the Company projected a $50,000 storm damage cost for September 2007, and on a going forward basis for a 19-year period. (TR 630) Upon cross examination at the hearing, witness Mesite stated that there were no storms to hit FPUC's system and no actual charges made to the reserve in 2007. (TR 639) The correction of the errors did increase the 13-month average. (TR 639) Based upon the above discussion, the 13-month average storm reserve balance should be increased by $8,871.

As discussed in Issue 101, staff has recommended that the annual storm damage accrual should not be increased from $121,620 to $203,880. This results in an $82,260 reduction to the annual accrual for 2008. This adjustment also requires a reduction to the amount of the 2008 storm damage reserve. Therefore, the storm damage reserve should be reduced by $41,130, which is the 13-month average of the annual accrual. The net effect of these two adjustments is a reduction of $32,259 ($41,130 - $8,817).

APPROVED STIPULATION

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?

Position: The appropriate level of Working Capital is subject to the resolution of the issues impacting Working Capital (a fall-out issue).

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

Recommendation: No. The appropriate amount of rate base for the projected test year is $40,046,916. (Gardner)

Position of the Parties

FPUC: 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.

OPC: No. The appropriate 13-month average balance of rate base should be $39,692,164, or a decrease of $3,328,833. This is a fallout issue, subject to the resolution of other issues.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: According to FPUC witness Mesite, the 2008 projected rate base as filed in the amount of $43,020,996 is appropriate. (FPUC BR at 27) He stated that the rate base amount is a fall-out of other issues and adjustments within this rate proceeding. (FPUC BR at 27)

OPC witness Larkin stated that the appropriate 13-month average balance of rate base should be $39,692,164, or a decrease of $3,328,833. OPC further noted that this is a fall-out issue subject to resolution of other issues. (OPC BR at 28)

This is a fall-out issue. Staff recommends that the appropriate amount of rate base for the projected test year is $40,046,916. (See Schedule 1)

13-Month Average 2008 Rate Base			
	FPUC	**OPC[15]**	**Staff**
Utility Plant-In-Service	$81,437,513	$81,218,386	$81,459,754
Accumulated Depreciation	(37,180,863)	(37,177,591)	(37,241,015)
Net Plant-In-Service	44,256,650	44,040,795	44,218,739
CWIP	75,000	0	75,000
Net Utility Plant	44,331,650	44,040,795	44,293,739
Working Capital	(1,310,654)	(4,348,631)	(4,246,823)
Total Rate Base	$43,020,996	$39,692,164	$40,046,916

[15] The calculation of OPC's position is based on the amounts contained in OPC's Brief.

COST OF CAPITAL

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

Recommendation: The appropriate return on common equity for the projected test year is 10.25 percent with a range of plus or minus 100 basis points. (Maurey)

Position of the Parties

FPUC: 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, Risk 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.

OPC: The appropriate return on common equity for the projected test year is 9.15%. Applying the Discounted Cash Flow Model (DCF) and the Capital Asset Pricing Model (CAPM) to the two groups of publicly-held utility companies identified by FPU results in a 9.15% ROE. FPU's equal weighting and use of historical data in its four approaches (DCF, CAPM, Risk Premia, and Realized Market Returns) has resulted in an inflated ROE of 11.5%.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: Two witnesses filed testimony in this proceeding regarding the appropriate return on common equity (ROE) for FPUC. FPUC witness Camfield recommended an ROE of 11.50 percent. (TR 168) This is the Company's currently-allowed ROE authorized in Order No. PSC-04-0369-AS-EI. OPC witness Woolridge recommended a return of 9.15 percent. (TR 385)

The statutory principles for determining the appropriate rate of return for a regulated utility are set forth by the U.S. Supreme Court in its Hope and Bluefield decisions.[16] These decisions define the fair and reasonable standards for determining rate of return for regulated enterprises. Namely, these decisions hold that the authorized return for a public utility should be commensurate with returns on investments in other companies of comparable risk, sufficient to maintain the financial integrity of the company, and sufficient to maintain its ability to attract capital under reasonable terms. (TR 163–164)

While the logic of the legal and economic concepts of a fair rate of return are fairly straight forward, the actual implementation of these concepts is more controversial. Unlike the cost rate on debt that is fixed and known due to its contractual terms, the cost of equity is a forward-looking concept and must be estimated. (TR 195, 401) Financial models have been

[16] Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 591 (1944) and Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia, 262 U.S. 679 (1923).

developed to estimate the investor required return on equity for a company. (TR 196–197, 404) Market-based approaches such as the Discounted Cash Flow (DCF) model, Capital Asset Pricing Model (CAPM), and ex ante Risk Premium (RP) model are generally recognized as being consistent with the market-based standards of a fair rate of return enunciated in the Hope and Bluefield decisions. (TR 167, 404)

In the determination of his recommended return, FPUC witness Camfield employed four equity cost methodologies. (TR 167) Witness Camfield used the DCF model, the CAPM, an ex post RP model, and an assessment of realized historical returns approach. (TR 167) Witness Camfield applied the DCF model to two indices of companies he identified as comparable in risk to FPUC. (TR 202–207) The DCF estimates of the cost of equity were 9.48 percent for the index of electric companies and 9.93 percent for the index of natural gas companies. (TR 225) He also applied the CAPM to the same two proxy groups. The indicated average CAPM return for both the electric and natural gas indices was 11.3 percent. (TR 214–217) Witness Camfield also conducted an ex post RP study based on earned returns from the 1950's through the 2000's. This approach indicated a return of 12.5 percent for mid-sized electric utilities and 12.3 percent for gas utilities. (TR 217–220; EXH 17) In his final approach, witness Camfield reviewed the historical realized returns for mid-sized electric utilities and natural gas utilities. Based on this analysis, he believes investors can expect to realize future rates of return of between 10.1 percent and 12.5 percent. (TR 220–221, EXH 18) Assigning equal weight to each of the four methods, witness Camfield arrived at his recommended return of 11.50 percent. (TR 236)

In the determination of his recommended return, OPC witness Woolridge relied on the DCF and CAPM approaches. (TR 402–403) Witness Woolridge applied the DCF model to the same indices of electric and natural gas utilities identified by witness Camfield as comparable in risk to FPUC. (TR 471) The DCF estimates of the cost of equity were 9.15 percent for the index of electric companies and 8.74 percent for the index of natural gas companies. (TR 414) Witness Woolridge also performed a CAPM study. The results of this approach were an indicated return of 8.41 percent for the electric index and 8.64 percent for the natural gas index. (TR 433) Because he believes the DCF model provides a better measure of equity cost rates for public utilities and because he believes FPUC's riskiness is at the high end of the range of the two proxy groups, he recommended the ROE at the high end of his range of 9.15 percent. (TR 402, 434)

Although both witnesses used essentially the same models (DCF and CAPM) and applied these models to exactly the same two proxy groups, the results differed because of differences in the inputs each witness used to populate the models. (TR 442) Additional differences resulted from witness Camfield's inclusion of an adjustment for flotation costs, his adjustment to the indicated returns of the RP approach for small size risk premia, and his reliance on two approaches that are based on historical earned returns. (TR 214, 220–221)

The two witnesses' DCF results are very similar. The difference between witness Camfield's DCF result for the electric proxy group and witness Woolridge's DCF result for the same group is explained entirely by the inclusion of an adjustment for flotation costs. (TR 464)

The primary difference between the results of the witnesses' respective CAPM studies boils down to the appropriate market rate of return used in the analysis. (TR 464) Witness Camfield assumed a market return of 13.0 percent, while witness Woolridge used an implicit market return of approximately 9.25 percent. (TR 215; EXH 40) Witness Camfield relied on historical earned returns for the period 1970 through 2005 to justify his use of a 13.0 percent market return. (TR 215) Witness Woolridge used the results of a series of equity risk premium studies and equity risk premium surveys of CFOs, financial forecasters, and academics to determine an average equity risk premium which he added to the current risk-free rate (current yield on 30-year Treasury Bonds) to estimate the market return of 9.25 percent assumed in his analysis. (TR 430)

Witness Woolridge testified that it was unrealistic to expect a market return of 13.0 percent given current market conditions. (TR 464) Because this key input to his CAPM analysis exceeded the true market return expected under current market conditions, witness Woolridge testified that witness Camfield's CAPM estimate overstated the cost of equity for FPUC. (TR 454–456) In addition, witness Camfield used a yield on 10-year Treasury Bonds of 4.73 percent as a proxy for the risk-free rate. (TR 454) Witness Woolridge testified that the current yield on 10-year Treasury Bonds was 4.14 percent. (TR 454) By operation of math, carrying this lower risk-free rate through witness Camfield's CAPM model results in an indicated return of 11.1 percent.

Witness Camfield's recommendation of 11.50 percent is heavily influenced by his reliance on two approaches, the ex post RP model and the realized historical returns approach, that are based on historical earned returns. (TR 442–444; EXH 11) Witness Woolridge testified that there are a number of flaws in using historical earned returns over long periods of time to estimate expected equity returns. (TR 443) He cited numerous academic studies that highlight the many problems and errors associated with using historical earned returns to measure expected equity returns. (TR 442–451) For these reasons, staff did not assign weight to the two approaches derived exclusively from historical earned returns.

In addition to its reliance on historical earned returns, witness Camfield's RP model also included an adjustment of 2.0 percent to account for a small size risk premia. (EXH 11, EXH 17) He testified that this adjustment was necessary to recognize that the cost of equity is higher for small firms, other factors held constant. (TR 220) Witness Woolridge testified that the method witness Camfield used to measure the small risk premia adjustment was a poor measure for a risk adjustment to account for the size of a company. (TR 458) In addition, witness Woolridge testified that due to the frequent monitoring by federal and state regulatory agencies, publicly traded utility stocks do not exhibit a significant size premium. He cited two academic studies that support this view. (TR 458–459) Witness Camfield's size premia adjustment was only included in the results of his RP model. As noted earlier, staff discounted the relevance of this model due to the well documented problems associated with models based on historical earned returns.

Finally, all of witness Camfield's return estimates include an adjustment for flotation costs of 6 percent, which translates into approximately 33 basis points. (TR 214) Witness Woolridge testified that issuance costs, if properly documented, should be recovered through the cost of service and not included as an adjustment to the ROE. (TR 441) Witness Camfield countered that flotation costs are real transaction costs that reduce the net proceeds realized by the Company from its sale of equity securities. (TR 645–646) Witness Woolridge acknowledged that it is common for rate of return estimates to include an adjustment for flotation costs. (TR 438) The Commission has traditionally recognized a reasonable adjustment for flotation costs in the determination of the required return on equity. For these reasons, staff believes an adjustment for flotation costs is reasonable.

Based on this analysis, staff believes the investor required return for FPUC falls within the range of 9.5 percent and 11.1 percent. The floor of this range is based on witness Camfield's DCF result for the electric proxy group and witness Woolridge's DCF result for the same group adjusted for flotation costs. The ceiling of this range is based on witness Camfield's CAPM result adjusted for the more current risk-free rate. However, as noted earlier, witness Woolridge testified that this model assumed an expected market return that is excessive under current market conditions. Staff agrees. For this reason, staff believes the 11.1 percent is conservatively high and represents the upper bound of a reasonable range. Based on the record in this case, staff recommends an authorized ROE of 10.25 percent for FPUC for purposes of this proceeding.

As discussed earlier in this recommendation, the return authorized by the Commission in this case must satisfy the fair and reasonable standards set forth by the U.S. Supreme Court in its Hope and Bluefield decisions. (TR 163–164) The record shows that staff's recommended return of 10.25 percent is similar to returns authorized for utilities of comparable risk. (TR 665–667) Staff is confident this return, along with prudent oversight by management of the Company and the supportive regulatory policies of this Commission, is sufficient to assure confidence in the financial integrity of the Company and will permit it to continue to raise capital under reasonable terms. (TR 481; EXH 3, pp. 300–303)

Based upon its analysis of the cost of capital testimony presented in this case, staff recommends the Commission set an authorized ROE of 10.25 percent with a range of plus or minus 100 basis points for FPUC. This return is supported by competent, substantial evidence in the record and satisfies the standards set forth in the Hope and Bluefield decisions of the U.S. Supreme Court regarding a fair and reasonable return for the provision of regulated service.

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

Recommendation: The appropriate capital structure is detailed on Attachment 2. Staff recommends the implementation of a 13-month average capital structure, consistent with prior Commission practice. (Springer)

Position of the Parties

FPUC: 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.

OPC: The appropriate capital structure should be based on a thirteen month average.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: In its MFR's, FPUC filed a projected capital structure on both a 13-month average and year-end basis. (TR 229) Although the Company used a 13-month average capital structure for purposes of its request for a rate increase, witnesses Camfield and Cox filed testimony to support use of a year-end capital structure for purposes of this proceeding. (TR 188-189) FPUC's stated reason for requesting the year-end capital structure is to reflect the issuance of new shares of common equity in mid-year 2008. (TR 188-189) Use of a year-end capital structure produces an overall cost of capital that is six basis points greater than the rate of return indicated by a 13-month average capital structure. (TR 188-189) This incremental difference represents approximately $40,000 in annual revenue requirements. (TR 188-189)

Witness Camfield acknowledged that use of a year-end capital structure is a departure from the long-standing Commission policy of using a 13-month average capital structure. (TR 166) By using a projected test year, staff believes the Company's projected equity issuance is being partially recognized in the rate setting process. Furthermore, staff does not believe that FPUC has demonstrated sufficient extenuating circumstances, such as extraordinary growth or inflation, to merit a divergence from the Commission policy of using a 13-month average capital structure. For these reasons, staff recommends the Company use a 13-month average capital structure to be consistent with its use of a 13-month average rate base and past Commission practice.[17] (TR 542)

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[17] Order No. 10449, issued December 15, 1981, in Docket No. 810035-TP, In re: Petition of Southern Bell Telephone and Telegraph Company for a rate increase.

Additionally, FPUC witnesses Cox and Camfield advocate that the unregulated subsidiary Flo-Gas balances should be included in the capital structure, since they believe these funds cannot be earmarked for specific purposes. (TR 187-188) However, staff believes that removing non-utility investments directly from equity recognizes their higher risks and prevents cross subsidization through the cost of capital. This treatment is consistent with past Commission practice.[18]

[18] Order No. 23573, issued October 3, 1990, in Docket No. 891345-EI, In re: Petition of Gulf Power Company for an increase in its rates and charges.

APPROVED STIPULATION

Issue 64: What is the appropriate projected cost rate for long-term debt?

Position: The appropriate projected cost rate for long-term debt is 7.96 percent.

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

Recommendation: The appropriate projected cost rate for short-term debt is 4.08 percent. (Springer)

Position of the Parties

FPUC: The projected cost rate for short term debt of 6.81%, as filed is appropriate.

OPC: The appropriate projected cost rate for short-term debt is 4.08%. The Company's projected short-term debt cost rate of 6.81% was based on a Federal Funds rate of 5.25%. Since the time the Company filed its testimony, the Federal Funds rate was reduced to 3.0% (as of the hearing). Using the most recent Federal Funds rate results in the lowering the short-term debt rate.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: FPUC witness Camfield detailed the calculation for determining the short-term debt cost rate filed in his testimony. Witness Camfield testified that FPUC's short-term debt cost rate is the London Interbank Offer Rate (LIBOR) plus 90 basis points. (TR 650-651) The starting point is the current U.S. Fed Funds interest rate. He then added 18 basis points to this rate to obtain an estimate of the LIBOR rate. (TR 650-651) Witness Camfield acknowledged that the U.S. Fed Funds interest rate has been lowered from 5.25 percent contained in his testimony to the then current 3.00 percent. (TR 232-233) Using witness Camfield's methodology results in a LIBOR rate of 3.18 percent. (TR 232-233) Adding the 90 basis point spread to the 3.18 percent LIBOR rate results in the short-term debt cost rate of 4.08 percent. (TR 653; TR 233-234)

OPC witness Woolridge's testimony contained a recommended short-term debt cost rate of 5.81 percent. (TR 394) This recommended rate was based on a U.S. Fed Funds interest rate of 4.25 percent that was the prevailing rate at the time of filing his testimony. (TR 394) However, staff recommends using the U.S. Fed Funds rate in effect when the record closed and calculating the short-term debt cost rate utilizing the methodology outlined in witness Camfield's testimony. Based on the record, the appropriate projected cost rate for short-term debt is 4.08 percent. (TR 234)

Issue 66: **DROPPED**. Number retained for continuity.

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

Recommendation: The appropriate amount of accumulated deferred taxes to include in the capital structure for the projected test year is $6,078,743. (Kyle)

Position of the Parties

FPUC: 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.

OPC: The accumulated deferred taxes to be included in the capital structure should be $5,633,172 and no adjustments are necessary.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: Per MFR Schedule D-1a, Page 3 of 3, the balance of jurisdictional deferred taxes to be included in FPUC's capital structure for the test year is $6,078,743. (EXH 4) In its brief, OPC states that the amount of deferred taxes to be included in the capital structure should be $5,633,172. (OPC BR at 33) OPC witness Larkin testified that the deferred tax amount should be $5,498,400. (EXH 28, Sch. D-1) OPC provided no support in either instance as to what adjustments should be made to the deferred tax amount stated in the MFRs. ATT, Embarq and FCTA take no position on this issue. None of the adjustments recommended by staff in other issues has an impact on the accumulated deferred tax balance. Accordingly, staff recommends that the appropriate amount of deferred taxes to include in the capital structure for the projected test year is $6,078,743.

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?

Recommendation: The appropriate amount and cost rate of unamortized investment tax credits to include in the capital structure is $81,965 and 8.88 percent, respectively. (Kyle)

Position of the Parties

FPUC: 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.

OPC: The appropriate amount of unamortized investment tax credit to be included in the capital structure should be $75,957.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: Per MFR Schedule D-1a, Page 3 of 3, the balance of unamortized investment tax credit to be included in FPUC's capital structure for the test year is $81,965, and the cost rate is 9.67 percent. (EXH 4) In its brief, OPC stated that the amount of unamortized investment tax credit to be included in the capital structure should be $75,957. (OPC BR at 33) OPC witness Larkin testified that the unamortized investment tax credit amount should be $74,140. (EXH 28, Sch. D-1) OPC provided no support in either instance as to what adjustments should be made to the unamortized investment tax credit amount stated in the MFRs. ATT, Embarq and FCTA take no position on this issue.

None of the adjustments recommended by staff in other issues has an impact on the unamortized investment tax credit balance. Staff recalculated the investment tax credit cost rate based on other staff adjustments and staff's recommended return on equity, resulting in an 8.88 percent weighted average cost rate for the investment tax credits. Accordingly, staff recommends that the appropriate amount and cost rate of unamortized investment tax credits to include in the capital structure is $81,965 and 8.88 percent, respectively.

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?

Recommendation: The appropriate weighted average cost of capital for the test year is 7.35 percent. This is a calculation based upon decisions in preceding issues. (Schedule 2) (Springer)

Position of the Parties

FPUC: The overall cost of capital for regulatory purposes is 8.07%.

OPC: Two adjustments are necessary to the cost of capital related to the cost rate for short term debt and ROE. The overall fair rate of return is 7.01% for FPU.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: Based upon the decisions in preceding issues and the proper components, amounts and cost rates associated with the projected capital structure, staff recommends a weighted average cost of capital of 7.35 percent.

Based on the stipulation reached between the parties in Issue 64, the appropriate weighted average cost of long-term debt is 7.96 percent. As discussed in Issue 65, staff recommends 4.08 percent as the appropriate cost rate for short-term debt. As discussed in Issue 62, staff recommends 10.25 percent as the appropriate mid-point return on common equity. As discussed in Issue 63, staff recommends that FPUC should use a 13-month average capital structure to be consistent with its use of a 13-month average rate base in lieu of using a proposed year-end capital structure. There was no evidence presented in the record that disputes the reasonableness of the preferred stock cost rate of 4.75 percent.

The net effect of these adjustments is a reduction in the overall cost of capital from the 8.07 percent return requested by the Company to the return of 7.35 percent recommended herein. Schedule 2 shows the recommended test year capital structure. Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ending December 31, 2008, staff recommends that the appropriate weighted average cost of capital for FPUC is 7.35 percent.

NET OPERATING INCOME

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

Recommendation: Yes. The additional $73,050 expense to inspect and test substation equipment should be approved. No adjustment is necessary because the $73,050 is already included in FPUC's filing. (Kaproth)

Position of the Parties

FPUC: 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.

