DIRECT SUPPLEMENTAL TESTIMONY
OF
APRIL LUNDGREN
IN

FLORIDA PUBLIC UTITITIES COMPANY
DOCKET NO 080366-GU

IN RE: PETITION OF
FLORIDA PUBLIC UTILITIES COMPANY
FOR A NATURAL GAS RATE INCREASE

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

A. My name is April Lundgren. I am the Assistant Controller for Florida Public Utilities Company. I began working for the Company in 2001 as the Financial Accountant, was promoted to Senior Financial Accountant, Senior SEC Accountant, and subsequently to my current position as Assistant Controller. Between January 2005 and May 2006, I held the position of Project Controller at Florida Power & Light for several wind plants as well as various gas plants outside the state of Florida. My current responsibilities include overseeing regulatory, tax and special project accounting, internal control compliance and documentation, research and application of new accounting guidance. I assist with the management of the SEC reporting and budget forecasting. Additionally, I coordinate the audits for both external reporting and internal controls. I graduated from Florida Atlantic University in 2003 with a Bachelor of Business Administration, majoring in Accounting.

Q. Please state the purpose of this supplemental testimony.

A. The purpose of this supplemental testimony is to demonstrate the necessity for increasing the amount of recovery for pension costs. Through subsequent questions and answers the Company will calculate the increase in actual and expected pension costs incurred in 2009 in excess of the 2009 test year projections and will explain the appropriateness of receiving recovery of these costs.

Q. Why have the pension costs increased over the anticipated 2009 test year projections?

A. In March 2009, the Company's Board of Directors authorized amendments to the pension plan in an effort to reduce the impact of stock market volatility on anticipated future pension expenses and liability. As a result of these amendments, the Company will freeze the pension plan for all participants effective December 31, 2009. All future benefit accruals under the plan shall cease other than allowing the participants to earn up to two additional years, including freezing salary rates at levels existing in 2009. In addition to the freeze, the reduced early retirement eligibility will be lowered from 30 years to 20 years and two additional service years can be earned by active participants with less than 35 years of service at the December 31, 2009 average compensation levels for the purposes of benefit accrual, vesting and retirement eligibility. Beyond December 31, 2011, active participants will continue to accrue service years for the purposes of vesting and retirement eligibility.

The amendments to the plan have been accounted for in accordance with SFAS No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits. The pension liability has been reduced by $5.7 million and we recognized approximately a $2.7 million non-cash pretax curtailment loss of which $2.3 million is reflected in expenses and $400,000 is reflected on the balance sheet as in the Company's consolidated statements.

The freeze will reduce the defined benefit pension plan expenses beginning in the second quarter of 2009. However, the Company will incur costs associated with the 401k match. With the freeze, the cumulative pension expense and pension contributions are expected to be approximately $500,000 and $13 million, respectively spread over the period 2009 through 2013 (Exhibit AL-1).

Q. Why is it appropriate to recover these additional pension costs? What time period is appropriate for recovery?

A. Pension benefits are much like our payroll costs in that they supplement an employee's salary allowing the Company to keep payroll expenses lower than would otherwise be incurred. Through previous rate cases the Company has demonstrated successfully that pension costs are necessary, prudent business expenses. As the business environment has changed and the volatility in the stock market increased, it was necessary for the Company to reevaluate the cost-benefit of providing pension benefits to employees. In March 2009, the Company announced that continuation of the pension plan was no longer a prudent means of supplementing employees' salaries due to the volatility of the stock market among various other factors. The Company froze the plan effectively reducing the impact of the stock market volatility and that impact on future anticipated increases to the defined benefit pension plan costs. Upon freezing the pension plan, the prior service costs component of pension expense, which was previously deferred as a regulatory asset and OCI, was recognized immediately. Although this is a one-time expense, the costs are a direct result of many years of service provided by employees to our customers. Non-curtailment pension costs are currently recoverable as set forth in prior rate proceedings. These non-curtailment pension costs are comprised of the exact same components as the curtailment pension costs. The deferred prior service costs are recognized as expense when amortized over a five year smoothing period in a non-curtailment situation. When a curtailment occurs, the deferred prior service costs are recognized immediately, but they are the same costs normally recoverable in non-curtailment situations. It is therefore appropriate to recover the natural gas portion of the curtailment expense over a four year period to match the period of time that the rates are to be in place.

Q. What additional pension costs have been incurred in 2009 to date?

A. As our original projection did not include any curtailment costs, the entire $2.3 million in pension curtailment costs recognized in expense in the first quarter is in excess of our original projection. The portion allocated to natural gas is 53% or $1,219,000. Amortization over a four year period would result in an additional $304,750 in pension expense to be recovered in 2009.

Q. Please explain the long-term benefit of the freeze.

A. While the immediate impact of implementing the pension plan freeze was an increase in pension costs due to curtailment related expenses and lower pension liability, the long-term benefit in cost-savings to the Company and the consumer is far greater. By freezing the plan, the Company has placed a cap on the earnable benefit to the employee, and thus a cap on the expense the Company will eventually recognize. Although the Company will continue to incur pension expense relating to various actuarial assumptions such as life expectancy, we will no longer incur costs relating to an employee's future years of service (other than the additional two years previously discussed) and future anticipated salary increases. We will also reduce the volatility of our pension liability. However, more employees will begin participating in the Company's 401k program which will increase related expenses. We expect the annual 401K match expense to exceed $500,000 annually.

Q. Have there been subsequent events that may cause Taxes Other Than Income (4080) to deviate from the projected expense as filed?

A. Yes. The TOTI projections were based on historical amounts increased for inflation at a rate of 1.0274. However, taxing agencies have recently announced that projected tax rates will be increasing at an average rate of 1.15. The inflation factor used for the 2009 projections is significantly less than what the economy is experiencing. This will cause an increase in our 2009 TOTI projection of $160,238.77, calculated as follows:

2008 tax bills	$1,307,004.67
Increased for inflation rate of 1.0274	$1,342,816.60
Increased for known rate of 1.15	$1,503,055.37
Increase to 2009 projection	$ 160,238.77

Q. Is it appropriate to increase your TOTI expense for this increase?

A. Yes, the TOTI expense should be increased to reflect this known increase to our expenses over what was filed in our original MFRs. The increase to our property taxes will far exceed the inflation expectations, and these are appropriate for recovery.

Q. Does this conclude your written prepared supplemental testimony?

A. Yes.

Projections Reflecting the 3/31/09 Amendment

	2009	2010	2011	2012	2013
Expense					
Service Cost	$775,000	$800,000	$800,000	$0	$0
Interest Cost	$2,610,000	$2,650,000	$2,630,000	$2,660,000	$2,650,000
Expected Return on Plan Assets	-$2,660,000	-$3,080,000	-$3,170,000	-$3,195,000	-$3,200,000
Amortization of Prior Service Cost	$205,000	$0	$0	$0	$0
Amortization of Net (Gain) or Loss	$55,000	$0	$0	$0	$0
Total FAS 87 Net Periodic Pension Cost	$985,000	$370,000	$260,000	-$535,000	-$550,000
Contributions	$5,855,000	$3,650,000	$1,080,000	$1,700,000	$510,000