OPC: No. FPUC has not provided documentation that supports an addition increase in the level of expense for inspection and testing of transmission substations. Account 562 (increased by 154%) should be reduced by $25,155 to $18,323. In addition, the Company's projected expense for Account 582 - Station Expense Inspection and Testing (increase by 112%) should be reduced by $49,600, which is $99,878 less the adjusted test year amount of $50,378.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: In the MFRs, Account 562-Station Expenses, FPUC reflected that its 2006 expenses of $17,124 were projected to $43,487 in 2008. In Account 582-Station Expenses, FPUC's 2006 expenses of $47,082 were projected to $99,878 in 2008. FPUC's 2008 projected increase included an increase to Account 562 of $25,575 and an increase to Account 582 of $47,475, for a net adjustment increase of $73,050. (EXH 4, Section C, p. 96)

In his direct testimony, OPC witness Larkin reduced Account 562 by $25,155. Witness Larkin explained that the $17,124 for 2006 was escalated by a compound inflation rate for 2007 and 2008 to $18,323. (TR 313) The $17,134 was actually escalated by the compound inflation and payroll trend factors for a combined 7 percent. (EXH 4, Section C, p. 95) Witness Larkin reduced Account 582 by $49,600. (TR 314) Again, witness Larkin explained that the $47,082 was escalated by compound inflation rate for 2007 and 2008 to $50,378. The $47,082 was actually escalated by the compound inflation and payroll trend factors for a combined 7 percent. (TR 314)

Witness Larkin removed $25,155 from Account 562 and $49,600 from Account 582 because FPUC did not provide a specific maintenance plan for the utility's needed repairs. (TR 313) Under cross-examination, witness Larkin further explained that there was not a step by step plan detailing the expenditures of FPUC's justification for the increase. (TR 360-361) Also, Staff witness Welch stated that the utility did not provide her with documents showing if or how the maintenance plan would have decreased the 2006 expenses and the corresponding 2008 expense. (TR 55)

In rebuttal testimony, FPUC witness Cutshaw provided the maintenance standards in Maintenance Testing Specifications for Electrical Power Distribution Equipment and Systems. (EXH 67). These standards were called generic standards by OPC witness Larkin. (TR 360) In response to OPC Interrogatory No. 50, witness Cutshaw stated that "based upon past equipment performance, the inspection and type of testing of substation equipment may not be adequate and needs to be increased to decrease outages and extend the life of the equipment." (TR 313; EXH 29) The Northeast Division – Substation Maintenance Expenses schedule shows maintenance expenditures for 2008 through 2012. The two highest maintenance expense totals were $126,000 for 2008 and $70,000 for 2011. (EXH 68)

FPUC explained that the maintenance requirements included are proposed as scheduled maintenance in accordance with the manufacturer's recommendation. Also, the maintenance activity will ultimately reduce the expected repairs that were necessary during 2006. The scheduled maintenance was estimated at $126,00 for 2008, while the requested increase for 2008 is $73,050. (TR 688; FPUC BR at 38)

Staff believes the maintenance standards in Maintenance Testing Specifications for Electrical Power Distribution Equipment and Systems is sufficient. Staff believes that it would be in the best interest of the ratepayers to allow additional station expenses because of resulting reductions in outages and the extended life of the plant equipment. Staff recommends recovery of an additional expense of $73,050 to inspect and test substation equipment. No adjustment is necessary because the $73,050 is already included in FPUC's filing.

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

Recommendation: No. The forfeited discount amount (late charges) should be increased by $5,825. (Kaproth)

Position of the Parties

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

OPC: No. Other Operating Revenues should be increased by $48,919 to reflect an understated projection of revenues associated with late payment charges. There are at least three factors which will cause the Company's late payment fees to increase. The first is the Company's requested decrease in the time period for the payment of the bill. The second is the growth in the Company's bill as a result of higher fuel costs and delivery costs of energy. The third is customer growth.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: OPC witness Larkin testified that the forfeited discounts were actually late payment charges. (TR 305) Witness Larkin testified that there are three reasons that the late charges should be greater than projected for 2008. (TR 305) According to witness Larkin, the correct tariff, Original Sheet No. 22.1, indicates that the twenty-day grace period is from the date of mailing or other delivery thereof by the company. The First Revised Tariff Sheet No. 22.1, filed in the MFRs, states that a bill is past due upon the expiration of twenty days from the date the bill is generated by the Company. Witness Larkin testified that this would give the customers a shorter time period to pay their bill. Therefore, the late fees should be increased. (TR 305)

Witness Cutshaw testified that it was not the Company's intent to shorten the time that the customers have to pay their bills, that the company would re-file the tariff language to clarify that the time period for payments does not decrease, and that the Company is in compliance with Rule 25-6.101, F.A.C., Delinquent Bills. (TR 686; FPUC BR at 39)

Witness Larkin also testified that the late charges will increase because of the increase in revenues from the rate case and the increase in fuel costs. (TR 305) Witness Larkin requested a 5 percent increase for 2007 and 2008 to arrive at a late payment fee of $391,052. (TR 306) This is a $48,919 increase over the Company's projected 2008 late payment fees of $342,133. Witness Larkin did not state the reasons that he recommended a 5% over another percentage increase in late fees for 2007 and 2008. Witness Cutshaw testified that the actual revenues from January through November for late payments for 2007 ($315,170) compared to 2006 ($323,038) have in fact declined 2.4 percent. Witness Cutshaw stated that this trend may continue. (TR 686)

This calculation does not compare the expenses for the same length of time of one year. Therefore, staff annualized the 2007 late fees in the following table.

Forfeited Discounts (Late Fees)			
	2006	**2007**	**2008**
Utility – MFRs	$354,696	$353,444	$342.133
Staff - Actual Per Utility 1-1-07 to 11-31-07		$315,179	
Annualized 1-07 to 12-31-07		$343,832	
Escalated by customer growth – 1.2% for 2007-2008			$347,958
Adjustment to Increase Forfeited Discounts (Late Fees)			$5,825

Staff's adjustment is based on the methodology used in Order No. PSC-04-0369-AS-EI.[19] Therefore, staff recommends that an adjustment to increase 2008 Late Fees by $5,825 is reasonable and appropriate.

[19] Order No. PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030438-EI, In re: Petition for rate increase by Florida Public Utilities Company.

APPROVED STIPULATION

Issue 72: Has FPUC made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Adjustment Clause?

Position: Yes, the Company has appropriately excluded fuel revenue and expenses recoverable through the Fuel Adjustment Clause.

APPROVED STIPULATION

Issue 73: Has FPUC made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Conservation Cost Recovery Clause?

Position: Yes, the Company has appropriately excluded conservation revenue and expenses recoverable through the Conservation Cost Recovery Clause.

Issue 74: What is the appropriate projected test year miscellaneous service revenue?

Recommendation: No adjustment is necessary as explained in Issue 54 because the cost of temporary services, in Issue 127, is increased from $44 to $52 on a going forward basis. (Kaproth)

Position of the Parties

FPUC: The appropriate projected test year miscellaneous service revenues are $225,209.

OPC: Miscellaneous service revenues should be increased by $27,150 to reflect the removal of the debit balance of temporary service from working capital. This increase is appropriate so that ratepayers do not subsidize any of these services, in which revenues collected should fully offset the costs of providing that service.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: No adjustment is necessary as explained in Issue 54 because the cost of temporary services, in Issue 127, is increased from $44 to $52 on a going forward basis.

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

Recommendation: Yes. FPUC's projected level of Total Operating Revenues in the amount of $17,192,790 for the December 2008 projected test year is appropriate. (Slemkewicz)

Position of the Parties

FPUC: 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.

This issue is a fallout issue of other issues and adjustments.

OPC: No. The appropriate balance of Total Operating Revenues should be $17,263,034, which reflects an increase of $76,069 from the Company's requested amount of $17,186,965.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: This is a fallout issue based on the determinations made in other issues. Based on staff's recommended adjustments, $17,192,790 is the appropriate projected level of Total Operating Revenues for the December 2008 projected test year.

	FPUC	OPC	STAFF
Operating Revenues as filed	$17,186,965	$17,186,965	$17,186,965
Issue 71 – Forfeited Discounts	0	48,919	5,825
Issue 72(S) – Fuel Revenue	0	0	0
Issue 73(S) – Conservation Revenue	0	0	0
Issue 74 – Misc. Service Revenue	0	27,150	0
Adjusted Operating Revenues	$17,186,965	$17,263,034	$17,192,790

Issue 76: What are the appropriate escalation factors and trend rates for use in forecasting the test year projected Operation and Maintenance (O&M) Expenses?

Recommendation: O&M expenses should be increased by $16,812 because of the breakdown of account balances between payroll and non-payroll expenses. The projection factor (payroll times customer growth) should be used to trend up the payroll expenses, and the projection factor (inflation times customer growth) should be used to trend up the non-payroll costs. Also, staff recommends that the Commission grant staff administrative authority to calculate the appropriate 2008 expenditures level as a fall-out of the Commission's decisions in the remaining issues. (Kaproth)

Position of the Parties

FPUC: 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.

OPC: FPUC applied inappropriate trend rates. O&M expenses should be reduced by $36,691 to remove the customer growth component of the 14.1% factor applied and use a payroll only factor of 11.3%. Further, O&M expenses should be reduced by $65,491 to reduce the 7.0% combined inflation/customer growth factor applied to use the inflation only factor of 4.6%. Based on these adjustments, projected 2008 operation and maintenance expense should be reduced by $102,182 and taxes other than income should be reduced by $5,802.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: FPUC's MFR projection factors are divided into the following categories: Inflation; Payroll; Customer Growth; Sales (KWH) – No Price; Inflation & Customer Growth; Inflation & Payroll; Payroll & Customer Growth; Direct; Revenues; Zero Balance. (EXH 4, Section C, p. 95) These projection factors are applied to years 2006-2007, 2007-2008, and 2006-2008. The projection factors are listed for each account on Schedule C-7, pages 1-3, under the adjustment basis column. The number in the adjustment basis column corresponds with the number on page 95 for the projection factors. In its position, FPUC states that it believes that applying the appropriate trend factors to the 2006 accounts balances results in the necessary 2008 operation and maintenance expenses. (FPUC BR at 41)

In direct testimony, FPUC witness Martin stated that there were additional expenses added over/above the 2008 trended balances. Witness Martin further explained that the inflation rate used was based on the national-level consumer price index for all urban consumers. Based on the Congressional Budget Office economic projections, FPUC used the following inflation factors: 2006 to 2007: 102.2 percent; 2007 to 2008: 102.3 percent; and 2006 to 2008: 104.5 percent. (TR 116)

In direct testimony, OPC witness Larkin stated that FPUC used various projection factors to arrive at the projected 2008 expense balances. (TR 322) He further explained that in thirteen expense accounts FPUC escalated the balances using a payroll projection factor of 5.5 percent per year, or 11.3 percent to go from 2006 to 2008. In twelve expense accounts, FPUC used an inflation factor based on Consumer Price Index (CPI), which resulted in a factor of 4.6 percent to increase the 2006 expense account balances to the 2008 projected balances. In thirty-three expense accounts, the Company applied a factor consisting of inflation times customer growth, resulting in a projection factor of 7.0 percent to increase the 2006 expense account balances to projected 2008 expense account balances. In twenty accounts, FPUC applied a factor of 14.1 percent (payroll time customer growth) to increase the 2006 expense account balances to projected 2008 expense account balances. (TR 322)

Witness Martin adopted Mr. Khojasteh's testimony. In rebuttal testimony, witness Martin stated that FPUC chose factors similar to those in previous rate cases and that these factors produced the expected and reasonable results. Witness Martin stated that after the projection factors were applied, the division manager and accounting department verified that the projected 2008 balances were in line with FPUC's expectations. (TR 590)

The analysis of this issue is divided into four sections: payroll and customer growth projection factors, inflation and customer growth projection factors, payroll and non-payroll costs, and trend projection balances verses 2007 annualizing expense balances.

Payroll and Customer Growth Projection Factors

In direct testimony, witness Larkin states that FPUC has applied the payroll and customer growth projection factor, 102.4 percent, to twenty accounts. Witness Larkin believes that the customer growth factor should not be used because the growth factor can be offset by the new technologies that would increase the efficiencies of the utility personnel and alleviate the need for additional employees. (TR 324) In rebuttal testimony, FPUC witness Martin agreed that new technologies and computers may help in the efficiency with which employees perform their jobs, but in many instances, the new technologies and computers actually help the company serve its customers better but do not decrease the work load. (TR 590) Lastly, witness Martin stated that new technologies do not negate the fact that customer growth will necessitate the addition of new employees. (TR 590)

Also in direct testimony, witness Larkin stated that FPUC made several specific adjustments to add new employees between 2006 and the projected 2008 test year. (TR 324) Witness Larkin explained that it was not appropriate to apply a trending rate on new positions because, in 2008, these positions were hired at current costs and no adjustment is needed to increase these salaries to 2008 levels. To do so would result in a double-counting of costs associated with hiring new employees in the account that has specific adjustments for new positions. Witness Larkin recommended a reduction to O&M expenses by removing the 2.4 percent inflation factor, which reduced O&M expenses by $36,691. (TR 324)

In FPUC's last rate case, Order No. PSC-04-0369-AS-EI, the Commission stated the 2004 customer growth factor was at 2.44 percent. In the MFRs, Section C, page 95, the customer growth factor is 1.2 percent for 2006-2007, and 1.2 for 2007-2008, for a combined customer growth factor for 2006-2008 of 2.4 percent. The customer growth factor of 2.4 percent for this docket appears to be appropriate because it is consistent with the last rate case.

Staff believes that the use of the customer growth factor times the payroll factor is appropriate, because new technologies may increase the efficiency of serving the customers, but do not decrease the needed employees for an increased number of customers. Overall workload would increase because of customer service, plant in service, and any other work created by an increased number of customers. Therefore, no adjustment should be made to the combination trend factor of payroll and customer growth.

<u>Inflation and Customer Growth Projection Factors</u>

OPC witness Larkin testified that FPUC has applied the inflation factor and the customer growth projection factor of 102.4 percent to thirty three accounts for a combined projection factor of 107 percent. Witness Larkin argues that FPUC did not provide sufficient evidence to justify the application of the combined trend rates, and that the customer growth factor should not be used. (TR 325) Witness Larkin did not state what documentation would justify the use of the customer growth factor. Witness Larkin did state that customer growth would have little or no impact on the following accounts: advertising expense, industry association dues, and economic development costs. (TR 325) Staff notes that the industry association dues account balance and the economic development costs account balance appear to be immaterial. The advertising expense account has a recommended reduction to its balance in Issue 97. In rebuttal testimony, witness Martin explained that the combined trend rates used by the company were appropriate because, as new employees are added over time as a result of customer growth, inflation has to be taken into consideration in order to account for additional payroll expense due to issues such as pay raises associated with cost of living and general economic conditions. (TR 590)

Lastly, witness Martin testified that the new positions that are added over and above the trended factors are needed as the result of factors outside of the normal growth factors, such as additional internal control requirements required by the Sarbanes-Oxley Act of 2002. Therefore, these additions do not result in double counting. (TR 590)

Order No. PSC-04-0369-AS-EI stated that the 2004 inflation projection factor was 1.033 percent. In this case, the inflation projection factor for 2006-2007 is 102.2 percent, 2007-2008 is 102.3 percent, and 2006-2008 is 104.6 percent. There is no evidence in the record to base a change to the inflation factor of 104.6 percent. Staff believes that the inflation and customer growth increase should be applied to the O&M accounts to address the increase in expenses, such as pay raises associated with the cost of living and general economic conditions. Staff further believes that the new positions are required to address the additional internal control requirements of Sarbanes-Oxley Act of 2002 and that there is no material double-counting of expenses. Therefore, no adjustment should be made to the combination trend factors of payroll and customer growth.

Payroll and Non-Payroll Costs

In direct testimony, witness Larkin states that FPUC applied payroll rates to accounts that have payroll and non-payroll costs included in this account. (TR 323-324) Witness Larkin explained the payroll trend factor should be applied to the payroll costs only. Applying the 2006 – 2008 payroll trend factor of 11.3 percent, to the payroll account balances increases the projection too high because of the non-payroll costs in the account. (TR 324) In rebuttal testimony, FPUC witness Martin submitted Revised Schedule C-7 to separate payroll and nonpayroll costs for the operating and maintenance expense accounts, in case the Commission decides to make this adjustment. (EXH 77, pp. 1-5)

Staff believes that expenses should be trended up for customer growth because of the necessity of adding additional employees to provide FPUC's ratepayers sufficient quality service. Staff believes that it is appropriate to break down the accounts balances between payroll and nonpayroll expenses provided in EXH 77 by witness Martin. (EXH 77, pp. 1-5) Staff applied the payroll times customer growth factor (14.1 percent) to the payroll costs, and the inflation times customer growth factor to the non-payroll costs (7.0 percent). Based on the breakdown in costs and application of the recommended projection factors, O&M expenses increase $16,812. Based on the above, staff recommends that the O&M expenses should be increased by $16,812.

Trend Projection Balances versus 2007 Annualizing Expense Balances

Witness Larkin provided a comparison, by account, of FPUC's projected 2007 O&M expenses contained in the MFRs and the annualized 2007 actual costs recorded to date. (TR 326) The projected 2007 expenses in the MFRs are $9,089,515 and the 2007 annualized expenses are $8,145,557, for a difference of $943,958 (EXH 4, Sch. C-3, p. 3) In rebuttal testimony, witness Martin's response to Audit Finding No. 17 states that most of the original 2007 projections were due to the delay in the storm hardening initiatives. (EXH 79) Witness Martin originally estimated that the surcharge would be in place by mid 2007 in order to begin implementation of the initiatives. The recovery of costs and implementation of the initiatives were delayed and were combined with the rate proceeding. Lastly, witness Martin states that the test year is still materially correct since these expenditures will be incurred beginning in 2008.

Staff believes that the difference between the 2007 annualized expense total and the projected 2007 expenses in the MFRs has been resolved because of the stipulations of the storm hardening issues. The Commission's vote on the remaining issues in this recommendation will determine the appropriate expenditure level for 2008. Staff, therefore, recommends that the Commission grant staff administrative authority to calculate the appropriate 2008 expenditures level as a fall-out of the Commission's decisions in the remaining 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?

Recommendation: Yes. The Compliance Accountant position in Corporate Accounting should be approved. An adjustment should be made to reduce Account 920 by $2,640 for a 11 percent reduction in overhead expenses. (Kaproth)

Position of the Parties

FPUC: 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.

OPC: No, while Citizens recognize that the additional position is needed, the total requested expense should not be approved. Half the proposed salary should be allowed since it will not be filled until the middle of the year. The excess 12% vacation/leave component of estimated benefits should be removed. Thus, 50% of the $60,000 salary with a 26% benefits overhead factor equals $37,800, with 40% allocated to the electric system for $15,120, resulting in a decrease of $17,760.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: OPC witness Merchant stated that FPUC had requested a specific expense adjustment in the Over/Above Expense Schedule for a new position for compliance accounting. Witness Merchant stated that FPUC had explained that this position is needed for special audits including inventory, cash, and other processes. The total increase for this new position is $82,220, of which 40 percent, or $32,880, was allocated to the electric division for 2008. In response to Interrogatory 65 (EXH 3) the Company similarly discussed the need for an additional accounting position to audit internal controls. In her deposition, Witness Martin said the Company would hire both of these positions in January 2008; however, neither was advertised or filled at that time. (TR 528)

OPC witness Merchant stated that based on her review while at the Company's corporate offices and based on statements made by witness Martin in her deposition, the current accounting staff does work long hours and a new position is needed for the corporate accounting staff. (TR 528) Witness Merchant agrees with the annual salary level of this new position, but no action has occurred to hire this new employee. Witness Merchant explained that, based on her experience, it would take at least until the middle of May to July for the planning, advertisement, and hiring of a new employee. (TR 528-529)

Even though witness Merchant agrees that the new position is needed, she would only allow ½ of the proposed salary for the new internal audit/accounting position. The annual salary for this new position is $60,000 plus benefits at 38 percent or $22,800, totaling $82,800 for the full year. (TR 529) Witness Merchant also recommended that the 12 percent vacation/leave component in the overhead factor be removed for benefits of 26 percent. Based on ½ of the salary and 26 percent for the overhead factor, the recommended 2008 salary would be $37,800 of which 40 percent, $15,120, would be allocated to electric division. Based on the above, witness Merchant recommended an adjustment to Account 920 of a decrease of $17,760. (TR 529)

In rebuttal testimony, witness Martin stated that FPUC has begun the hiring process for this position and that is it posted both internally and on the website, monster.com. (TR 578, EXH 82) Witness Martin explained that FPUC was slightly delayed in the hiring of this position, but it has begun the process and expects to either have a full time candidate hired in the position by April 2008, at the very latest, or temporary personnel to cover the duties until such time that a permanent candidate can be hired. (TR 578) Witness Martin states that it is appropriate to recover the annual amount of the salary plus benefits since the base rate final rate recovery will begin after the time that this position is hired, and the revenues will match the expenses. (TR 578)

On cross-examination, witness Martin stated that FPUC has made an offer to someone for the corporate accounting position and it is hoped that the position will be filled by March 2008. If the employee has not been hired by then, FPUC would hire a temporary person from an agency. This person would have the appropriate skill set, in the hopes that the person would be hired on a permanent basis. (TR 134-135) Witness Martin stated that hiring a temporary employee would provide FPUC the time to judge the employees ability to perform any work that would be associated with that position. Lastly, witness Martin agreed to a reduction of 11 percent for vacation/sick leave from the overhead benefits of 37 percent of the salary. (TR 135; FPUC BR at 42-43)

On cross-examination, witness Merchant explained that she recommended a 50 percent adjustment to the Corporate Accountant (Corporate accountant for special audits, inventory, cash, and other procedures) position. (TR 555) Witness Merchant further explained that the 50 percent adjustment to the test year salary was appropriate because the person would not be hired until March or, conservatively, July. Witness Merchant clarified that the test year is a snapshot in time, and an adjustment to put the full $60,000 salary in the test year is not appropriate because at least three months have passed without the position filled. She further explained that expenses and revenues after the test year may go up or down; so it is important to set a point in time on which to set rates. (TR 556)

Staff believes that while the new employee has not worked for all of 2008, neither has the utility received compensatory rates for all of 2008. In fact, FPUC's new rates will not go into effect probably until July given the noticing requirements to inform the customers. Staff does not believe that a 50 percent reduction to the Corporate Accountant salary is necessary because of the late hiring of this employee. Staff does recommend a reduction to Account 920 for $2,640 for vacation/sick leave overhead, which is a reduction of 11 percent in the overhead benefits.

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

Recommendation: Yes, the Customer Relations Analyst/Coordinator position in Customer Relations should be approved. An adjustment should be made to reduce Account 920 by $1,373 for a 11 percent reduction in overhead expenses. (Kaproth)

Position of the Parties

FPUC: 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.

OPC: No. The Company failed to adequately justify the need for this position. First, in its response to OPC's discovery questions regarding this position, FPUC addressed another requested incremental position and never provided any support to demonstrate that this position was necessary. Second, if the need for this new position was so great, the Company should have filled it, which it has not as of yet. The over/above expense increase of $17,098 should be disallowed.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: FPUC's requested new position is called a CR analyst/coordinator. In response to Interrogatory No. 62, the Company stated that it needed to hire a new internal auditing position to comply with the requirements of the Sarbanes-Oxley Act of 2002 and Section 404, Management's Assessment of Internal Controls. (TR 526-527; EXH 3)

Witness Merchant reiterated that FPUC's requested position will assist with the documentation requirement of Section 404, internal control testing, and overall internal controls necessary for the Company. (TR 527) The work load continues to increase within the accounting department as a whole and an increase in staff is required at this time. This new employee would be able to help with the increased department work load. The total increase for this new position is $56,992, of which 30 percent, or $17,098, is for the electric division. (TR 527)

OPC witness Merchant argues that the Company failed to adequately justify the need for this position by incorrectly providing information for another position. Subsequently, FPUC did not re-submit the correct position information. (OPC BR at 41) In rebuttal testimony, witness Martin explained that FPUC discovered the mistake after reviewing the testimony of witness Merchant. Witness Martin submitted a job description for this position. (TR 591; EXH 78) She clarified that many of the duties of the new position have been decentralized to each local office, and the company struggled to successfully complete the duties in a timely manner. Witness

Martin stated that the Company's intention was to ensure it is compliant within its local offices on Section 404 of the Sarbanes-Oxley Act, so it has decided to centralize some of the duties so that its operation can run smoothly and efficiently. (TR 591)

The Company incorrectly referred to the new Compliance Accountant position needed in the Corporate Accounting department as opposed to the CIS Project Analyst position in the CR department. Staff reviewed the CIS Project Analyst position announcement posted on December 26, 2007. The job description fits the needs requested by the utility, and the position needs to be filled because of the heavy workload in the accounting department. The salary is $95,066 for 2008, and the 40 percent electric portion is $38,026 for 2008. (EXH 4, Section C, p 97; TR 527) There was a slight computational error that needs to be corrected that reduces overhead expenses by 11 percent or $1,373. (FPUC BR at 44) Staff recommends that this expense for the CIS Project Analyst position be approved, and that Account 920 should be reduced by $1,373.

APPROVED STIPULATION

Issue 79: Should any adjustments be made to Account 935, Maintenance of General Plant, related to office renovation costs?

Position: Yes an adjustment is necessary to reduce Account 935, Maintenance of General Plant by $2,219 for 2006 and by $2,375 for 2008. The corresponding adjustments are addressed in Issue 36.

APPROVED STIPULATION

Issue 80: Should the Company's request for recovery of salaries for vacant information technology positions be approved, and if so, what are the appropriate test year expenses?

Position: Yes, the Company has supported the need for the addition of the fourth programmer for its IT department. The net over and above adjustment necessary to add to the 2008 test year expenses for the electric divisions is $38,026. The updated actual data through 2007 projected to 2008 supports a reduction to the Company's adjustment of $548, for a net over and above adjustment of $37,478.

APPROVED STIPULATION

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

Position: Yes, an adjustment of $27,397 to test year expenses to Account 916, Miscellaneous Sales Expenses, related to a customer survey is necessary. Even though the Company had stated that it plans on conducting surveys in the future, the surveys will not be as extensive and costly as the 2006 survey. Thus, the 2006 survey costs may be non-recurring costs which shall be removed from the test year.

APPROVED STIPULATION

Issue 82: Should an adjustment be made to Other Post Employment Benefits Expense for the December 2008 projection for 401k benefits expense?

Position: No adjustment is necessary. In response to Interrogatory No. 135, the utility explained how benefit allocations are done within multiple steps in the payroll journal entry. The reasons that amounts cannot be reconciled within the clearing accounts is that some benefit allocation credits the division expense accounts directly and do not pass through the clearing accounts. Therefore, 401k benefits expense shall not be reduced by $975.

APPROVED STIPULATION

Issue 83: Should any adjustments be made to Account 923.1, Outside Services Expense, for postage and printing expenses?

Position: Yes, expenses shall be reduced by $6,250 for 2008 to allow for a ten year amortization.

APPROVED STIPULATION

Issue 84: Should any adjustments be made to Account 928, Regulatory Commission Expense, for legal fees?

Position: Yes, an adjustment is necessary to reduce expenses by $32,383 for 2008 to allow for a ten year amortization.

APPROVED STIPULATION

Issue 85: Should the Company's requested increase related to the vacant position for the Northwest Florida Division operations manager be approved?

Position: Yes. Late-filed Deposition Exhibit 12 (Martin, Khojasteh, and Mesite Panel), reflects that the Company agrees that its original estimate based on the former manager's salary was overstated for 2008 by $5,310.

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

Recommendation: No. An adjustment should be made to increase training expense for apprentice linemen by $59,456. (Kaproth)

Position of the Parties

FPUC: 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.

OPC: No. In its filing, the Company's originally included an over and above expense increase of expense increase of $54,354 ($27,127 for each division). Subsequently, the Company revised its request to $127,135, which includes the cost for a new trainer position with benefits. The Company has not justified either the original or revised request for training and the $54,354 increase should be disallowed.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: In its filing, the Company originally included an increase of $54,354 ($27,127 for each division) for training of its apprentice linemen. (TR 504) This original request reflects the costs for training through the Tampa Electric Company (TECO) facility. OPC Witness Merchant stated that the Company was not clear how many linemen the Company was going to train based on the information provided in response to OPC Interrogatory No. 45. (TR 504-505; EXH 3-7) The MFRs amount was to train 16 apprentice linemen, 8 from each division. (TR 504) Witness Merchant also pointed out that the Company may have overstated its projected number of lineman to train in the MFRs because the number to be trained changed from 6 in 2006 to 13 in 2008. (TR 507-508)

For several years, the Company used a program administered by the state, which was a home study or book program that took four years to complete and 8,000 hours of on the job training under the review of a qualified journeyman. (FPUC BR at 46) The Company investigated numerous options to train its apprentice lineman after the TECO facility was no longer available. (TR 701) The Company decided to develop a formalized training program to ensure the quality of its linemen now and in the future. 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. (TR 701; FPUC BR at 47) There is a possibility that 50 percent of FPUC's journeymen and supervisors will retire in the next ten years. (EXH 3 -7: Bates 0718)

Interrogatory No. 45 states that the Company requested the $127,135 for a full time trainer, travel for the trainer, non-capital training supplies, preparation cost of the training material, actual training material, and the cost of the state lineman program material. (EXH 3-7) Witnesses Cutshaw and Myers admitted that the Company included costs associated with State Lineman Program materials. (TR 508) Witness Cutshaw also admitted that the projected 2008 training expenses included 2006 test year training costs of $10,000 ($5,000 per division), and were updated to $11,000 for 2008. (TR 508) Staff believes that the $2,235 in preparation of training cost is nonrecurring and should be removed.

Witness Merchant stated that no documentation such as written estimates, bids or invoices, only internal documents, had been provided to support these requested amounts. (TR 507, EXH 3) FPUC's updated response to Interrogatory No. 45 explained that the company considered having a dedicated lineman as a trainer in each division, having a dedicated lineman as a trainer serving both divisions, using supervisors as trainers, or using all working foremen as trainers. (TR 507; EXH 3) Witness Merchant pointed out that each of these methods would be less expensive than $127,137, and therefore FPUC did not choose the most cost-effective method. Witness Merchant recommends that training expense for the 2006 level should be escalated for the 2008 projected test year, and the over and above adjustment of $54,354 should not be allowed. (TR 508)

When reviewing the various options, each option has its advantages and disadvantages. The main disadvantage is that is all the other options use supervisors, linemen, or other personnel to conduct the training as an "additional duty." These options 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. (EXH 3) The option selected by the Company to use separate trainer/safety coordinators in each division provides the most efficient way to provide training for the apprentices and also allow greater flexibility to minimize the unproductive time of employees that would occur if other options were used. We agree with FPUC that using separate trainers and safety combinations allows for expansion of the training program as needed. (FPUC BR at 47)

In further review of Interrogatory No. 45, staff noticed that 50 percent of the journeymen and supervisors will have the opportunity to retire in the next 10 years, which is consistent with the national average of 50+ percent. Staff believes that there needs to be continuity and consistency in training, with a minimum loss of productivity. The trainer should not be a part time position because this position requires the development and coordination of full-time employment would allow him time to develop and coordinate a safety program for both the NE and NW divisions as well as perform the training duties. The safety program will require the full time trainer to handle the responsibilities of monitoring and following up on any deviations from the training and safety manuals. (EXH 3)

Staff believes that the safety program should be incorporated into the training program so the linemen are well-versed in safety practices. Staff also believes that it is important to look at this expense on a going forward basis because of the projected test year. Even though the Company may not have submitted the documentation to compare expenses fully to previous years, staff believes that the Company has done extensive work in developing this training/safety program, and that the $127,135 in start-up costs for this enhanced training program is a good faith estimate. The requested increase of $127,135 to the 2008 test year should be reduced by $11,000 for the 2006 state lineman training expenses. Also, $2,325 for preparation of training expense should be removed as a nonrecurring expense. Lastly, staff has removed the initial request of $54,354 to assure there is no over-lapping of expenses between the two training programs. Also, the new position for pole inspections/joint use attachments should not be used as a part-time training coordinator. A comparison of training expenses proposed by the parties and staff follows:

Training Expenses for Apprentice Linemen			
	FPUC	**OPC**	**STAFF**
Initial Request expenses	$54,354	$54,354	$54,354
Amended Request	$127,135	$127,135	$127,135
Itemized Expenses			
Additional Trainer Salary and Benefits	$87,750	$0	$87,750
Travel Expense for Trainer	$9,600	$0	$9,600
Training Supplies (non-capital)	$5,150	$0	$5,150
Preparation of Training Materials	$2,325	$0	$0
Actual Materials for the training program	$11,310	$0	$11,310
2006 State lineman Program Materials	$11,000	$0	$0
Total Expenses	$127,135	$0	$113,810
Initial Request			($54,354)
Total Costs allowed			$59,456

Based on the above, staff recommends that the 2008 training expense for lineman should be increased by $59,456.

APPROVED STIPULATION

Issue 87: Should an adjustment be made to the Company's requested increase for benefits for the Northeast Florida Division Safety coordinator?

Position: Yes. Consistent with FPUC witness Martin's statement, the Company's payroll benefits overhead factor adjustment is overstated. For the NE division, the overhead factor applied was 38 percent of which 12 percent shall be removed for the vacation/leave component, which was included by error. Backing out the 12 percent erroneous factor leaves a proper overhead adjustment of $6,842 ($10,000/ 38 percent x 26 percent). The necessary adjustment is a reduction to expenses of $3,158, which shall be allocated 100 percent to electric.

Issue 88: Should the Company's requested position in Corporate Services for a Corporate Services Administrator to assist in maintaining compliance be approved?

Recommendation: Yes the Corporate Services Administrator position in Corporate Services should be approved. An adjustment is needed to reduce the overhead expense by 11 percent or $923 to remove an error in the calculation of overhead expense. (Kaproth)

Position of the Parties

FPUC: 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.

OPC: No, the need for this new position has not been shown or supported. In its response to OPC discovery, the Company stated that this position would be responsible for coordinating training programs, tracking training, assisting in safety and training, and other research. The cost in the over/above schedule reflected $33,280 being added in 2008 of which 28% or $9,318 was allocated to electric and should be removed from test year expenses.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: OPC Witness Merchant stated that the Company has requested funding for a new position to assist in assuring that the Company stays in compliance with its procedures. The cost in the over /above schedule reflected $33,280 being added in 2008, of which 28 percent or $9,318 was allocated to electric operations. (TR 514) The Company responded that this position would be responsible for coordinating training programs, tracking, training, assisting in safety and training, and other research. (TR 514; EXH 3) The cost of this position was to be allocated between the gas and electric operations and would be a clerical position. As discussed below, witness Merchant does not believe that this additional position is needed. (TR 514) The utility explained the position would be hired to coincide with the implementation of final rates. (TR 141-142)

As discussed previously. OPC witness Merchant noted that the position would not be filled until and unless the Company received rate recovery. Staff believes that even though the position will not be hired until the rates are effective, the utility is not recovering this expense in rates, either. Lastly, the purpose of having a projected test year is to capture the expenses on a going-forward basis.

FPUC witness Martin did acknowledge that the safety staff is responsible for getting the work done, but that work would be done on an overtime basis by managerial personnel. (TR 141) The Company pointed out that this position will be responsible for assisting with administrative responsibilities currently assigned to safety professionals, allowing more time for safety professionals to focus on developing new safety programs, revising the current safety program, and performing an increased number of safety inspections. (FPUC BR at 48) Witness Merchant pointed out that ratepayers and the Commission have no assurance that this or the other personnel positions will be filled by June or a later time based on the timing of the rate case. (TR 515) 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 position, thus freeing up the time of other employees. (FPUC BR at 48)

Staff believes that this position is needed to work with the other positions requested by the utility, and that the new safety staff will increase the safety of both the employees and the ratepayers. Even if the position will not be filled until June or July 2008, it is important to note that this revenue requirement is based on the 2008 projected test year and that the utility will receive approximately one-half year of revenues with one-half of the corresponding expenses. Based on the above, staff recommends that the Corporate Services Administrator position be approved. However, an adjustment should be made to reduce the overhead expense by 11 percent, or $923, for an error in calculation of overhead expense.

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?

Recommendation: Yes. No adjustment is necessary to reduce travel expenses for the new position in Corporate Accounting. (Kaproth)

Position of the Parties

FPUC: 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.

OPC: No. The travel for the corporate accounting position should be reduced by 50% to reflect the adjustment made to the position salary. The position has not been filled and will likely not be filled until after the rate case conclusion. Thus, removal of 50% of the requested travel cost is appropriate. Thus, $2,600 should be removed from Account 921.5.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: In Issue 77, which addresses the Corporate Accounting and Compliance position, staff disagreed with OPC's position that the salary should be reduced by 50 percent because the position was not filled. FPUC stated that the position will be filled by April 2008, which is not after the rate case. To follow through on this issue, FPUC and OPC agree that travel expenses are necessary and appropriate based on both parties' positions. The total annual travel and miscellaneous costs associated with the new Compliance position in Corporate Accounting is $20,000, and the electric share is $5,200. (EXH 4, Section C, p. 96)

The only point of disagreement is that witness Merchant believes that these travel expenses also should be cut by 50 percent. Staff does not believe that the travel expenses should be reduced by 50 percent because a full year of expenses should be allowed for the projected test year because the utility is not receiving a full year of revenues. Therefore, staff recommends that no adjustment be made.

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

Recommendation: Yes. An adjustment should be made to reduce Account 580 by $1,305, Account 590 by $1,265, and Account 901 by $1,265, to remove moving expenses from the 2008 test year. (Kaproth)

Position of the Parties

FPUC: 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.

OPC: Yes, an adjustment is necessary to Account 901, Operation Supervision-Administrative and General. In 2006, FPUC paid $3,734 in moving expenses for a deposit on a rental house and two months rent for the new Northeast Division Manager. These costs were escalated for 2007 and 2008 for a total of $3,835. These costs are nonrecurring, and $3,835 should be removed from test year expenses.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: In Audit Finding No. 11, staff witness Welch noted that the Company had included moving expenses for 2006:

	2006	2007	2008
Acct. 580 Fernandina Operation Supervision	$1,173	$1,237	$1,305
Acct. 901 Fernandina Customer Acct. Supervision	1,136	1,199	1,265
Acct. 590 Fernandina Distribution Maintenance	1,136	1,199	1,265
Acct. 901 Propane	220		
Acct. 1439.1 Fernandina	69		
Total	$3,734	$3,635	$3,835

Both Staff witness Welch and OPC witness Larkin agree that these moving expenses may not be recurring and that the Company should provide support that establishes the need for these costs on an ongoing basis. (TR 54-55, 329) In response to Audit Finding No. 11, FPUC witness Martin explains that the utility has moving expenses associated with hiring of new personnel on an ongoing basis, and accordingly, this expenditure is valid for recovery. (EXH 81)

Staff believes that these moving expenses may not be recurring expenses. In the future, the Company would benefit from filing documentation that shows the details of the moving expenses incurred so that a determination can be made if these moving expenses are recurring or not. Staff recommends these moving expenses are unsupported in the record and should be removed from Account 580 for $1,305, Account 901 for $1,265, and Account 590 for $1,265.

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

Recommendation: Yes. Account 588.2, Other Distribution Expense, should be reduced by $773 for travel expenses for an employee's spouse. (Kaproth)

Position of the Parties

FPUC: 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.

OPC: Yes, an adjustment is necessary to reduce Account 588.2, Other Distribution Expense, by $773 for non-utility travel expenses for the safety contractor's wife.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: Staff witness Welch and OPC witness Larkin testified that the expense for a safety contractor's wife's airline ticket should not be paid by the ratepayers and thus removed from the 2008 projected test year. (TR 054; TR 328) FPUC witness Martin's response to Audit Finding No. 9 explained that part of the recruitment process for this contractor was to provide for reimbursement of his spouse's travel expenses. Witness Martin explained that is a recurring expense and it is not an uncommon practice to include a spouse when interviewing potential new hires. Witness Martin further explained that the potential employee was highly skilled; so it was important that both the potential employee and spouse had an opportunity to visit the area to ensure that the relocation would be successful. (EXH 81)

Staff believes that it is reasonable for a potential employee's spouse to visit the area in which the job is located. However, staff also believes that it is not in the best interest of the ratepayers to pay the spouse's airline ticket because it is unknown whether it is a non-recurring expense. Staff recommends that Account 588.2, Other Distribution Expense, should be reduced by $773 for travel expenses for the employee's spouse.

APPROVED STIPULATION

Issue 92: Should an adjustment be made to Account 595.3, Maintenance of Transformers, to remove the 2008 test year expense related to the escalated cost of a new transformer added in 2006?

Position: No adjustment is necessary. The conclusions reached in this finding are incorrect and no adjustment shall be made. This is the change-out of a transformer, removing the existing transformer (to be tested and rebuilt) and installing a previously installed transformer (not a "new" transformer as stated in the audit analysis). Unless the removed transformer is to be retired, and/or the installed transformer is being installed for the first time, the entire process is maintenance expense.

The transformer pad is not a retirement unit, and is part of the transformer installation. The accounting treatment of the transformer pad therefore follows the treatment of the installation. In this case it is maintenance expense, which is how it was recorded.

APPROVED STIPULATION

Issue 93: Should the test year outside audit fees be approved?

Position: No. The Company's over and above increase for external and internal audit fees of $90,675 is overstated and shall be reduced by $42,800. This results in an over and above increase to Account 4020.9233 of $47,875 for the 2008 test year.

APPROVED STIPULATION

Issue 94: Should the Company's requested increase in janitorial, elevator, air conditioning, and landscaping expense be approved?

Position: No. Account 935 shall be reduced by $6,223 for the 2008 electric allocation.

APPROVED STIPULATION

Issue 95: Should the Company's requested increase in supervisory training expenses "to keep managers informed on various issues" be approved?

Position: No. FPUC has requested $21,100 supervisor training expense with $5,486 allocated to the electric division. The utility has spent $7,350 for supervisory training through September 2007. It is important for supervisors to continue their training in ethics, harassment, hiring practices, and other necessary supervisory training. Therefore, the Company shall be allowed to recover the annualized supervisory training expense based on the $7,350 spent in 2007. The annualized expenditure for 2007 is $9,800 ($7,350/9 x 12) with $2,548 allocated to the electric division. Therefore, Account 921.6 shall be reduced by $2,938.

Issue 96: **DROPPED**. Number retained for continuity.

Issue 97: Should the company's requested increase in customer information expense be approved?

Recommendation: No. An adjustment should be made to reduce customer informational advertising expense by $20,886. (Kaproth)

Position of the Parties

FPUC: 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.

OPC: No. Since customers are already aware of the significant fuel 2006 increase, it is not appropriate or reasonable to provide a significant increase in advertising expense from a low of $261 in 2005 to an escalated $159,543 for 2008. The advertising expense should be limited to an average of the actual expenditures over the last five years which is $44,757. This would result in a reduction to the 2008 test year other informational advertising expense of $114,786.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: The Company included $159,543 in the projected test year for Customer Information expense. The amount was trended up from the 2006 actual amount, plus an additional $14,904 determined necessary to inform and educate FPUC's customers. (EXH 4, C-7, p. 23 and Sch. C, p. 96) The Company stated that it has always tried to provide information useful to its customers, and providing this information has became increasingly important because of increases in rates approved by the Commission. (FPUC BR at 51)

Witness Larkin pointed out that the Company's expenses historically were $1,037, 783, and $261, in 2003, 2004, and 2005, respectively. Thus, the expenses for informing customers from 2003 through 2005 were low. In rebuttal testimony, witness Cutshaw stated that prior to 2006, rates paid by FPUC customers were well below the average rates of other utilities, while reliability was good. (TR 686) Therefore, there was no need to have a high level of communication with the ratepayers. Even if the fuel costs were low because of a past purchase power contracts, staff believes the utility needed to communicate with the customers about other issues such as storm hardening, conservation and vegetation management.

In 2006, the utility incurred $121,226 in informational and instructional expenses, and incurred $100,476 as of year to date September 30, 2007; with no expenses in August, 2007. (TR 310, EXH 4, Section C, p. 17, line 53) In direct testimony, witness Larkin stated that FPUC explained that the dramatic increase in fuel costs prompted the Company to increase its communication with its customers to keep them informed and provide information on methods that could be used to control those costs. (TR 310) FPUC further explained that this information is required when the customers are greatly affected by a significant cost increase. (TR 310)

In rebuttal testimony, witness Cutshaw explained that the advertising expenses will remain at the increased level indicated in this filing, because even if the customers are aware of the high fuel costs, now customers tend to be more concerned with the service that they are receiving for their money. (TR 686) Witness Cutshaw testified that it was fair and reasonable that customers are provided this information from the Company on a timely basis. FPUC did not cite an Order from the Commission that would require additional informational expenses, but did discuss the continuing need to inform the customers on an ongoing basis. (EXH 3, Item No. 18)

In response to OPC's Interrogatory No. 102, which listed the Vendor Name, Invoice Number, Invoice date, and Invoice amount with an explanation of the purposes of the expenditure, witness Larkin stated that almost every line item listed in the interrogatory gave the justification for the expenditure as "[a]dvertising of Company name and website at an event where a large number of customers attend;" or "[a]dvertising and public relations work related to fuel increase." (TR 310-311) Witness Larkin summarized the above by saying the Company clearly intended to keep advertising and providing the same type information. (TR 311; OPC BR at 47) The difficulty in the utility's approach is that the customers are already aware of their fuel based cost increases. There is no need to continue expenditures at this level with the documentation showing that the purpose of the expenses is to advertise to a large number of customers regarding fuel increases. Lastly, witness Larkin testified that a detailed customer plan would be needed for how the utility will spend the requested increase in informational expenses. (TR 311)

The Company believes that these expenses are necessary for informing the customers about vegetation management, interest in undergrounding of electric lines within cities, emphasis on photovoltaic systems and renewable energy generation, automated meter reading, franchise negotiations, deposit requirements, etc. (EXH 3, p 3180-3183; FPUC BR at 51) Customers will expect information on these subjects from the utility. (FPUC BR at 51) Witness Larkin agreed that to the extent that information is needed by the ratepayer, FPUC indicated that this information could be posted on the Company's website. (TR 365, 378) Staff agrees that information about the other topics could be inexpensively made available on FPUC's website.

FPUC believes that using the website is only one tool that is available, and other means are needed to communicate information to customers that may not have a computer. In its brief, FPUC argues that the website is not an ideal solution for communicating with the customers. Staff agrees that it would be in the best interest of the Company and its ratepayers to develop a plan to communicate information about issues that do or will affect the customers because everyone does not have access to the internet. (FPUC BR at 52)

After reviewing the record, staff believes that the majority of the ratepayers are aware of the significant increase in fuel costs that occurred in 2006 and continued in 2007. Also, staff agrees that it is important to communicate with the customers about fuel increases, storm hardening, vegetation management, and safety matters. Staff therefore recommends the following adjustment:

2008 Information Expenses and Adjustments		
2008 Projected test year expenses		$159,543
2007 expenses through September	$100,476	
Nine month average	$11,164	
Annualized 2007 expenses	$133,968	
2007–2008 Inflation and customer factor of 3.5 percent	$4,689	
Total projected 2008 information expenses		$138,657
Adjustment		$20,886

Based on the above, staff recommends that Account 909 be decreased by $20,886.

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?

Recommendation: Yes. A reduction of $4,161 should be made to the level of Salaries and Employee benefits. (Kaproth)

Position of the Parties

FPUC: 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.

OPC: No. The Company's over and above increase "to bring salaries up to market based on a salary survey'' should be denied. The Company admitted that a decrease of $23,205 to 2008 expenses was warranted. However, based on the salary survey submitted in response to OPC discovery, it was unclear what, if any, adjustments the Company would actually make. Thus, the Company's over above salary adjustment for the salary survey should be removed, reflecting a decrease of $43,382 for the electric allocated portion.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: In direct testimony, FPUC witness Martin explained that the Company implemented a salary adjustment related to a recent salary survey completed for the Company and its employees. This 2006-2007 survey was conducted by FPUC's Human Resource department. The survey was based on data within the utility industry and similarly sized and located generic companies. (TR 121) The salary survey confirmed that FPUC's employees were significantly under-paid, and that a salary adjustment was required over and above the typical salary adjustment. (TR 121)

Witness Martin explained the Company completed and finalized a salary survey for all nonunion employees and provided the numbers in Late Filed Exhibit 14. (EXH 84) The company utilized data from various sources, including salary data from three widely known salary survey consulting firms, Mercer, CompData, and Salary Survey.com. In addition, the company requested salary data from utility business "Peer Groups." (EXH 84 – confidential)

Witness Martin explained that at the time the MFRs were filed, the salary survey was not complete, and that OPC has portrayed the salary survey and the use of the survey as "unclear." (TR 535) The Company states that it was quite clear throughout the process that the survey was not complete, but then explained how the survey would be used. (FPUC BR at 53) Witness Martin stated that OPC's statement that the adjustments would depend on the outcome of the rate case is incorrect. (TR 537, 580; FPUC BR at 53) In rebuttal testimony, witness Martin stated that the only over and above expense adjustments that depend upon the rate case outcome are those adjustments that directly relate to FPUC's storm hardening mandates, the storm reserve, low growing trees, rate case amortization, and the new amortization relating to the storm reserve. Witness Martin clarified that the salary survey expense will not depend upon the results of the rate case. (TR 580)

OPC witness Merchant testified that these salary increases would not be in effect for a full year, so a full year of salaries should not be included in the test year. (TR 537) Again, the salaries may not be in effect for a full year, but neither will the rates be in effect for the full year of 2008. Lastly, witness Merchant pointed out that FPUC requested approval for salary ranges and not specific positions. (TR 536) Staff believes that the requested salaries are within acceptable salary ranges determined by the salary survey.

At deposition, FPUC witness Martin conceded that the 2007 projected salaries were slightly overstated but did not state an amount. Witness Merchant testified that based on her analysis the 2008 expense should be reduced at a minimum by $23,205, but did not provide any calculations to support the $23,205 reduction. (TR 536; OPC BR at 48) Witness Martin agreed that the 2008 over and above adjustment for the salary survey needed to be decreased $11,293, from $43,382 to $32,089. (TR 535; EXH 85) Witness Martin clarified that 40 percent of the corporate increases were allocated to electric for a total of $11,082.32, and 100 percent of electric increases, or $16,845, for a total 2008 salary survey increase of $27,927. Therefore, the difference between the $32,089 and the $27,927 is $4,161, and FPUC suggests that this is the appropriate decrease to the 2008 over and above salary expenses. (EXH 85)

Staff believes the Company has provided a carefully thought out solution to assure that its employee salaries are on the same level as other utility employees to ensure that the Company will be competitive in hiring and retaining well trained and efficient employees. Based on the above, staff recommends a reduction to salary expense of $4,161.

Issue 99: Should the company's requested salary adjustment for executives be approved?

Recommendation: Yes. Staff recommends that no adjustment is necessary because the executive salaries are below market for similar positions with similar responsibilities and duties. (Kaproth)

Position of the Parties

FPUC: 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.

OPC: No. The Company included increases in executive salary expense for 2008 of $51,531. While the Company made an unsupported statement that the executive salary adjustment was being made over the last 3 years to bring the executives' pay more in line with the current market, the executives had already received a 21.5% increase from 2004 to 2006. Thus, the Company's 2008 over/above adjustment for executive salaries of $51,531 should be removed with a 40% electric allocation reduction of $41,225.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: FPUC's MFRs show an increase in 2008 executive salary expense of $51,531 (EXH 4, Section C, 97), of which 40 percent or $41,225 is allocated to the electric division. Witness Merchant noted that the 2006 salary levels were escalated by 21.5 percent from 2004 to 2006. (TR 533) Witness Merchant further testified that Exhibit 82 was used to support the calculation used for the 2007 and 2008 adjustments. (TR 531) Witness Merchant then pointed out that collectively the average pay raise was 11 percent for 2005 and 2006. (TR 532) Witness Merchant testified that one should assume that this adjustment is sufficient to bring the executive salaries up to market. (TR 533) Staff does not believe that past increases should justify salary expenses in the 2008 projected test year. The purpose of a projected test year is to determine what expenses are appropriate on a going-forward basis.

Witness Merchant testified that the Company did not have sufficient documentation to support the 2008 increase of $51,530 or the position that the executive salaries are below market for an organization of this size. (TR 532) The Company provided Late Filed EXH 94 to support its requested increases. Witness Merchant also states that FPUC took the position that their executive salaries were more important than the employee salaries in the lower ranks because the three executives salaries were increased by $51,530, and the rank and file employees were increased by $49,980. (TR 532) The Company does not believe that the executives salaries are at market. (EXH 94) The Company contends that the statement that executive salaries were more important is an unsubstantiated emotional charge. (FPUC BR at 54-55) Staff believes that a comparison between the total executive salaries and the total rank and file salaries is not material to the resolution of this issue.

On cross-examination, witness Martin said that she did not know if the executives had met their Incentive Goals. (TR 604) Witness Martin pointed out that all of the goals that relate to the regulated operations are beneficial to customers. Such goals are: increasing the number of customers, reducing customer losses, reducing interruptions, reducing complaints, and employee accidents. (FPUC BR at 54; EXH 93) The Company explained that the incentive portion of the salary earned provides rewards for achieving the customer beneficial goals because the Company is the ultimate responsibility of the executives. (FPUC BR at 55) Staff believes that it is the responsibility of the Board of Directors to determine if the executives have met their goals.

Witness Martin attached the minutes of the Board of Directors Compensation Committee as well as the study that supports the assertion that the executives' compensations are below market rates. (TR 578-579; EXH 83, 84) These are confidential exhibits. Witness Martin explained that the utility has projected a salary increase of 11 percent in total for the three executive officers. (TR 578) Witness Martin stated that this 11 percent is the actual average increase that the executive offices have received in the last three historical years and that even after the 11 percent increase in 2007 the executive salaries were still under market. (TR 578) Witness Martin explained that the compensation committee awarded the executives a 3.5 percent increase with the understanding that future increases may occur in the summer of 2008. (TR 579) Witness Martin explains the FPUC executives' salaries are still below the salaries of other executives that have the responsibilities of similarly sized successful operations. (EXH 94)

Comparison of Utilities with FPUC from EXH 94					
	Revenues	**Number of Employees**	**Number of Customers**	**Gross Plant in Service/Assets**	**CEO Compensation for 2008**
Average of six companies	$144,769	250	72.168	229,657	500,941
FPUC	$134,393	362	95,000	188,968	294,986
JEA	$1,157,354	2,356	404,828	4,936,317	Not Currently Available
Seminole Electric	$1,173,425	N/A	890,000	1,566,265	Not Currently Available

Witness Martin testified that the projections are still appropriate as filed in the MFRs for executive compensation and are both reasonable and prudent. (TR 579) Staff believes that no adjustments are necessary because the executive salaries are below market.

Based on the above, Staff recommends no adjustment to executive salaries because the executive compensation is below market for similar positions, responsibilities, and duties. Also, the projected 2008 increase of 11 percent is in line with the average 11 percent increases for the executives in the previous years increases.

APPROVED STIPULATION

Issue 100: Should an adjustment be made to Other Post Employment Benefits Expense for the December 2008 projection for medical expense?

Position: No adjustment is necessary. In response to Interrogatory No. 135, the utility explained how benefit allocations are done within multiple steps in the payroll journal entry. The reasons that amounts cannot be reconciled within the clearing accounts is that some benefit allocation credits the division expense accounts directly and do not pass through the clearing accounts. Therefore, medical expense shall not be reduced by $120,339.

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

Recommendation: The annual storm expense accrual should be reduced by $82,260 to maintain the current level accrual at $121,620. (Kaproth)

Position of the Parties

FPUC: 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.

OPC: The Company has not justified an increase in the annual storm expense accrual. Based on recent storm expenditures, the accrual should remain at $121,620.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: In direct testimony, witness Cutshaw requested an increase of the annual property damage accrual from the present level of $121,620 to $203,880. This increase in accrual was based on 5 percent of the transmission and distribution plant investment for a total storm reserve requirement of $3,338,800. (TR 256) The Company divided that amount over eight years to arrive at its requested annual accrual of $203,883, which is an $82,260 annual increase to the storm damage accrual. (TR 257)

Witness Cutshaw testified that an increase in the annual property damage accrual is appropriate because of the substantial growth in the transmission and distribution facilities since the last FPUC rate case. Also, storm hardening initiatives, increased pole inspections, and an emphasis on placing electric infrastructure underground will take several years to have a significant impact on reducing overall storm damage. Therefore, witness Cutshaw believed it is time to address the overall storm damage accrual. (TR 255)

Witness Cutshaw stated that the 2004 and 2005 hurricane season was impacted by seven different hurricanes. Only three had significant impact on FPUC's operations. The 2004 storm-related damages charged to the storm damage reserve were $805,700. The 2004 storm damage reserve balance at year end was $1,538,088. In 2005, Hurricane Dennis caused $169,580 in storm damages to the operations in the Northwest Florida Division, and the storm reserve was $1,506,887 at year end 2005. (TR 255; EXH 3) Witness Cutshaw explained that even though the storm reserve was sufficient for previous years, it is necessary to prepare for future hurricane seasons. (TR 685)

Lastly, witness Cutshaw testified that FPUC has been forced to be self-insured or to collect for storm damages after the storm occurs. The reason is 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) Therefore, FPUC has chosen the self-insured strategy to cover storm damages. Also, witness Cutshaw requested that the Commission give the Company some assurance that prudent storm damage expense incurred could be recovered through some type of appropriate regulatory action should FPUC be struck by a severe hurricane. (TR 258)

In direct testimony, OPC witness Larkin argued that an increase to FPUC's reserve is not a prudent expenditure at this time. Witness Larkin stated that witness Cutshaw did not provide documentation on how he justified the 5 percent damage of the transmission and distribution plant that would require a storm reserve of $3,338,800.

Witness Larkin further testified that the storm reserve balance in the past nineteen years has been sufficient. (TR 302) The maximum amount of storm damage incurred by the Company in any one year was only approximately 37 percent of the total reserve at the end of the prior year (2003) ($810,502/$2,220,651 = 36.8 percent). (TR 302) Also, witness Cutshaw admitted that there were no formal studies or any other prepared documentation that reflected the projected risk and levels of storm damage that the Company might face in the future. (TR 273)

Witness Cutshaw acknowledged that the utility has other recovery mechanisms available if a storm were to hit and the reserve was insufficient. (TR 272-273) Witness Cutshaw also acknowledged that if no storm hit FPUC's system over the next eight years, the present storm accrual amount of $121,620 would accumulate to approximately 1 million dollars. This, added to the current reserve amount, would result in a $2.7 million storm damage reserve, which he agreed would equate to 4 percent of FPUC's transmission and distribution system. (TR 274)

The storm damage reserve has been sufficient for the previous storm charges, and it may be possible that a major storm or hurricane will not strike in the near future. If there is extensive storm damage greater than the amount of the storm reserve, the Company has the option to file a request with the Commission to impose a surcharge to pay for the hurricane damages. Based on the above, staff does not believe that the utility has justified an increase to the storm accrual. Therefore, the annual storm accrual should be reduced by $82,260 to maintain the annual storm accrual at its current level of $121,620.

Issue 102: **DROPPED**. Number retained for continuity.

APPROVED STIPULATION

Issue 103: What is the appropriate amount for projected general liability expense?

Position: No adjustment is necessary. In response to Interrogatory No. 135, the utility explained how benefit allocations are done within multiple steps in the payroll journal entry. The reasons that amounts cannot be reconciled within the clearing accounts is that some benefit allocation credits the division expense accounts directly and do not pass through the clearing accounts. Therefore, general liability insurance expense shall not be reduced by $52,628.

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

Recommendation: Yes. The projected 2008 economic development expenses (donations) should be approved. The storm reserve should be credited for unused economic development expenses. (Kaproth)

Position of the Parties

FPUC: 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.

OPC: No. FPU has historically spent $5,000 in economic development costs spent annually and it should be limited to this level. Further, FPU incurred costs for membership dues related to Opportunity Florida which FPU joined for networking and opportunities with other industries. Thus, this membership costs should not he charged to customers. The 2008 projected test year need to be reduced by $16,052.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: Staff Witness Welch stated that the 2006 Economic Development costs of $5,000 were recorded in Marianna's Account 930.23 for membership dues to Opportunity Florida. The $5,000 was projected up for 2007-2008 using inflation and customer growth of 106.9 percent for a 2008 projected total of $5,351. (TR 053) Witness Welch stated that FPUC joined this organization for networking purposes, even though there may be other reasons that might benefit the Company or the ratepayers. (TR 053)

OPC witness Larkin stated that FPUC is requesting $22,641 even though the Company spent $5,000 annually for 2003 through 2007 (year to date), with no expenditure in 2004. Witness Larkin believes that the utility should not be allowed to recover more economic development dollars than it has historically spent. (TR 315) Witness Cutshaw argues that FPUC's decrease in the level of economic development contributions was based on the evaluation of those opportunities during this time period. FPUC Witness Cutshaw stated that the economic development opportunities were not available to use these funds. (TR 689) When the funds were not expended, the company transferred the unused balance to the storm reserve as stipulated in Order No. PSC-04-0369-EI. (TR 690)

Staff believes that there may be other economic opportunities that would ease the burdens of the ratepayers and would develop the industrial base in FPUC's service territory. Increasing the number of commercial ratepayers may lower the residential rates and therefore, ease the ratepayers' burden. Allowing the requested economic development expense of $15,701 would afford the Company the ability to review and evaluate the prudence of future economic development opportunities on an annual basis. (EXH 3, C-7, p. 24)

If the opportunities are not there, then the Company would transfer the unused funds to the storm reserve. The amount that should be credited to the storm reserve, should the Company spend less than the projected 2008 balance of $15,701, would be 95 percent of the difference between the $15,701 and the amount spent for the calendar year. Based on the above, staff recommends the projected 2008 economic development expenses (donations) should be approved.

Issue 105: **DROPPED**. Number retained for continuity.

APPROVED STIPULATION

Issue 106: Should the increase to Account 903, Customer Records and Collection Expenses, to reflect an increase in postage expense, be approved?

Position: Yes. The Company has appropriately projected Account 903 for their 2008 projected test year with the exception of any agreed upon adjustments. They have included $20,100 for postage increases with $6,030 allocated to the electric division.

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?

Recommendation: The appropriate total amount of test year rate case expense is $599,748. The amortization period was stipulated at four years. Therefore, the annual accrual should be reduced by $35, 950. (Kaproth)

Position of the Parties

FPUC: 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.

OPC: The appropriate total amount of rate case expense for the current case is $522,000. The Company's requested total should be reduced by $100,000 due to the Company's inclusion of several requests that were not appropriate rate case expense. Unamortized prior rate case expense of $84,811 should be added to the current amount for a total of $606,811. The annual amortization expense over four years results in $152,000. This reduces the Company's requested annual amortization by $30,000.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: The Company requested $622,000 in rate case expenses for Docket No. 070304-EI and $106,000 in unamortized expenses for Docket No. 030438-EI,[20] for a total amount of $728,000 in rate case expense. (EXH 3, Section C, p. 30) Witness Larkin testified in the companion Issue 58, that the appropriate total amount of rate case expense for the current case is $522,000. (TR 309; OPC BR at 52) The prior rate case expense of $106,000 was amortized through December 2007. OPC recommends amortizing this rate case expense through March 2008, for a balance of $84,811. Staff recommends amortizing this balance thorough April, 2008 for an unamortized balance of $77,748.

OPC witness Larkin identified several items that in his opinion were not appropriately included as rate case expenses. First, witness Larkin noted that the Company has a fixed-rate contract with Christensen Associates for $165,000 for rate case preparation. (TR 307) The Company requested an additional $45,000 for extraordinary costs over and above the fixed contract amount that should be removed. OPC asserted that those costs are the responsibility of the Company since the rate case analysis was completed and filed timely. (TR 307) While

[20] Docket No. 030438-EI, In re: Petition for rate increase by Florida Public Utilities Company.

FPUC witness Martin contended that the additional costs were caused by the extra work done by the Company, she did not provide documentation that demonstrated this additional work was outside the scope of the original contract. (TR 598) She claimed that no one had specifically asked her for a breakdown of additional work. It is clear that FPUC did not expect the workload demanded by OPC discovery requests. As witness Martin testified, the amount of discovery requests and related workload was the most that she had seen in twenty years. (TR 596) In cross-examination, witness Larkin testified that he did not know the amount of work it would take to file a rate case because he had not filed a rate case from the Company's perspective. (TR 356-357)

Second, witness Larkin argued that the Company's request for $30,000 for work labeled internal audit work should be removed because it is not directly related to the rate case filing. He stated that only those costs that are directly related to the preparation, filing and testimony before the Commission are legitimate rate case expenses. (TR 307) During cross-examination, witness Larkin pointed out that you cannot add non-rate case expense to rate case expense based on a "but for the rate case we would not have incurred this non-rate case expense" argument, because nobody can ever verify that or determine whether that was true or not. (TR 349) The Company opted to utilize outside internal auditors so that Company employees could do the rate case work and the outside personnel would do the internal auditing work. Witness Martin testified that the rate case expenses were managed in an efficient and effective manner using a creative solution to manage the Company's resources. (TR 593) Outsourcing additional internal control functions allowed the internal personnel the ability to work on the rate case items. Witness Martin contended that the Company's creative use of resources resulted in cost savings to the customers. Using internal auditors to perform the additional internal audit work allowed the Company personnel more time to spend on the rate case. Witness Martin emphasized again that the workload was tremendous relating to the rate case on top of normal job duties. (TR 594)

Third, witness Larkin testified that the Company's request for $25,000 for "Salaried Overtime Pay for Extraordinary Work Load" for salaried employees should be removed. (TR 308) Witness Larkin noted that salaried employees are employed with the understanding that their work would not be limited to a 40-hour work week and would be based on the requirements of the job. (TR 308) When questioned whether the salaried employees had been paid for additional overtime, witness Martin said they had not, but would be paid the first week in March for the extra hours worked in this rate proceeding. (TR 599) She conceded that it was not overtime per se, but rather additional compensation for work that was required on this rate case. (TR 599) Witness Larkin believed that substantially all the work load of preparing schedules and analysis was borne by the outside consultants. (TR 308)

<u>Conclusion</u>

Staff recommends disallowing the following: $45,000 above the fixed contract; $30,000 for non-rate case expense for internal control cost; and $25,000 for pay over and above the salaries of the employees that have worked on the rate case. Staff does not believe that the ratepayers should pay for expenses above a fixed contract amount. These additional expenses should be borne by the Company. Also, the rate case expenses should include only direct rate case expenses that can be verified. The indirect rate case expenses, such as outsourcing internal control functions so that the internal personnel can work on the rate case items, would be difficult to verify. The record does not include documentation to show all of the work that could not be completed because Company personnel were working on the rate case instead. Lastly, the "Salaried Overtime Pay for Extraordinary Work Load" should be disallowed because these employees and managers are paid a salary, not an hourly wage. Salaried employees are usually expected to work the hours required to complete their job duties without extra compensation.

The appropriate rate case expense amount is calculated as follows:

Rate Case Expense	**Rate Case Expense Requested**		**Total Rate Case Expense Allowed**
Docket No. 030438-EI	$106,000	Amortization through April, 2008 (1)	$77,748
Docket No. 070304-EI	622,000	Total requested	622,000
Disallowance		Extra-Ordinary Costs	(45,000)
		Label-Internal control costs	(30,000)
		Salaried Over Time	(25,000)
Total Rate Case Expense	$728,000	Current rate case expense(2)	$522,000
		Recommended Rate Case Expense	**$599,748**
Yearly Amortization Expense		**Yearly Amortization Expense**	
Docket No. 030438-EI, Five Year	$26,500	Five Year Amortization (1)	$15,550
Docket No. 070304-EI, Four Year	$155,500	Four Year Amortization(2)	$130,500
Total	**$182,000**	**Total Amortization Expense**	**$146,050**
Recommended Amortization of Rate Case Expenses			
$182,000 in the MFRs			
$146,050 Recommended yearly rate case expense			
Reduce yearly amortization expense of rate case expense by ($182,000 - $146,050) = $35,950			

Based on the above, Staff recommends the Commission approve $599,784 in rate case expense, a four year amortization period per the approved Stipulation for Issue 108, and a reduction to amortization of rate case expense of $35,950.

APPROVED STIPULATION
Issue 108: What is the appropriate period for the amortization of rate case expense?

Position: The appropriate period for the amortization of rate case expense is four years.

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

Recommendation: Yes. Bad debt expense for 2006 and 2008 should be reduced by $33,762 and $66,436, respectively. The appropriate bad debt factor for 2006 should be 0.1360 percent and the 2008 factor should be 0.1470 percent. (Kaproth)

Position of the Parties

FPUC: 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.

OPC: Yes. Account 904, Uncollectible Accounts for December 2008 projected test year should be reduced by $145,485. The Company has overstated the had debt expense. Applying proper historical write-offs net of recoveries as a percentage of total revenues using the last five years yields a bad debt write off percentage of 0.1 1552%. When this factor is applied to the Company's projected revenues in the year 2008 less the rate increase of $61,786,961, produces a 2008 had debt expense of $71,179.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: The Company's original MFR filing, Schedule C-7 (2008) shows $216,664 of Uncollectible Expense for 2008. This amount is 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 Commission rule restrictions in obtaining new or additional deposits. (EXH 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 to its original proposal. As an alternative, the Company proposes to use a four-year (2003-2006) average write-off rate of 0.1360 percent for 2006. Using this four-year average rate of 0.1360 percent, the 2006 Uncollectible Expense would be adjusted to $53,653. (TR 588; EXH 75) The 2006 uncollectible expense would then be reduced by $33,762, for a balance of $53,363. This adjustment was also recommended in Audit Finding No. 3 by staff witness Welch. (TR 0510)

The 2006 Uncollectible Expense of $53,653 would then be increased by 180 percent 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. (EXH 74) Therefore, FPUC contends that an adjustment of $66,436 is needed to reduce the 2008 Bad Debt Expense of $216,664 to $150,228. These increases in write-offs, coupled with the existing level of customer deposits, will cause the Uncollectible Expense in 2008 to increase approximately 180 percent over the 2006 level. (EXH 74) 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)

OPC Witness Larkin testified that his five year analysis to determine the 0.1151 percent bad debt write off percentage was based on the historical write-offs net of recoveries divided by the revenues for the five years. (TR 321) In Rebuttal Testimony, witness Martin completed this analysis and arrived at a bad debt write off percentage of 0.1470 percent. (EXH 76) The increase in the bad debt write-off factor is because of the increase in revenues from higher fuel bills. (EXH 74) The Company has also adjusted the bad debt portion of the revenue expansion factor to the average write-off rate of 0.1470 percent for the four-year period ended December 31, 2007, in keeping with Commission precedent. (TR 589; EXH 76) Staff agrees that FPUC used the same methodology utilized in its previously stipulated rate case.[21]

Staff believes that the adjustment to reduce the 2006 bad debt expense by $33,762 is appropriate. Also, the 2008 bad debt expense needs to be reduced by $66,436 to reflect a 180 percent increase in revenues above the 2006 revenues. (EXH 74; FPUC BR at 61-62) Staff believes that an increase in bad debt expense based on the future increased bills is appropriate. Based on the above, staff recommends a decrease of $33,762 to 2006 bad debt expense and a bad debt factor of 0.1360 percent. Staff further recommends a decrease of $66,436 to 2008 bad debt expense and a 2008 bad debt factor of 0.1470 percent.

[21] Order No. PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030348-EI, In re: Petition for rate increase by Florida Public Utilities Company.

APPROVED STIPULATION

Issue 110: Should an adjustment be made to Pension Expense for the December 2008 projected test year?

Position: No adjustment is necessary. In response to Interrogatory No. 135, the utility explained how benefit allocations are done within multiple steps in the payroll journal entry. The reasons that amounts cannot be reconciled within the clearing accounts is that some benefit allocation credits the division expense accounts directly and do not pass through the clearing accounts.

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

Recommendation: An adjustment should be made to remove $31,050 for digging and planting of low growing trees expenses because these expenses should be paid by the private property owners and not the ratepayers. (Kaproth)

Position of the Parties

FPUC: 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.

OPC: No. The Company's request to spend $31,050 on an annual basis to dig out and replace trees on private property with low growing trees funded by ratepayers is unreasonable and unsupported. The Company already has a program for tree trimming and line clearance that is supposed to keep trees away from the power lines. It is not the ratepayers' responsibility to fund the replacement of trees with low growth trees by FPUC. Therefore, $31,050 should be removed from expenses.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: In direct testimony, OPC witness Larkin stated that FPUC requested $31,050 for replacing customer trees with low growing trees in both divisions. Witness Larkin believes that it is not appropriate for the ratepayers to pay for removing and replacing trees on private property. Witness Larkin explained that it is the customer's responsibility to keep trees away from power lines. Also, FPUC already has a program for tree trimming and line clearance. Therefore, witness Larkin recommends the removal of $31,050 from expenses. (TR 312) Witness Larkin further explained that cities tell their residents where to plant or not plant their trees, and so it is not necessary to allow this expenditure for landscaping. (TR 364)

In cross-examination, witness Larkin admitted that where to plant trees and the additional costs of replanting trees could be communicated to the customers by the Company. (TR 365) Witness Larkin stated that he left money in an account for communicating with the customers. (TR 365) On redirect examination, witness Larkin agreed that another way to communicate this information to its customers would be on its website. (TR 378)

There is no documentation in the record to support the costs involved in removing trees and planting low growing trees on private property. Further, staff believes that it is the individual customer's responsibility to adhere to the laws regarding the planting of trees so that the trees are not located in the right-of-way. This type of information can be provided by the Company website or through other means of communication. Furthermore, there is not sufficient information in the record to determine if the $31,050 is a reasonable amount for this tree planting program based on supporting documentation. Therefore, staff recommends the removal of $31,050 from expenses.

Issue 112: **DROPPED**. Number retained for continuity.

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?

Recommendation: No. The appropriate level of O&M Expense-Other for the December 2008 projected test year is $9,351,059. (Slemkewicz)

Position of the Parties

FPUC: 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.

OPC: No. FPUC's requested O&M expenses should be decreased by $1,801,901 to reflect a total of $8,279,490. This issue is subject to the resolution of other issues.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: This is a fallout calculation. Based on staff's recommended adjustments, the projected 2008 O&M Expense – Other of $10,081,391 should be reduced by $730,332, to an adjusted amount of $9,351,059. (See Schedule 3)

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?

Recommendation: The depreciation portion of 2008 projected test year depreciation and amortization expense should be increased by $283,480 to reflect the results of the FPUC 2007 depreciation study in Docket No. 070382-EI. (Marsh)

Position of the Parties

FPUC: 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.

OPC: The depreciation expense should reflect the Commission's decision in Docket No. 070382-EI.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: The adjustment in this issue is essentially a fall-out calculation. OPC and FPUC are in agreement that an adjustment should be made. It remains to determine the amount.

FPUC states in its brief that it has provided detailed schedules indicating the 2008 utility depreciation expense computation included in Schedule C-1(2008), Line 11, in the MFRs, and the revised 2008 Company depreciation expense computation using the revised depreciation rates effective January 1, 2008. (EXH 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. (FPUC BR at 64)

Although OPC took a position in its brief, no dollar amount was provided. (OPC BR at 56)

Staff agrees with the Company's calculation, with one exception, as discussed in Issue 42. FPUC's composite exhibit shows that the depreciation rate used to calculate the depreciation for Account 396, Power Operated Equipment, was 6.3 percent. (EXH 90) However, by order of the Commission, that rate was changed to 4.8 percent.[22] The difference in depreciation expense for that account is $2,888. Thus, the amount of depreciation expense should be $283,480 [$286,368 – $2,888].

[22] Order No. PSC-08-0094-PAA-EI, p.9, issued February 14, 2008, in Docket No. 070382-EI, In re: 2007 depreciation study by Florida Public Utilities Company.

Staff recommends that the depreciation portion of 2008 projected test year depreciation and amortization expense should be increased by $283,480 to reflect the results of the FPUC 2007 depreciation study in Docket No. 070382-EI.

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

Recommendation: The appropriate level of depreciation and amortization expense is $3,350,367 for 2008. (Marsh)

Position of the Parties

FPUC: 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.

OPC: The appropriate amount of depreciation expense should be $3,415,439, which is a reduction of $3,408 to FPU's requested expense. Further, adjustments approved in the Company's current depreciation study in Docket No. 070382-EI should be made to the rate case depreciation expense. Since this is a fall-out issue, it is subject to further revision based on the resolution of other issues.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: This is a fall-out issue. Staff examined depreciation and amortization expense of the Company for 2008 to determine the proper projected test year amount. Staff made several adjustments, including those stipulated to by FPUC and by OPC. The effect of the adjustments is to reduce the projected depreciation and amortization expense of $3,418,847 by $68,480 to $3,350,367 for 2008.

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

Recommendation: Yes. Taxes Other Than Income should be increased by $5,554 for additional FICA payroll taxes. (Kaproth)

Position of the Parties

FPUC: 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.

OPC: Yes. FICA payroll taxes should be reduced by $5,802 as addressed in the Issue related to the 2007 and 2008 projection and trending factors.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: Because of the breakdown between the payroll and nonpayroll expenses in Issue 76, the payroll costs were trended up by $72,606. Using the FICA tax rate of 0.0765, the FICA payroll taxes are increased by $5,554. Staff recommends that Taxes Other Than Income should be increased by $5,554 for additional FICA payroll taxes.

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

Recommendation: Yes. FPUC's requested current income tax expense of ($1,360,960) should be increased by a total of $336,011 to reflect an adjusted test year expense of ($1,024,949). FPUC's requested deferred income tax expense of $581,498 should be increased by $25,769 to reflect an adjusted test year expense of $607,267. FPUC's net investment tax credit should be ($27,935). (Kyle)

Position of the Parties

FPUC: 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.

OPC: Yes. The company's requested current income tax expense of ($1,360,960) should be increased by $771,620 to reflect an adjusted test year expense of ($589,340). Test year deferred income tax expense should be $581,498 and the investment tax credit-net expense should be ($27,935). This issue is subject to the resolution of other issues.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: Per MFR Schedule C-2, FPUC's requested current income tax expense is ($1,360,960), net deferred income tax expense is $581,498, and the investment tax credit is ($27,935). (EXH 4) In its brief, OPC states that the amount of current income tax expense should be ($589,340), deferred income tax expense should be $581,498, and the investment tax credit should be ($27,935). (OPC BR at 57) FPUC and OPC agree that this issue is subject to the resolution of other issues.

Staff recommends increasing current income tax expense by $274,925 and deferred income tax expense by $25,769 to reflect the tax effect of staff's recommended adjustments to revenues and expenses. Further, staff has calculated an interest synchronization adjustment of $61,086 to current income tax expense to reflect staff's recommended adjustments to cost rates in FPUC's capital structure. None of staff's recommended adjustments in other issues have an impact on investment tax credits.

In summary, current income tax expense for the test year should be increased by a total of $336,011 ($274,925 plus $61,086) to reflect an adjusted amount of ($1,024,949). Deferred tax expense should be increased by $27,769 to reflect an adjusted amount of $607,267. The investment tax credit expense should be ($27,935).

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

Recommendation: No. The appropriate Net Operating Income for the December 2008 projected test year is $643,640. (Slemkewicz)

Position of the Parties

FPUC: 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.

OPC: No. The appropriate test year net operating income before a revenue increase should be $1,321,775. This issue is subject to the resolution of other issues.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: This is a fallout calculation based on the decisions in preceding issues. Based on staff's recommended adjustments, the appropriate Net Operating Income for the December 2008 projected test year is $643,640. (See Schedule 3)

REVENUE REQUIREMENTS

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

Recommendation: The appropriate net operating income multiplier is 1.60685 using a bad debt rate of 0.1470 percent. (Kaproth)

Position of the Parties

FPUC: 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.

OPC: The appropriate net operating income multiplier should be 1.60634. The Company's requested multiplier includes a 0.20% uncollectible expense factor. This factor should be reduced to reflect the historical average of 0.1152% for uncollectible accounts.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: The following schedule provides the calculations for the net operating income multiplier. The bad debt factor, line four, is a fall-out number from Issue 109.

		FPUC	OPC	STAFF
1.	Revenue Requirement	100.0000%	100.0000%	100.0000%
2.	Gross Receipts Tax Rate	0.0000%	0.0000%	0.0000%
3.	Regulatory Assessment Fee	0.0720%	0.0720%	0.0720%
4.	Bad Debt Rate	0.2000%	0.1152%	0.1470%
5.	Net Before Income Taxes (1) - (2) - (3) - (4)	99.7280%	99.8128%	99.7810%
6.	Income Taxes (5) x 37.63%	37.5276%	37.5596%	37.5476%
7.	Revenue Expansion Factor (5) - (6)	62.2004%	62.2532%	62.2334%
8.	Net Operating Income Multiplier (100%/line 7)	1.6077	1.60634	1.60685

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

Recommendation: No. The appropriate annual operating revenue increase for the December 2008 projected test year is $3,695,455. (Slemkewicz)

Position of the Parties

FPUC: 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.

OPC: No. The appropriate annual revenue increase should be $2,346,297. This issue is subject to the resolution of other issues.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: This is a fallout calculation based on the decisions in preceding issues. Based on staff's recommended adjustments, the appropriate annual operating revenue increase is $3,695,455. The positions of the parties are reflected in the following schedule:

Calculation of Revenue Requirements
December 31, 2008 Test Year

	FPUC	OPC	STAFF
Rate Base	$43,020,996	$39,692,164	$40,046,916
Rate of Return	x 8.07%	x 7.01%	x 7.35%
Required NOI	$3,471,794	$2,782,421	$2,943,448
Adjusted Achieved NOI	(206,341)	(1,321,775)	(643,640)
NOI Deficiency	$3,265,453	$1,460,646	$2,299,808
Revenue Expansion Factor	x 1.6077	x 1.60634	x 1.60685
Total Revenue Increase	$5,249,895	$2,346,297	$3,695,455

COST OF SERVICE AND RATE DESIGN

APPROVED STIPULATION
Issue 121: Are FPUC's estimated revenues from sales of electricity by rate class at present rates for the projected test year appropriate?

Position: The revenues from sales of electricity by rate class at present rates for the projected 2008 test year shall be adjusted upward by a total of $10,089. Specifically, revenues for the GS rate class shall be adjusted upward by $10,089 that results when the Non-profit Sports Fields Transitional Rate customers are billed under the correct rate. With that adjustment, FPUC has correctly calculated revenues from sales of electricity at present rates for the test year.

APPROVED STIPULATION
Issue 122: What is the appropriate cost of service methodology to be used in designing FPUC's rates?

Position: The appropriate cost of service methodology to be used in designing FPUC's rates is the fully allocated embedded cost of service study contained in MFR Schedule E-1, as adjusted for changes to rate base, revenues, expenses, and return approved by the Commission.

APPROVED STIPULATION
Issue 123: If a revenue increase is granted, how should the increase be allocated to rate classes?

Position: The increase shall be allocated to the rate classes in a manner that moves the class rate of return indices as close to parity as practicable based on the approved cost allocation methodology, subject to the following constraints: (1) no class shall receive an increase greater than 1.5 times the system average percentage increase in total, and (2) no class shall receive a decrease.

APPROVED STIPULATION

Issue 124: What are the appropriate customer charges?

Position: The appropriate customer charges shall be approved as follows:

Rate Schedule	Customer Charge
Residential Service	$12.00
General Service – Non-Demand	$18.00
General Service – Demand	$52.00
General Service – Large Demand	$100.00
General Service – Large Demand -1	$600.00

Issue 125: What are the appropriate demand charges?

Recommendation: The appropriate demand charges are:

General Service Demand (GSD): $2.80 per kw of billing demand

General Service – Large Demand (GSLD): $4.00 per kw of billing demand

General Service – Large Demand-1 (GSLD-1):

Transmission Demand Charge: $ 1.12 per kw of billing demand

Reactive Demand Charge: $0.24 per kVar of excess reactive demand

FPUC should filed revised tariffs to reflect the Commission-approved final rates and charges for administrative approval by staff within five (5) business days of issuance of the final order. Pursuant to Rule 25-22.0406(8), F.A.C., customers should be notified of the revised rates in their first bill containing the new rates. A copy of the notice should be submitted to staff for approval prior to its use. (Draper)

Position of the Parties

FPUC: 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.

OPC: No position.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: This Issue and Issue 126 address the final demand and energy charges customers will pay, based on the amount of revenue increase staff recommends in Issue 120. Currently, customers are paying the interim charges approved in Order No. PSC-07-0897-PCO-EI. Prior to determining the final demand and energy charges, the proposed revenue increase must be allocated to each rate class. The FPUC proposed revenue increase by rate class is shown in Schedule 4, page 1 of 2. The staff recommended revenue increase by rate class is shown in Schedule 4, page 2 of 2. The total retail amounts on that schedule shown for rate base, present and required NOI, rate of return (7.35 percent), and total revenue increase reflect the amounts recommended in Issue 120.

Staff recommends an overall increase of $3,695,455 for 2008. In stipulated Issue 123, the Commission approved a methodology for allocating the revenue increase to the rate classes. Specifically, the Commission approved the following position:

> The increase should be allocated to the rate classes in a manner that moves the class rate of return indices as close to parity as practicable based on the approved cost allocation methodology, subject to the following constraints: (1) no class should receive an increase greater than 1.5 times the system average percentage increase in total, and (2) no class should receive a decrease.

In accordance with this policy, staff has moved all classes closer to parity to the greatest extent practical. The GSLD-1 and OL (outdoor lighting) classes have been given no increase in base revenues because these classes are already significantly over parity at present rates.

The next step in rate design is to divide each rate class's total revenue responsibility among various rate elements: the customer, demand, and energy charges. The customer charges are contained in Stipulated Issue 124. The revenue generated by the proposed customer charge times the number of bills is first subtracted from the total class revenue requirement. The remainder of the class revenue requirement is recovered through the non-fuel energy charge for the RS and GS classes, and through the non-fuel energy charge and the demand charge for the GSD and GSLD classes. This issue addresses the demand charge for the GSD, GSLD, and GSLD-1 rate classes.

FPUC does not generate power, so the demand charge is designed to recover demand-related costs such as transmission and certain distribution costs. (TR 260) FPUC Witness Cutshaw testified that FPUC arrived at its proposed demand rates by applying the proposed percentage increase for the GSD and GSLD rate classes as a whole to the existing demand charge. (TR 262-263)

The staff-recommended development of the demand and energy charges for all rate classes (except the lighting rate classes which are addressed in Issue 129) are shown in the rate design spreadsheets contained in Schedule 5, pages 1-5. Rather than apply a set percentage to the demand charge as requested by FPUC, staff relied on the results of the cost of service study to set the demand rates. The charges for each rate class are developed separately.

<u>Example of rate calculations</u>

While the energy charges are addressed in Issue 126, staff believes it may be helpful to discuss the overall rate design process in this issue to show how the parts interact.

Staff has used the Residential class as the simplest example. The target revenue for the residential class is $9,728,695 (adjusted for unbilled, stipulated Issue 132). The target revenue is determined by adding revenues at present rates (stipulated Issue 121) to the revenue increase shown in Schedule 4, page 2 of 2, Column (6). In rate design, the customer charge is typically determined first based on the cost of service, with the energy charge being the fall-out charge. The residential customer charge was set at $12 in Stipulated Issue 124. By multiplying the $12 customer charge by the 2008 projected number of bills, the customer charge revenues are calculated ($3,464,352). The customer charge revenues are subtracted from the target revenues: $9,728,695 - $3,464,352 = $6,264,343. The $6,264,343 amount represents the revenues that must be recovered from the energy charge. Dividing the projected 2008 kwh sales for the residential class into $6,264,343 results in a $0.01925 per kWh energy charge.

The same methodology is used to develop rates for all other rate classes. The GS calculation mirrors the RS since both classes have only two rate elements, customer and energy charge. The GS tariff also contains charges for Non-Profit Sports Fields. Pursuant to Stipulated Issue 130, staff increased the customer and energy charge for Non-Profit Sports Fields by the percentage increase to the GS class (28.5 percent). The calculation is shown on Schedule 5, page 2 of 5.

In addition to the customer and energy charge, the GSD and GSLD rate classes include a demand charge, so a second step is involved. Like the customer charge, the demand charge is based on the allocated costs from the cost of service study. After the demand charges are determined, both the customer charge revenues and the demand charge revenues are subtracted from the class revenue requirement, and the energy charge is a fallout charge designed to recover the remaining revenue requirement. The transformer ownership discount was set in stipulated Issue 128. The discount applies to customers who take service at primary voltage and furnish and maintain any transformers required.

GSLD-1 rate class. The GSLD-1 class received an interim rate increase pursuant to Rule 25-6.0435, F.A.C., which requires an interim increase to be applied to all existing base rates and charges. Witness Cutshaw stated that, based on the cost of service study results, FPUC did not propose to increase the transmission and reactive demand charges for the GSLD-1 rate class for final rates. (TR 263) Staff agrees with Witness Cutshaw, and as shown on Schedule 4, page 2 of 2, staff has not allocated an increase in base revenues to this class. The GSLD-1 rate is available to industrial customers taking service at transmission voltage level. FPUC currently has two customers on this rate, and both customers are located in the Northeast Division. In addition to the transmission and reactive demand charges, GSLD-1 customers pay for production demand and purchased power costs that are assigned to the GSLD-1 class directly based on their actual consumption and based on actual charges from JEA to FPUC.

To summarize, the table below shows the demand charges that were in effect prior to the interim increase (effective November 23, 2007), the Commission-approved interim charges, the FPUC proposed final, and the staff-recommended demand charges:

Rate Schedule	**Prior to interim rate increase ($/kw)**	**Approved interim ($/kw)**	**FPUC proposed ($/kw)**	**Staff recommended ($/kw)**
General Service Demand	2.48	2.63	3.47	2.80
General Service – Large Demand	2.89	3.06	4.34	4.00
General Service – Large Demand-1				
Transmission Demand Charge	1.12	1.19[24]	1.12	1.12
Reactive Demand Charge	0.24/kVar[23]	0.25/kVar	0.24/kVar	0.24/kVar

Schedule 6 contains a comparison of FPUC's 1,000 kilowatt-hour (kWh) monthly residential bill for each division at prior to interim, interim, effective January 2008, and staff-recommended final rates. The bills are shown exclusive of any local taxes or franchise fees, and

[23] kVar = kilovolt-ampere reactive, the measure of reactive power

[24] By operation of the interim rule, this class received an interim increase, however based on the cost of service study no permanent increase is being recommended.

include the Purchased Power (fuel) and Conservation Cost Recovery charges effective for the current period.

The 1,000 kWh residential bill for the Northwest Division will increase from $104.50 to $110.79, a $6.29, or 6.0 percent increase. For the Northeast Division, the 1,000 kWh residential bill will increase from $94.43 to $100.72, a $6.29, or 6.7 percent increase. Customers in the Northwest and the Northeast Division pay different fuel charges, resulting in different total bills, and therefore a minor difference in the percentage increase. Staff notes that the fuel charges increased in January 2008, contributing to the overall increase in customer bills, compared to base rates in effect prior to the rate case. Purchased Power and Conservation Cost Recovery factors were approved in Docket Nos. 070001-EI and 070002-EI.[25]

FPUC should filed revised tariffs to reflect the Commission-approved final rates and charges for administrative approval by staff within five (5) business days of issuance of the final order.

Based upon the stipulation approved in Issue 133, the revised rates are to become effective for meter readings on or after 30 days following the date of the Commission vote approving the revised rates. Thus, if the Commission approves the new rates at its April 22, 2008 Agenda Conference, they will become effective for meter readings on or after May 22, 2008. Pursuant to the requirements of Rule 25-22.0406(8), F.A.C., customers will be notified of the revised rates in their first bill containing the new rates. A copy of the notice should be submitted to staff for approval prior to its use.

[25] See Order No. PSC-08-0030-FOF-EI, issued January 8, 2008, in Docket No. 070001-EI, in Re: Fuel and purchased power cost recovery clause with generating performance incentive factor, and Order No. PSC-07-0933-FOF-EG, issued November 26, 2007, in Docket No. 070002-EI, in Re: Energy conservation cost recovery clause.

Issue 126: What are the appropriate energy charges?

Recommendation: The appropriate energy charges are shown below:

Residential Service: 1.925 cents per kWh

General Service – Non-Demand: 1.891 cents per kWh

General Service Demand: 0.327 cents per kWh

General Service – Large Demand: 0.129 cents per kWh

(Draper)

Position of the Parties

FPUC: 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.

OPC: No position.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: This Issue addresses the final energy charges. For a discussion on how the charges were developed, see Issue 125.

The table below shows the energy charges that were in effect prior to the interim increase, the interim charges, the FPUC proposed, and the staff recommended energy charges.

Rate Schedule	Prior to interim rate increase (c/kwh)	Approved interim charge (c/kWh)	FPUC proposed (c/kWh)	Staff recommended (c/kWh)
Residential Service	1.373	1.453	1.967	1.925
General Service – Non-Demand	1.473	1.559	2.206	1.891
General Service Demand	0.232	0.246	0.323	0.327
General Service – Large Demand	0.086	0.091	0.113	0.129

APPROVED STIPULATION
Issue 127: What are the appropriate service charges?

Position: The appropriate service charges shall be approved as follows:

Type of Charge	Service Charge
Initial establishment of service	$53.00
Re-establish service or change existing account	$23.00
Temporary disconnect then reconnect	$33.00
Reconnect after rule violation (during normal hours)	$44.00
Reconnect after rule violation (after hours)	$95.00
Temporary Service connect and disconnect	$51.00
Installing and removing temporary service (overhead)	$200.00
Installing and removing temporary service (underground)	$170.00
Additional Temporary Service Pole	$200.00
Collection Charge	$14.00

The present charge for bills paid electronically shall be eliminated since customers who choose to pay by credit card will be assessed a transfer fee directly from the third party vendor.

APPROVED STIPULATION
Issue 128: What are the appropriate transformer ownership discounts?

Position: The appropriate primary transformer ownership discount for the GSD and GSLD rate classes shall be $0.55 per KW per month.

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

Recommendation: See Schedule 7 and 8 for the recommended Street and Outdoor Lighting rates. Staff also recommends approval of FPUC's request to eliminate several underutilized fixture and pole options. The company should also compile and update going forward an engineering study of the maintenance costs for each type of Street and Outdoor Lighting fixture. (Baxter)

Position of the Parties

FPUC: 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.

OPC: No position.

ATT: No position.

Embarq: Embarq takes no position on these issues.

FCTA: No position.

Staff Analysis: The monthly lighting charges for Street and Outdoor lights consist of three separate parts: the energy charge, the maintenance charge, and the fixture charge. The energy charge is determined by multiplying the estimated kilowatt-hour usage of each fixture by the non-fuel energy and customer unit cost determined from the cost of service study. An estimated kWh usage is used because Street and Outdoor lights are not metered. The maintenance charge is designed to recover the monthly cost of maintaining each fixture, as derived from the cost of service study. The fixture charge is similar in nature to a rental charge for the light and is designed to recover the carrying cost of the fixture. The fixture charge, along with charges for poles are typically fallout charges adjusted to recover the remaining revenue requirements for each class after subtracting the maintenance and energy charge revenues.

As shown in Schedule 4, page 2 of 2, in allocating revenues to be recovered by the Street and Outdoor Lighting classes, staff did not allocate any revenue increases to the OL lighting class.

Staff allocated increases to the energy and maintenance revenues by taking the average class base revenue increase for the OL-2, SL-2, and SL-3 rate classes, which came to an average increase of 26 percent. The remaining amount of revenue to be recovered was allocated to fixtures and poles, based on a percentage that those two components currently comprise in the existing revenues.

Staff allocated on a percentage basis for each OL and SL fixture the amounts to be recovered by the maintenance and fixture components based on the percentage amount the individual component comprised of the existing total class component. Staff similarly set the amounts to be recovered by the pole charges based on the amount that each individual pole contributes to a classes total pole revenue. Staff allocated the energy component by setting an equalized energy charge for all OL and SL classes that recovered the total revenues determined appropriate.

The Company also proposed to eliminate several underutilized fixture and pole offerings in this rate proceeding. FPUC states than no customers are currently using these options and it does not anticipate such requests in the future. Staff does not expect any customers to be offended by the elimination of these options. Staff recommends the elimination of these offerings.

While staff believes the recommended rates are reasonable, staff encountered obstacles in gathering the necessary data to calculate the appropriate energy and maintenance charges. The energy charge is set based in part on the estimated monthly kWh of each type of street and outdoor lighting fixture. In response to staff inquiries, the Company stated that it had not established procedures to investigate the monthly lighting usage amounts. Given that increases in technology and luminaire performance can alter the monthly kWh over a period of time, staff recommends the Company establish procedures to insure that the reported monthly kWh amounts are correct.

Typically, information on the maintenance charge comes in two forms: the amount of money by lighting class that the company is spending for maintenance, and an engineering study that breaks those costs down by lighting fixture. In FPUC's posthearing statement, the Company stated that it did not have information on specific lights and poles to determine increases based on each individual fixture's costs. (FPUC BR at 69) Thus, an engineering study of the maintenance costs is not available. Staff recommends that FPUC, similar to other IOUs, maintain and update on a periodic basis, an engineering study that breaks out the maintenance costs incurred by each type of Street and Outdoor Lighting fixture, in order to more accurately set cost based rates.

APPROVED STIPULATION

Issue 130: Should FPUC's Transitional Rate of non-profit sports fields be eliminated?

Position: FPUC's Transitional Rate for Non-Profit Sports Fields shall not be eliminated. Elimination of the transitional rate would constitute a burdensome rate increase for sports field customers. Both the customer and non-fuel energy charges for the transitional rate shall be increased by the same percentage revenue increase approved for the GS rate class.

APPROVED STIPULATION

Issue 131: What are the appropriate standby rates?

Position: The appropriate monthly Local Facilities Charges of the standby service rate are as follows:

$2.00 per kW for customers who have contracted for standby service of less than 500kW.

$0.53 per kW for customers who have contracted for standby service capacity of 500kW or greater.

APPROVED STIPULATION

Issue 132: What is the appropriate adjustment to account for the increase in unbilled revenues due to the recommended rate increase?

Position: The adjustment by rate class to account for the increase in unbilled revenues shall be made by applying the methodology shown in MFR Schedule E-12 to the Commission-approved revenue increase.

APPROVED STIPULATION

Issue 133: What is the appropriate effective date for FPUC's new rates and charges?

Position: The revised rates shall become effective for meter readings on or after 30 days following the date of the Commission vote approving the rates and charges.

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?

Recommendation: No. (Slemkewicz)

Position of the Parties

FPUC: No, the interim rate increase granted was appropriate and does not need to be refunded to ratepayers.

OPC: FPU has requested a rate increase of approximately $5.2 million. Citizens' reductions to FPU's request of approximately $2.9 million results in a total increase of $2.3 million. Since the rate increase is greater than the interim rate increase granted of $790,784, no refund is necessary.

ATT: No position.

Embarq: Embarq takes no position on this issue.

FCTA: No position.

Staff Analysis: This is a fallout issue based on the calculations and decisions of other issues. In this instance, the recommended permanent base rate increase of $3,695,455 is greater than the interim rate increase granted of $790,784. Therefore, no refund of any portion of the $790,784 interim rate increase is required.

APPROVED STIPULATION

Issue 135: Should FPUC be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, earnings surveillance reports, and books and records which will be required as a result of the Commission's findings in this docket?

Position: Yes, FPUC shall be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, earnings surveillance reports, and books and records which will be required as a result of the Commission's findings in this docket.

APPROVED STIPULATION

Issue 136: Should this docket be closed?

Position: Yes.

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 070304-EI
13-MONTH AVERAGE RATE BASE
DECEMBER 2008 TEST YEAR

SCHEDULE 1

Issue No.	Adjusted per Company / Staff Adjustments:	Plant in Service	Accumulated Depreciation	Net Plant in Service	CWIP	Plant Held for Future Use	Net Plant	Working Capital	Total Rate Base
Issue	Adjusted per Company	81,437,513	(37,180,863)	44,256,650	75,000	0	44,331,650	(1,310,654)	43,020,996
No.	Staff Adjustments:								
17-S	Wood Pole Replacement	20,000	(385)	19,615			19,615		19,615
32	Dropped	---	---	---	---	---	---	---	---
34	Dropped	---	---	---	---	---	---	---	---
35-S	Missing Invoices	0	0	0			0		0
36-S	Office Wall	2,219	(102)	2,117			2,117		2,117
37-S	Transformer Pad	0	0	0			0		0
38	Fall Out - Plant in Service			0			0		0
39	Dropped	---	---	---	---	---	---	---	---
40-S	Plant Retirements	0	0	0			0		0
41-S	Water Division Trucks	22	(1,373)	(1,351)			(1,351)		(1,351)
42	2007 Depreciation Study		(58,292)	(58,292)			(58,292)		(58,292)
43	Fall Out - Depreciation			0			0		0
44-S	Included in 42 (Common Plant)	---	---	---	---	---	---	---	---
45	Dropped	---	---	---	---	---	---	---	---
46	Cash			0			0	0	0
47-S	Special Deposits			0			0	(317,836)	(317,836)
48	Accounts Receivable			0			0	(1,030,667)	(1,030,667)
49-S	Uncollectible Accounts			0			0	(7,986)	(7,986)
50-S	Pension Liability			0			0	0	0
51-S	Reg. Asset - Retirement Plan			0			0	0	0
52-S	Prepaid Insurance			0			0	(37,779)	(37,779)
53	Unbilled Revenue			0			0	(88,808)	(88,808)
54	Temporary Services			0			0	(26,961)	(26,961)
55	Over/Under Recoveries			0			0	(1,143,377)	(1,143,377)
56-S	Other Special Funds			0			0	0	0
57	Accrued Interest - Cust. Dep.			0			0	(10,178)	(10,178)
58	Rate Case Expense			0			0	(304,836)	(304,836)
59	Storm Damage Reserve			0			0	32,259	32,259
60	Fall Out - Working Capital			0			0		0
90	Moving Expenses			0			0		0
---	Total Staff Adjustments	22,241	(60,152)	(37,911)	0	0	(37,911)	(2,936,169)	(2,974,080)
61	Fall Out - Adjusted Rate Base	81,459,754	(37,241,015)	44,218,739	75,000	0	44,293,739	(4,246,823)	40,046,916

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 070304-EI
13-MONTH AVERAGE CAPITAL STRUCTURE
DECEMBER 2008 TEST YEAR

SCHEDULE 2

Company As Filed	($) Amount	Ratio	Cost Rate	Weighted Cost
Common Equity	17,095,113	39.74%	11.50%	4.57%
Long-term Debt	14,733,561	34.25%	7.96%	2.73%
Short-term Debt	1,905,259	4.43%	6.81%	0.30%
Preferred Stock	177,593	0.41%	4.75%	0.02%
Customer Deposits	2,948,763	6.85%	6.32%	0.43%
Deferred Income Taxes	6,078,743	14.13%	0.00%	0.00%
Tax Credits - Zero Cost	0	0.00%	0.00%	0.00%
Tax Credits - Weighted Cost	81,965	0.19%	9.67%	0.02%
Total	43,020,997	100.00%		8.07%
Equity Ratio	50.41%			

Staff Adjusted	($) Amount	($) Specific Adjustments	($) Pro Rata Adjustments	($) Staff Adjusted	Ratio	Cost Rate	Weighted Cost
Common Equity	17,095,113	0	(1,499,261)	15,595,852	38.94%	10.25%	3.99%
Long-term Debt	14,733,561	0	(1,292,150)	13,441,411	33.56%	7.96%	2.67%
Short-term Debt	1,905,259	0	(167,093)	1,738,166	4.34%	4.08%	0.18%
Preferred Stock	177,593	0	(15,575)	162,018	0.40%	4.75%	0.02%
Customer Deposits	2,948,763	0	0	2,948,763	7.36%	6.32%	0.47%
Deferred Income Taxes	6,078,743	0	0	6,078,743	15.18%	0.00%	0.00%
Tax Credits - Zero Cost	0	0	0	0	0.00%	0.00%	0.00%
Tax Credits - Weighted Cost	81,965	0	0	81,965	0.20%	8.88%	0.02%
Total	43,020,997	0	(2,974,080)	40,046,917	100.00%		7.35%
Equity Ratio	50.41%			50.41%			

Interest Synchronization	($) Adjustment		Effect on		($) Effect on
Dollar Amount Change	Amount	Cost Rate	Interest Exp.	Tax Rate	Income Tax
Long-term Debt	(1,292,150)	7.96%	(102,855)	37.630%	38,704
Short-term Debt	(167,093)	4.08%	(6,817)	37.630%	2,565
CD	0	4.75%	0	37.630%	0
					41,270
Cost Rate Change					
Short-term Debt	1,905,259	-2.73%	(52,014)	37.630%	19,573
Tax Credits - Weighted Cost	81,965	-0.79%	(648)	37.630%	244
					19,816
TOTAL					61,086

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 070304-EI
NET OPERATING INCOME
DECEMBER 2008 TEST YEAR

SCHEDULE 3
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	Operating Revenues	O&M - Fuel & Purchased Power	O&M Other	Depreciation and Amortization	Taxes Other Than Income	Income Taxes Current	Deferred Income Taxes (Net)	Investment Tax Credit (Net)	(Gain)/Loss on Disposal of Plant	Total Operating Expenses	Net Operating Income
Adjusted per Company	17,186,965	0	10,081,391	3,418,847	4,287,783	(1,360,960)	581,498	(27,935)	0	16,980,624	206,341
Staff Adjustments:											
16 N/A	---	---	---	---	---	---	---	---	---	---	---
17-S Wood Pole Replacement				(354,600)			133,436			(221,164)	221,164
17-S Wood Pole Replacement				660			(248)			412	(412)
18-S Tree Trimming Crews			(352,260)			132,555				(219,705)	219,705
19 Outside Contractor Pole Inspections			0			0				0	0
20 Joint Use Audit & Pole Inspections			0			0				0	0
21-S Post Data - Forensic Review			(27,000)			10,160				(16,840)	16,840
22 Transmission Inspection Contractor			0			0				0	0
23 Joint Use Audit - Add Employee			0			0				0	0
24 Dropped	---	---	---	---	---	---	---	---	---	---	---
25-S Emergency Center Personnel			(19,991)			7,523				(12,468)	12,468
26 Travel & PURC Costs			(2,000)			753				(1,247)	1,247
28 Fall Out - Storm Harding/10 Points										0	0
33 Transformer			(25,680)			9,663				(16,017)	16,017
36-S Office Wall				44			(17)			27	(27)
41-S Water Division Trucks				1,936			(729)			1,207	(1,207)
70 Substation Equip. Inspection			0			0				0	0
71 Forfeited Discounts	5,825				4	2,190				2,195	3,630
72-S Fuel Revenues & Expenses	0	0				0				0	0
73-S Conservation Rev & Exp	0	0				0				0	0
74 Misc. Service Revenue	0					0				0	0
75 Fall Out - Operating Revenue						0				0	0
76 Escalation/Trend Factors			16,812			(6,326)				10,486	(10,486)
77 Compliance Accountant			(2,640)			993				(1,647)	1,647
78 CR Analyst/Coordinator			(1,373)			517				(856)	856
79-S Office Renovations - Wall			(2,375)			894				(1,481)	1,481
80-S Information Technology Position			(548)			206				(342)	342
81-S Sales Survey			(27,397)			10,309				(17,088)	17,088
82-S OPEB Expense			0			0				0	0
83-S Postage/Printing Expense			(6,250)			2,352				(3,898)	3,898
84-S Legal Fees			(32,383)			12,186				(20,197)	20,197
85-S NW Division Operations Manager			(5,310)			1,998				(3,312)	3,312
86 Apprentice Linemen Training			59,456			(22,373)				37,083	(37,083)
87-S NE Division Safety Coordinator			(3,158)			1,188				(1,970)	1,970
88 Corporate Services Manager			(923)			347				(576)	576
89 Compliance Accounting Travel			0			0				0	0
90 Moving Expenses			(3,835)			1,443				(2,392)	2,392
91 Spouse Travel Expenses			(773)			291				(482)	482
92-S New Transformer			0			0				0	0
93-S Outside Audit Fees			(42,800)			16,106				(26,694)	26,694

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 070304-EI
NET OPERATING INCOME
DECEMBER 2008 TEST YEAR

SCHEDULE 3
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		Operating Revenues	O&M - Fuel & Purchased Power	O&M Other	Depreciation and Amortization	Taxes Other Than Income	Income Taxes Current	Deferred Income Taxes (Net)	Investment Tax Credit (Net)	(Gain)/Loss on Disposal of Plant	Total Operating Expenses	Net Operating Income
94-S	Janitorial, A/C, Landscaping, etc.			(6,223)			2,342				(3,881)	3,881
95-S	Supervisory Training			(2,938)			1,106				(1,832)	1,832
96	Dropped	---	---	---	---	---	---	---	---	---	---	---
97	Customer Information			(20,886)			7,859				(13,027)	13,027
98	Salary Survey			(4,161)			1,566				(2,595)	2,595
99	Executive Salary Adjustment			0			0				0	0
100-S	OPEB Medical Expense			0			0				0	0
101	Storm Accrual			(82,260)			30,954				(51,306)	51,306
102	Dropped	---	---	---	---	---	---	---	---	---	---	---
103-S	General Liability Expense			0			0				0	0
104	Economic Development Donations			0			0				0	0
105	Dropped	---	---	---	---	---	---	---	---	---	---	---
106-S	Postage Expense			0			0				0	0
107	Rate Case Expense Amortization			(35,950)			13,528				(22,422)	22,422
108	Rate Case Expense Amort. Period	---	---	---	---	---	---	---	---	---	---	---
109	Uncollectible Expense			(66,436)			25,000				(41,436)	41,436
110-S	Pension Expense			0			0				0	0
111	Tree Replacement Costs			(31,050)			11,684				(19,366)	19,366
112	Dropped	---	---	---	---	---	---	---	---	---	---	---
113	Fall Out - O&M										0	0
114	2007 Depreciation Study				283,480			(106,674)			176,806	(176,806)
115	Fall Out - Depreciation Expense										0	0
116	Taxes Other Than Income					5,554	(2,090)				3,464	(3,464)
117	Income Tax Expense										0	0
	Interest Synchronization						61,086				61,086	(61,086)
	Total Staff Adjustments	5,825	0	(730,332)	(68,480)	5,558	336,011	25,769	0	0	(431,474)	437,299
118	Fall Out - NOI	17,192,790	0	9,351,059	3,350,367	4,293,341	(1,024,949)	607,267	(27,935)	0	16,549,150	643,640

FLORIDA PUBLIC UTILITIES COMPANY
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O&M EXPENSE TREND SCHEDULES

SCHEDULE 3A
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Number	Projection Basis		2007 Factor	2008 Factor
0	No Change		100.0%	100.0%
1	Inflation	x	102.2%	102.3%
2	Customer Growth	x	101.2%	101.2%
5	Payroll	x	105.5%	105.5%
6	Sales (KWH) - No Price	x	100.2%	100.9%
	Revenues	x	100.0%	100.0%
13	Inflation x Customer Growth	x	103.4%	103.5%
	Inflation x Payroll	x	107.8%	107.9%
16	Payroll x Customer Growth	x	106.8%	106.8%
19	Zero Balance	x	0.0%	0.0%
20	Direct Calculation		Direct	Direct
FPUC	Direct Projection by FPUC		Direct	Direct

	2007	2008	2006-2008
Inflation	2.2%	2.3%	4.6%
Payroll	5.5%	5.5%	11.3%
Customer Growth	1.2%	1.2%	2.4%

		2006 Company Adjusted	2006 Staff Adjustments	2006 Staff Adjusted	Staff 2008 Projection Factor	Company 2008 Projection Factor	Projection Factor Difference	Projection Factor Adjustment	Amount Subject to Payroll Tax
Operation Expenses:									
Other Power Supply Expenses									
556	System Control & Load Dispatch	0	0	0	0.0%	100.0%	-100.0%	0	0
557	Other Expenses	0	0	0	100.0%	100.0%	0.0%	0	0
Transmission Expenses - Operation									
562	Station Expenses								
	Payroll	5,894	0	5,894	114.1%	104.6%	9.5%	560	560
	Non-Payroll	11,230	0	11,230	107.0%	104.6%	2.4%	270	0
566	Misc. Transmission Expenses	112	0	112	107.0%	107.0%	0.0%	0	0
Distribution Expenses - Operation									
580	Operation Supervision & Eng.								
	Payroll	244,688	0	244,688	114.1%	111.3%	2.8%	6,851	6,851
	Non-Payroll	62,434	0	62,434	107.0%	111.3%	-4.3%	(2,685)	0
581	Load Dispatching	0	0	0	107.0%	107.0%	0.0%	0	0
582	Station Expenses								
	Payroll	23,471	0	23,471	114.1%	111.3%	2.8%	657	657
	Non-Payroll	23,611	0	23,611	107.0%	111.3%	-4.3%	(1,015)	0
583.1	Operation of Overhead Lines								
	Payroll	20,906	0	20,906	114.1%	114.1%	0.0%	0	0
	Non-Payroll	30,511	0	30,511	107.0%	114.1%	-7.1%	(2,166)	0
583.2	Removing & Resetting Overhead								
	Payroll	46,165	0	46,165	114.1%	114.1%	0.0%	0	0
	Non-Payroll	15,223	0	15,223	107.0%	114.1%	-7.1%	(1,081)	0
584.1	Underground Line Expense	3,529	0	3,529	111.3%	111.3%	0.0%	0	0
584.2	Underground Line Expense								
	Payroll	2,608	0	2,608	111.3%	111.3%	0.0%	0	0
	Non-Payroll	23,462	0	23,462	107.0%	111.3%	-4.3%	(1,009)	0
585	Street Light/Signal System Exp.								
	Payroll	7,797	0	7,797	114.1%	114.1%	0.0%	0	0
	Non-Payroll	4,160	0	4,160	107.0%	114.1%	-7.1%	(295)	0
586	Meter Expenses								
	Payroll	195,649	0	195,649	114.1%	114.1%	0.0%	0	0
	Non-Payroll	60,021	0	60,021	107.0%	114.1%	-7.1%	(4,261)	0
587.1	Area Light Expenses								
	Payroll	33,711	0	33,711	114.1%	114.1%	0.0%	0	0
	Non-Payroll	18,335	0	18,335	107.0%	114.1%	-7.1%	(1,302)	0

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O&M EXPENSE TREND SCHEDULES

SCHEDULE 3A
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		2006 Company Adjusted	2006 Staff Adjustments	2006 Staff Adjusted	2008 Projection Factor	2008 Projection Factor	Projection Factor Difference	Projection Factor Adjustment	Amount Subject to Payroll Tax
587.2	Other Customer Installations								
	Payroll	30,674	0	30,674	114.1%	114.1%	0.0%	0	0
	Non-Payroll	10,534	0	10,534	107.0%	114.1%	-7.1%	(748)	0
588.1	Distribution Maps & Records								
	Payroll	88,885	0	88,885	114.1%	114.1%	0.0%	0	0
	Non-Payroll	10,297	0	10,297	107.0%	114.1%	-7.1%	(731)	0
588.2	Other Distribution Office Supplies								
	Payroll	3,029	0	3,029	114.1%	114.1%	0.0%	0	0
	Non-Payroll	95,036	0	95,036	107.0%	114.1%	-7.1%	(6,748)	0
588.3	Misc. Distribution Office Exp.	10,420	0	10,420	114.1%	114.1%	0.0%	0	0
589	Rents								
	Payroll	155	0	155	104.6%	104.6%	0.0%	0	0
	Non-Payroll	875	0	875	104.6%	104.6%	0.0%	0	0
Customer Accounts - Operation									
901	Supervision								
	Payroll	63,228	0	63,228	111.3%	111.3%	0.0%	0	0
	Non-Payroll	5,338	0	5,338	107.0%	111.3%	-4.3%	(230)	0
901.1	Supervision A & G								
	Payroll	34,239	0	34,239	111.3%	111.3%	0.0%	0	0
	Non-Payroll	12,260	0	12,260	107.0%	111.3%	-4.3%	(527)	0
902	Meter Reading Expenses								
	Payroll	194,501	0	194,501	114.1%	114.1%	0.0%	0	0
	Non-Payroll	82,380	0	82,380	107.0%	114.1%	-7.1%	(5,849)	0
903	Customer Records & Collection								
	Payroll	396,115	0	396,115	111.3%	111.3%	0.0%	0	0
	Non-Payroll	101,437	0	101,437	107.0%	111.3%	-4.3%	(4,362)	0
903.1	Customer Records & Collection								
	Payroll	34,800	0	34,800	111.3%	111.3%	0.0%	0	0
	Non-Payroll	255,350	0	255,350	107.0%	111.3%	-4.3%	(10,980)	0
904	Uncollectible Accounts	87,415	0	87,415	N/A	N/A	N/A	N/A	0
905	Misc. Customer Accounts Exp.								
	Payroll	1,214	0	1,214	114.1%	107.0%	7.1%	86	86
	Non-Payroll	76,896	0	76,896	107.0%	107.0%	0.0%	0	0
905.1	Misc. Customer Accounts Exp.								
	Payroll	13,833	0	13,833	111.3%	107.0%	4.3%	595	595
	Non-Payroll	2,418	0	2,418	107.0%	107.0%	0.0%	0	0
Customer Service and Info. - Operation									
906.1	Underrecovery Conservation	0	0	0					0
907	Supervision								
	Payroll	57,146	0	57,146	114.1%	107.0%	7.1%	4,057	4,057
	Non-Payroll	16,795	0	16,795	107.0%	107.0%	0.0%	0	0
908	Customer Assistance								
	Payroll	125,972	0	125,972	114.1%	107.0%	7.1%	8,944	8,944
	Non-Payroll	74,323	0	74,323	107.0%	107.0%	0.0%	0	0
909	Info & Instructional	159,139		159,139	107.0%	107.0%	0.0%	0	0
910	Misc Customer Service								
	Payroll	11,323	0	11,323	114.1%	107.0%	7.1%	804	804
	Non-Payroll	11,463	0	11,463	107.0%	107.0%	0.0%	0	0
Sales Expenses - Operation									
912	Demonstrating & Selling Exp.	0	0	0	0.0%	0.0%	0.0%	0	0
913.1	Promotional Advertising	0	0	0	0.0%	0.0%	0.0%	0	0
913.2	Conservation Advertising	1,537	0	1,537	107.0%	107.0%	0.0%	0	0
913.3	Safety Advertising	8,224	0	8,224	107.0%	107.0%	0.0%	0	0
913.4	Other Info/Instructional Ads	121,226	0	121,226	107.0%	107.0%	0.0%	0	0
913.5	Community Affairs Advertising	0	0	0	107.0%	107.0%	0.0%	0	0
913.6	Other Advertising	0	0	0	107.0%	107.0%	0.0%	0	0
916	Misc. Sales Expenses	13,249	0	13,249	107.0%	107.0%	0.0%	0	0

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SCHEDULE 3A
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		2006 Company Adjusted	2006 Staff Adjustments	2006 Staff Adjusted	2008 Projection Factor	2008 Projection Factor	Projection Factor Difference	Projection Factor Adjustment	Amount Subject to Payroll Tax
Administrative & General Exp. - Operation									
920	Administrative & General Salaries								
	Payroll	949,046	0	949,046	114.1%	111.3%	2.8%	26,573	26,573
	Non-Payroll	11,207	0	11,207	107.0%	111.3%	-4.3%	(482)	0
921.1	Office Supplies	10,633	0	10,633	104.6%	104.6%	0.0%	0	0
921.2	Office Postage & Mailing	6,958	0	6,958	104.6%	104.6%	0.0%	0	0
921.3	Office Computer Supplies								
	Payroll	1,003	0	1,003	114.1%	104.6%	9.5%	95	95
	Non-Payroll	6,935	0	6,935	104.6%	104.6%	0.0%	0	0
921.4	Office Utility Expenses	33,684	0	33,684	104.6%	104.6%	0.0%	0	0
921.5	Misc. Office Expenses								
	Payroll	1,872	0	1,872	114.1%	104.6%	9.5%	178	178
	Non-Payroll	89,708	0	89,708	104.6%	104.6%	0.0%	0	0
921.6	Company Training Expenses	1,676	0	1,676	104.6%	104.6%	0.0%	0	0
923.1	Outside Services	17,912	0	17,912	N/A	N/A	N/A	N/A	0
923.2	Legal Fees & Expenses	39,416	0	39,416	104.6%	104.6%	0.0%	0	0
923.3	Outside Auditing & Accounting	139,758	0	139,758	N/A	N/A	N/A	N/A	0
924	Property Insurance	175,043	0	175,043	N/A	N/A	N/A	N/A	0
925.1	Injuries & Damages								
	Payroll	29,666	0	29,666	N/A	N/A	N/A	N/A	0
	Non-Payroll	77,380	0	77,380	N/A	N/A	N/A	N/A	0
925.2	General Liability								
	Payroll	(56,078)	0	(56,078)	N/A	N/A	N/A	N/A	0
	Non-Payroll	387,408	0	387,408	N/A	N/A	N/A	N/A	0
926.1	Employee Pensions								
	Payroll	(128,141)	0	(128,141)	N/A	N/A	N/A	N/A	0
	Non-Payroll	536,958	0	536,958	N/A	N/A	N/A	N/A	0
926.2	Employee Benefits								
	Payroll	(163,335)	0	(163,335)	N/A	N/A	N/A	N/A	0
	Non-Payroll	601,668	0	601,668	N/A	N/A	N/A	N/A	0
926.3	Retiree Benefits	47,893	0	47,893	N/A	N/A	N/A	N/A	0
926.4	401K Expense Company								
	Payroll	(1,580)	0	(1,580)	114.1%	107.0%	0.0%	0	0
	Non-Payroll	7,345	0	7,345	107.0%	107.0%	0.0%	0	0
928	Regulatory Commission Exp.								
	Payroll	6,810	0	6,810	114.1%	104.6%	9.5%	647	647
	Non-Payroll	124,273	0	124,273	104.6%	104.6%	0.0%	0	0
930.1	Institutional/Goodwill Advertising	0	0	0	107.0%	107.0%	0.0%	0	0
930.2	Misc. General Expenses								
	Payroll	378	0	378	114.1%	107.0%	7.1%	27	27
	Non-Payroll	76,244	0	76,244	107.0%	107.0%	0.0%	0	0
930.2	Industry Association Expenses	4,390	0	4,390	107.0%	107.0%	0.0%	0	0
930.2	Economic Development Exp.	5,000	0	5,000	107.0%	107.0%	0.0%	0	0
931	Rents	8,307	0	8,307	104.6%	104.6%	0.0%	0	0
Total Operation Expense (EXCLUDING FAC & ECCR)		6,094,680	0	6,094,680				5,874	50,075
Maintenance Expenses:									
Hydraulic Power Generation - Maintenance									
554	Maint. of Misc. Power Generation	0	0	0	107.0%	107.0%	0.0%	0	0
Transmission Expenses - Maintenance									0
570	Maint. of Station Equipment								
	Payroll	14,604	0	14,604	114.1%	107.0%	7.1%	1,037	1,037
	Non-Payroll	84,458	0	84,458	107.0%	107.0%	0.0%	0	0
571	Maint. of Overhead Lines								
	Payroll	15,408	0	15,408	114.1%	107.0%	7.1%	1,094	1,094
	Non-Payroll	62,545	0	62,545	107.0%	107.0%	0.0%	0	0
573	Maint. Of Misc. Transmission	446	0	446	107.0%	107.0%	0.0%	0	0

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 070304-EI
O&M EXPENSE TREND SCHEDULES

SCHEDULE 3A
Page 4 of 4

	2006 Company Adjusted	2006 Staff Adjustments	2006 Staff Adjusted	2008 Projection Factor	2008 Projection Factor	Projection Factor Difference	Projection Factor Adjustment	Amount Subject to Payroll Tax
Distribution Expenses - Maintenance								
590 Maintenance Supervision & Eng.								
Payroll	115,500	0	115,500	111.3%	111.3%	0.0%	0	0
Non-Payroll	20,820	0	20,820	111.3%	111.3%	0.0%	0	0
591 Maintenance of Structures								
Payroll	3,392	0	3,392	111.3%	107.0%	4.3%	146	146
Non-Payroll	6,677	0	6,677	107.0%	107.0%	0.0%	0	0
592 Maint. of Station Equipment								
Payroll	33,518	0	33,518	111.3%	107.0%	4.3%	1,441	1,441
Non-Payroll	39,456	0	39,456	107.0%	107.0%	0.0%	0	0
593.1 Maint. of Poles/Towers								
Payroll	27,664	0	27,664	111.3%	107.0%	4.3%	1,190	1,190
Non-Payroll	16,866	0	16,866	107.0%	107.0%	0.0%	0	0
593.2 Maint. of Overhead Lines								
Payroll	229,436	0	229,436	111.3%	107.0%	4.3%	9,866	9,866
Non-Payroll	717,699	0	717,699	107.0%	107.0%	0.0%	0	0
593.3 Maint. of Services								
Payroll	101,998	0	101,998	111.3%	107.0%	4.3%	4,386	4,386
Non-Payroll	31,227	0	31,227	107.0%	107.0%	0.0%	0	0
594.1 Maint. of Underground Lines								
Payroll	1,174	0	1,174	114.1%	114.1%	0.0%	0	0
Non-Payroll	6,287	0	6,287	107.0%	114.1%	-7.1%	(446)	0
594.2 Maint. of Underground Lines								
Payroll	61,240	0	61,240	114.1%	114.1%	0.0%	0	0
Non-Payroll	67,310	0	67,310	107.0%	114.1%	-7.1%	(4,779)	0
595.1 Maint. of Line Transformers								
Payroll	45,385	0	45,385	114.1%	114.1%	0.0%	0	0
Non-Payroll	19,122	0	19,122	107.0%	114.1%	-7.1%	(1,358)	0
595.2 Maint. of Line Transformers								
Payroll	6,188	0	6,188	114.1%	114.1%	0.0%	0	0
Non-Payroll	789	0	789	107.0%	114.1%	-7.1%	(56)	0
595.3 Maint. of Line Transformers								
Payroll	23,193	0	23,193	114.1%	114.1%	0.0%	0	0
Non-Payroll	31,364	0	31,364	107.0%	114.1%	-7.1%	(2,227)	0
596 Maint. of Street Light/Signals								
Payroll	22,326	0	22,326	114.1%	114.1%	0.0%	0	0
Non-Payroll	26,773	0	26,773	107.0%	114.1%	-7.1%	(1,901)	0
597 Maintenance of Meters								
Payroll	23,650	0	23,650	114.1%	114.1%	0.0%	0	0
Non-Payroll	11,600	0	11,600	107.0%	114.1%	-7.1%	(824)	0
598 Maint. of Misc. Distribution Plant								
Payroll	38,847	0	38,847	114.1%	107.0%	7.1%	2,758	2,758
Non-Payroll	32,649	0	32,649	107.0%	107.0%	0.0%	0	0
Administrative & General Exp. - Maintenance								
935 Maint. of General Plant								
Payroll	8,651	0	8,651	114.1%	107.0%	7.1%	614	614
Non-Payroll	151,051	0	151,051	107.0%	107.0%	0.0%	0	0
Total Maintenance Expenses	2,099,313	0	2,099,313				10,941	22,532
			0					
Total Operation & Maintenance Exp. (EXCLUDING FAC & ECCR)	8,193,993	0	8,193,993				16,815	72,606
Taxes Other Than Income - FICA							x	7.65%
Increase in payroll taxes								5,554

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 070304-EI
FPUC PROPOSED REVENUE INCREASE BY RATE CLASS*
SUMMARY OF CLASS RATES OF RETURN AND PECENTAGE INCREASES

(1)	(2)	(3)	(4)		(5)	(6)	(7)	(8)	(9)		(10)	
					INCREASE FROM SERVICE	INCREASE IN BASE	TOTAL				% INCREASE IN REV FROM SALES OF ELEC	
	RATE	PRESENT	PRESENT				INCREASE	REQUIRED	PROPOSED			
RATE CLASS	BASE	NOI	ROR	INDEX	CHARGES**	REVENUES	IN REVENUE	NOI	ROR /	INDEX	BASE REV.	W/FUEL***
RS	$23,198,340	($295,952)	-1.28%	-2.66	$43,039	$3,088,924	$3,131,963	$1,652,150	7.12%	0.88	42.0%	8.6%
GS	$4,283,176	$24,059	0.56%	1.17	$6,268	$703,902	$710,170	$465,789	10.87%	1.35	49.5%	10.9%
GSD	$7,743,326	$201,473	2.60%	5.42	$1,898	$838,738	$840,636	$724,354	9.35%	1.16	40.0%	5.6%
GSLD	$2,832,581	($42,409)	-1.50%	-3.12	$358	$290,349	$290,707	$138,413	4.89%	0.61	50.0%	4.2%
GSLD-1	$2,260,987	$206,828	9.15%	19.07	$538	$0	$538	$207,163	9.16%	1.14	0.0%	0.0%
OL	$167,150	$104,021	62.23%	129.75	$5	$40,527	$40,532	$129,232	77.32%	9.58	20.0%	12.4%
OL-2	$1,705,178	$6,352	0.37%	0.78	$15	$130,651	$130,666	$87,627	5.14%	0.64	20.0%	12.7%
SL-2	$146,437	$2,659	1.82%	3.79	$3	$18,928	$18,931	$14,434	9.86%	1.22	43.0%	17.6%
SL-3	$683,821	($691)	-0.10%	-0.21	$5	$85,756	$85,761	$52,653	7.70%	0.95	43.0%	23.6%
TOTAL RETAIL	$43,020,996	$206,340	0.48%	1	$52,129	$5,197,775	$5,249,904	$3,471,815	8.07%	1.00	39.9%	7.8%
									1.5 Times system avg. increase:		59.80%	

* The information contained in this table is shown in MFR Schedules E-6a and E-8.

** Includes increase from other revenues as shown in MFR Schedule E-8.

*** Includes 2008 fuel and conservation factors. Fuel factor used is average between Northeast and Northwest Division.

SCHEDULE 4
Page 2 of 2

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 070304-EI
RECOMMENDED REVENUE INCREASE BY RATE CLASS
SUMMARY OF CLASS RATES OF RETURN AND PECENTAGE INCREASES

(1)	(2)	(3)	(4)		(5)	(6)	(7)	(8)	(9)		(10)	
					INCREASE FROM SERVICE	INCREASE IN BASE	TOTAL INCREASE	REQUIRED	RECOMMENDED		% INCREASE IN REV FROM SALES OF ELEC	
RATE CLASS	RATE BASE	PRESENT NOI	PRESENT ROR	PRESENT INDEX	CHARGES*	REVENUES	IN REVENUE	NOI	ROR /	INDEX	BASE REV.	W/FUEL**
RS	$21,574,846	($149,602)	-0.69%	-0.43	$43,039	$2,375,326	$2,418,365	$1,355,432	6.28%	0.85	32.3%	6.8%
GS	$3,983,354	$35,954	0.90%	0.56	$6,268	$405,000	$411,268	$291,900	7.33%	1.00	28.5%	6.6%
GSD	$7,201,293	$301,081	4.18%	2.6	$1,898	$400,000	$401,898	$551,197	7.65%	1.04	19.1%	2.7%
GSLD	$2,634,300	($21,442)	-0.81%	-0.51	$358	$240,000	$240,358	$128,141	4.86%	0.66	41.3%	3.5%
GSLD-1	$2,102,718	$309,084	14.70%	9.15	$538	$0	$538	$309,419	14.72%	2.00	0.0%	0.0%
OL	$158,793	$155,449	97.89%	60.91	$5	$0	$5	$155,452	97.90%	13.32	0.0%	0.0%
OL-2	$1,602,867	$9,492	0.59%	0.37	$15	$150,000	$150,015	$102,852	6.42%	0.87	23.0%	14.3%
SL-2	$139,115	$3,974	2.86%	1.78	$3	$11,000	$11,003	$10,821	7.78%	1.06	25.0%	11.0%
SL-3	$649,630	($349)	-0.05%	-0.03	$5	$62,000	$62,005	$38,239	5.89%	0.80	31.1%	18.3%
TOTAL RETAIL	$40,046,916	$643,640	1.61%	1	$52,129	$3,643,326	$3,695,455	$2,943,453	7.35%	1.00	27.9%	5.6%
									1.5 Times system avg. increase:		41.9%	

* Includes increase from service charges and other revenues shown in MFR Schedule E-8.

** Includes 2008 fuel and conservation factors. Fuel factor used is average between Northeast and Northwest Division.

SCHEDULE 5
Page 1 of 5

FLORIDA PUBLIC UTILITIES COMPANY
Docket No. 070304-EI
Rate Design Spreadsheets
RATE SCHEDULE RS

Current Base Revenues*	$7,354,580
Increase in Base Revenues**	$2,374,115
Target Revenues	**$9,728,695**

RS Customer Charge Revenue

24,058	Customers
288,696	Bills
$12	**Customer Charge*** **
$3,464,352	Customer Charge Revenue

Target Revenue	$9,728,695
Less Customer Charge Revenue	($3,464,352)
Total Energy/Demand Charge Revenue	$6,264,343

Revenue to recover from RS Energy Charge	$6,264,343
RS Kwh sales	325,395,385
RS Base Energy Charge: $/kwh	**0.01925**
RS Base Energy Charge: cents/kwh	1.925

PROOF OF REVENUE

	Rate	Bills/kwh	Revenue
Customer Charge	$12.00	288,696	$3,464,352
Base Energy Charge	$0.01925	325,395,385	$6,264,343
TOTAL REVENUE			**$9,728,695**
Target Revenue			$9,728,695
Difference			0

*Stipulated Issue 121
**Adjusted for unbilled, stipulated Issue 132
***Stipulated Issue 124

FLORIDA PUBLIC UTILITIES COMPANY SCHEDULE 5
Docket No. 070304-EI Page 2 of 5
Rate Design Spreadsheets
RATE SCHEDULE GS

Current Base Revenues*	$1,421,804
Revenue Increase**	$404,755
Target Revenue	**$1,826,559**

GS Customer Charge Revenue

3,458	(excludes sportsfield customers)
41,496	Bills
$18	**Customer Charge*** **
746,928	Customer Charge Revenue

NON-PROFIT SPORTS FIELDS****	
Current Customer Charge	18.08
Current Energy Charge	0.03244
Percent Increase to GS	28.50%
Sportsfield Customer Charge	$23.23
Sportsfield Energy Charge	0.04169
Bills	312
kwh	497,784
Customer Charge Revenue	$7,249
Energy Charge Revenue	$20,750
Total Non-Profit Sports Fields Revenue	**$27,999**

Target Revenue	$1,826,559
Less GS Customer Charge Revenue	($746,928)
Less Non-Profit Sports Field Revenues	($27,999)
Total Energy/Demand Charge Revenue	$1,051,632

Revenue to recover from GS energy charge	$1,051,632	
GS Kwh sales	55,604,704	(excludes sportsfield kwh sales)

GS Base Energy Charge: $/kwh	**0.01891**
GS Base Energy Charge: cents/kwh	1.891

PROOF OF REVENUE

	Rate	Bills/kwh	Revenue
GS Customer Charge	$18.00	41,496	$746,928
GS Base Energy Charge	$0.01891	55,604,704	$1,051,632
Sports fields customer charge revenue	$23.23	312	$7,249
Sports fields energy charge revenue	$0.04169	497,784	$20,750
TOTAL REVENUE			**$1,826,559**
Target Revenue			$1,826,559
Difference			$0

*Stipulated Issue 121
**Adjusted for unbilled, stipulated Issue 132
***Stipulated Issue 124
****Pursuant to Stipulated Issue 130 customer and energy charge increased by percentage increase to GS class

FLORIDA PUBLIC UTILITIES COMPANY
Docket No. 070304-EI
Rate Design Spreadsheets
RATE SCHEDULE GSD

SCHEDULE 5
Page 3 of 5

Current Base Revenues*	$2,096,846		
Revenue Increase**	$399,660		
Target Revenue	**$2,496,506**		
GSD Customer Charge Revenue			
722	Customers		
8,664	Bills		
$52	**Customer Charge*** **		
$450,528	Customer Charge Revenue		
Demand Charge Revenue			
537,577	kw		
$2.80	**Proposed Demand Charge**		
$1,505,216	Proposed Demand Charge Revenue		
6213	kw		
($0.55)	Transformer Ownership Discount****		
($3,417)	Transformer Ownership Discount Revenue		
Target Revenue			$2,496,506
Less Customer Charge Revenue			($450,528)
Less Demand Charge Revenue			($1,505,216)
Add Transformer Ownership Discount			$3,417
Total Energy Charge Revenue			$544,180
Revenue to recover from Energy Charge		$544,180	
GSD Kwh sales		166,194,581	
GSD Energy Charge: $/kwh		**0.00327**	
GSD Energy Charge: cents/kwh		0.327	

PROOF OF REVENUE

	Rate	Bills/kwh/kw	Revenue
Customer Charge	$52.00	8,664	$450,528
Demand Charge	$2.80	537,577	$1,505,216
Transformer Ownership Discount	($0.55)	6,213	($3,417)
Base Energy Charge	$0.00327	166,194,581	$544,180
TOTAL REVENUE			**$2,496,506**
Target Revenue			$2,496,506
Difference			$0

*Stipulated Issue 121
**Adjusted for unbilled, stipulated Issue 132
***Stipulated Issue 124
****Stipulated Issue 128

FLORIDA PUBLIC UTILITIES COMPANY
Docket No. 070304-EI
Rate Design Spreadsheets
RATE SCHEDULE GSLD

SCHEDULE 5
Page 4 of 5

Current Base Revenues*	$580,698
Revenue Increase**	$239,899
Target Revenue	**$820,597**

GSLD Customer Charge Revenue

20	Customers
240	Bills
$100	**Customer Charge*** **
24,000	Customer Charge Revenue

Demand Charge Revenue

178,818	kw
$4.00	**Proposed Demand Charge**
$715,272	Proposed Demand Charge Revenue
48930	kw
($0.55)	Transformer Ownership Discount****
($26,912)	Transformer Ownership Discount Revenue

Target Revenue	$820,597
Less Customer Charge Revenue	($24,000)
Less Demand Charge Revenue	($715,272)
Add Transformer Ownership Discount	$26,912
Total Energy Charge Revenue	$108,237

Revenue to recover from Energy Charge	$108,237
GSLD Kwh sales	83,849,371
GSLD Energy Charge: $/kwh	**0.00129**
GSLD Energy Charge: cents/kwh	0.129

PROOF OF REVENUE

	Rate	Bills/kwh	Revenue
Customer Charge	$100.00	240	$24,000
Demand Charge	$4.00	178,818	$715,272
Transformer Ownership Discount	($0.55)	48,930	($26,912)
Base Energy Charge	$0.00129	83,849,371	$108,237
TOTAL REVENUE			**$820,597**
Target Revenue			$820,597
Difference			$0

*Stipulated Issue 121
**Adjusted for unbilled, stipulated Issue 132
***Stipulated Issue 124
****Stipulated Issue 128

SCHEDULE 5
Page 5 of 5

FLORIDA PUBLIC UTILITIES COMPANY
Docket No. 070304-EI
Rate Design Spreadsheets
RATE SCHEDULE GSLD-1

Current Base Revenues*	$484,098
Revenue Increase	$0
Target Revenue	**$484,098**

GSLD-1 Customer Charge Revenue

2	Customers
24	Bills
$600	**Customer Charge****
$14,400	Customer Charge Revenue

Demand Charge Revenue

417,249	kw
$1.12	**Demand Charge**
$467,319	Demand Charge Revenue
9,911	kVar
$0.24	**Reactive Demand Charge**
$2,379	Reactive Demand Charge Revenue

PROOF OF REVENUE

	Rate	Bills/kwh	Revenue
Customer Charge	$600.00	24	$14,400
Demand Charge	$1.12	417,249	$467,319
Reactive Demand Charge	$0.24	9,911	$2,379
TOTAL REVENUE			**$484,098**
Target Revenue			$484,098
Difference			$0

*Stipulated Issue 121
**Stipulated Issue 124

SCHEDULE 6

FLORIDA PUBLIC UTILITIES COMPANY
Docket No. 070304-EI
Monthly 1,000 Kilowatt-Hour Residential Electric Bill
Purchased Power and Conservation Factors effective for the respective period

	Northwest Division prior Interim	Northwest Division Interim(1)	Northwest Division Jan 08(2)	Northwest Division Proposed(3)
Customer Charge	$10.00	$10.59	$10.59	$12.00
Energy Charge	$13.73	$14.53	$14.53	$19.25
Purchased Power	$53.48	$53.48	$76.10	$76.10
Conservation	$0.60	$0.60	$0.67	$0.67
Gross Receipts Taxes	$2.00	$2.03	$2.61	$2.77
Total Monthly Bill	**$79.81**	**$81.23**	**$104.50**	**$110.79**

	Northeast Division prior Interim	Northeast Division Interim	Northeast Division Jan-08	Northeast Division Proposed
Customer Charge	$10.00	$10.59	$10.59	$12.00
Energy Charge	$13.73	$14.53	$14.53	$19.25
Purchased Power	$63.55	$63.55	$66.28	$66.28
Conservation	$0.60	$0.60	$0.67	$0.67
Gross Receipts Taxes	$2.25	$2.29	$2.36	$2.52
Total Monthly Bill	**$90.13**	**$91.56**	**$94.43**	**$100.72**

(1) Interim Rates went into effect November 23, 2007
(2) Reflects Purchased Power and Conservation factors that went into effect January 2008.
(3) Effective 30 days after the Commission vote in this proceeding.

Schedule 7

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 070304-EI
SCHEDULE OF PRESENT, FPUC PROPOSED, AND STAFF-RECOMMENDED STREET AND OUTDOOR LIGHTING RATES

STREET LIGHTING - SL 1-2

		Facilities Charge			Energy Charge			Maintenance Charge			Total Monthly Charge		
Type of Fixture	Description	Present	FPUC Proposed	Staff Recommended	Present	FPUC Proposed	Staff Recommended	Present	FPUC Proposed	Staff Recommended	Present	FPUC Proposed	Staff Recommended
175w MV SL1-2	Cobra Head	$0.61	$0.87	$0.67	$2.16	$3.09	$2.71	$0.92	$1.32	$1.23	$3.69	$5.28	$4.61
400w MV SL1-2	Cobra Head	$1.02	$1.46	$1.13	$4.62	$6.61	$5.81	$1.05	$1.50	$1.40	$6.69	$9.57	$8.34

STREET LIGHTING - SL-3

		Facilities Charge			Energy Charge			Maintenance Charge			Total Monthly Charge		
Lumens	Description	Present	FPUC Proposed	Staff Recommended	Present	FPUC Proposed	Staff Recommended	Present	FPUC Proposed	Staff Recommended	Present	FPUC Proposed	Staff Recommended
150w HPS	Acorn	$7.95	$11.37	$10.47	$1.83	$2.62	$2.34	$4.68	$6.69	$6.15	$14.46	$20.68	$18.96
100w HPS	Amer Rev.	$4.55	$6.51	$5.99	$1.23	$1.76	$1.58	$2.89	$4.13	$3.80	$8.67	$12.40	$11.37
150w HPS	Amer Rev.	$4.44	$6.35	$5.85	$1.83	$2.62	$2.34	$3.26	$4.66	$4.28	$9.53	$13.63	$12.47
175w MH	ALN 440	$16.97	$24.27	$22.36	$2.13	$3.05	$2.75	$1.30	$1.86	$1.71	$20.40	$29.18	$26.82
100w HPS	Cobra Head	$3.32	$4.75	$4.37	$1.23	$1.76	$1.58	$2.12	$3.03	$2.78	$6.67	$9.54	$8.73
200w HPS	Cobra Head	$0.00	$6.09	$5.61	$2.43	$3.47	$3.13	$2.19	$3.13	$2.88	$4.62	$12.69	$11.62
250w HPS	Cobra Head	$4.08	$5.83	$5.38	$3.03	$4.33	$3.88	$3.00	$4.29	$3.94	$10.11	$14.45	$13.20
400w MH	Cobra Head	$4.77	$6.82	$6.28	$4.86	$6.95	$6.26	$3.36	$4.80	$4.41	$12.99	$18.57	$16.95
250w HPS	Flood	$7.00	$10.01	$9.22	$3.03	$4.33	$3.88	$4.10	$5.86	$5.38	$14.13	$20.20	$18.48
400 MH	Flood	$7.31	$10.45	$9.63	$4.86	$6.95	$6.26	$8.82	$12.61	$11.58	$20.99	$30.01	$27.47
1000w MH	Flood	$8.42	$12.04	$11.09	$12.15	$17.37	$15.61	$5.17	$7.39	$6.79	$25.74	$36.80	$33.49

	Pole Charge		
POLES	Present	FPUC Proposed	Staff Recommended
10' Alum Deco Base	$11.31	$16.17	$14.92
35' Concrete Square	$9.71	$13.89	$12.81
13' Deco Concrete	$7.85	$11.23	$10.35
20' Deco Concrete	$8.68	$12.41	$11.45
18' Fiberglass Round	$5.78	$8.27	$7.64
30' Wood Pole Std.	$2.78	$3.98	$3.67
40' Wood Pole Std.	$6.85	$9.80	$0.00

Schedule 8

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 070304-EI
SCHEDULE OF PRESENT, FPUC PROPOSED, AND STAFF-RECOMMENDED STREET AND OUTDOOR LIGHTING RATES

OUTDOOR LIGHTING - OL

Type of Fixture	Description	Facilities Charge			Energy Charge			Maintenance Charge			Total Monthly Charge		
		Present	FPUC Proposed	Staff Recommended	Present	FPUC Proposed	Staff Recommended	Present	FPUC Proposed	Staff Recommended	Present	FPUC Proposed	Staff Recommended
175w MV	Cobra Head	$2.11	$2.53	$1.44	$2.16	$2.59	$2.72	$0.41	$0.49	$0.52	$4.68	$5.61	$4.68
400w MV	Cobra Head	$5.77	$6.92	$4.39	$4.62	$5.54	$5.82	$0.71	$0.85	$0.89	$11.10	$13.31	$11.10
	Pole - Wood	$3.53	$4.24	$3.53									

OUTDOOR LIGHTING - OL2

Type of Fixture	Description	Facilities Charge			Energy Charge			Maintenance Charge			Total Monthly Charge		
150w HPS	Acorn	$12.50	$15.00	$14.42	$1.83	$2.20	$2.34	$1.51	$1.81	$1.83	$15.84	$19.01	$18.59
150w HPS	ALN 440	$18.60	$22.32	$21.46	$1.83	$2.20	$2.34	$2.16	$2.59	$2.61	$22.59	$27.11	$26.41
175w HPS	ALN 440	$18.72	$22.46	$21.60	$2.13	$2.56	$2.75	$2.20	$2.64	$2.66	$23.05	$27.66	$27.01
100w HPS	American Revolution	$7.02	$8.42	$8.10	$1.23	$1.48	$1.58	$0.95	$1.14	$1.15	$9.20	$11.04	$10.83
150w HPS	American Revolution	$7.20	$8.64	$8.31	$1.83	$2.20	$2.34	$0.94	$1.13	$1.14	$9.97	$11.97	$11.79
100w HPS	Cobra Head	$5.31	$6.37	$6.13	$1.23	$1.48	$1.55	$0.79	$0.95	$0.96	$7.33	$8.80	$8.64
200w HPS	Cobra Head	$8.08	$9.70	$9.32	$2.43	$2.92	$3.13	$0.35	$0.42	$0.42	$10.86	$13.04	$12.87
250wHPS	Cobra Head	$9.72	$11.66	$11.21	$3.03	$3.64	$3.88	$1.21	$1.45	$1.46	$13.96	$16.75	$16.55
400w HPS	Cobra Head	$7.31	$8.77	$8.43	$4.86	$5.83	$6.26	$1.11	$1.33	$1.34	$13.28	$15.93	$16.03
250w HPS	Flood	$7.36	$8.83	$8.49	$3.03	$3.64	$3.88	$1.11	$1.33	$1.34	$11.50	$13.80	$13.71
400w HPS	Flood	$11.34	$13.61	$13.08	$4.86	$5.83	$6.26	$1.37	$1.64	$1.66	$17.57	$21.08	$21.00
400w MH	Flood	$7.64	$9.17	$8.81	$4.86	$5.83	$6.26	$1.15	$1.38	$1.39	$13.65	$16.38	$16.46
1000w HPS	Flood	$14.20	$17.04	$16.38	$12.15	$14.58	$15.61	$1.81	$2.17	$2.19	$28.16	$33.79	$34.18
1000w MH	Flood	$13.18	$15.82	$15.20	$12.15	$14.58	$15.61	$1.68	$2.02	$2.03	$27.01	$32.42	$32.84
175w MH	Shoebox	$14.41	$17.29	$16.62	$2.13	$2.56	$2.75	$1.78	$2.14	$2.15	$18.32	$21.99	$21.52
250w MH	Shoebox	$15.33	$18.40	$17.69	$3.03	$3.64	$3.88	$1.98	$2.38	$2.40	$20.34	$24.42	$23.97
100w HPS	SP2 Spectra	$15.76	$18.91	$18.18	$1.23	$1.48	$1.58	$2.61	$3.13	$3.16	$19.60	$23.52	$22.92
100wMH	SP2 Spectra	$15.64	$18.77	$18.04	$1.23	$1.48	$1.58	$1.82	$2.18	$2.20	$18.69	$22.43	$21.82
1000w MH	Vert Shoebox	$18.47	$22.16	$21.31	$12.15	$14.58	$15.61	$2.22	$2.66	$2.69	$32.84	$39.40	$39.61

POLES	Pole Charge		
	Present	FPUC Proposed	Staff Recommended
10' Alum Deco Base	$11.64	$13.97	$13.50
35' Concrete Square	$9.89	$11.87	$11.45
13' Decorative Concrete	$8.94	$10.73	$10.36
20' Decorative Concrete	$10.13	$12.16	$11.75
18' Fiberglass Round	$5.93	$7.12	$6.86
30' Wood Pole Std.	$3.35	$4.02	$3.95
40' Wood Pole Std.	$6.76	$8.11	$7.85