



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** June 24, 2004

**TO:** Director, Division of the Commission Clerk & Administrative Services (Bayó)

**FROM:** Division of Economic Regulation (Merta, Kenny, Lester, Springer, Wheeler, Winters)  
Office of the General Counsel (Jaeger)

**RE:** Docket No. 040216-GU – Application for rate increase by Florida Public Utilities Company.

**AGENDA:** 07/06/04 – Regular Agenda – Decision on Interim Rates – Participation is at the Commissioners’ Discretion

**CRITICAL DATES:** 60-Day Suspension Date: 07/09/04  
5 Month Effective Date: 10/26/04

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\040216.RCM.DOC  
Attachments 6 & 7 are not electronically submitted  
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## Case Background

This proceeding commenced on May 10, 2004, with the filing of a petition for a permanent rate increase by Florida Public Utilities Company (FPUC or the company). FPUC requested an increase of \$8,186,989 in additional annual revenues. The company based its request on a 13-month average rate base of \$65,835,210 for a projected test year ending December 31, 2005. The requested overall rate of return is 8.66% based on an 11.50% return on equity.

The company also requested an interim increase of \$1,490,980. It calculated the interim increase request using a 13-month average rate base of \$52,093,355 and an overall rate of return of 7.68% based on a return on equity of 10.40%. The interim test year is the period ended December 31, 2003.

The Commission last granted FPUC a \$1,282,001 rate increase by Order No. PSC-95-0518-FOF-GU, issued April 26, 1995, in Docket No. 940620-GU, In Re: Application for a rate increase by Florida Public Utilities Company. In that Order the Commission found the company's jurisdictional rate base to be \$27,241,536 for the projected test year ending December 31, 1995. The allowed rate of return was found to be 8.44% for the test year using an 11.40% return on equity.

Pursuant to Section 366.06(4), Florida Statutes, FPUC requested that the Commission process its petition for rate relief using Proposed Agency Action (PAA) procedures. Under that section, the Commission must enter its vote on the PAA within five months of the date on which a complete set of minimum filing requirements (MFRs) is filed with the Commission. On May 21, 2004, the company was notified that its MFRs were deficient. FPUC submitted revised MFRs on May 26, 2004 and they were deemed sufficient to meet the requirements of Rule 25-7.039(1)(a), Florida Administrative Code (F.A.C.), on that date. Therefore the commencement date was established as May 26, 2004, and the statutory five-month timeframe pursuant to Section 366.06(4), Florida Statutes, began. The Commission has jurisdiction over this request for a rate increase and interim rate increase under Sections 366.06(2) and (4), and 366.071, Florida Statutes.

**Discussion of Issues**

**Issue 1:** Should the request for a permanent increase in rates and charges be suspended for FPUC?

**Recommendation:** Yes. Staff recommends that the requested permanent increase in rates and charges of \$8,186,989 be suspended for FPUC. (Merta)

**Staff Analysis:** FPUC made its initial filing on May 10, 2004. However, there were deficiencies and FPUC did not file a complete set of MFRs until May 26, 2004, and this date was set as the commencement date. The company requested a permanent rate increase of \$8,186,989 which would produce an 8.66% overall return on its 13-month average adjusted rate base. This overall rate of return was calculated using an 11.50% return on equity. The company also requested interim rate relief in accordance with Section 366.071, Florida Statutes. In order to allow staff time to complete its review of the company's MFRs, staff recommends that the proposed rates be suspended.

Pursuant to Sections 366.06(3) and 366.071(2)(a), Florida Statutes, the Commission must take action to suspend the permanent rates and act on the interim request within 60 days of the filing. If the Commission has not taken action within five months of May 26, 2004, or if the Commission's action is protested by a party other than the utility, FPUC may place its requested rates into effect under bond, escrow, or corporate undertaking subject to refund, upon notice to the Commission and upon filing the appropriate tariffs.

**Issue 2:** Is FPUC's proposed interim test year rate base of \$52,093,355 appropriate?

**Recommendation:** No. The appropriate interim test year rate base for FPUC is \$50,496,627. (Merta)

**Staff Analysis:** Staff reviewed the rate base adjustments made in the company's last case and in the current interim filing to determine if the current case was filed consistent with the findings in the company's last rate case order, Order No. PSC-95-0518-FOF-GU. Staff determined that the adjustments that were made in the last rate case were either allocation adjustments or adjustments resulting from the staff audit that was performed for setting the permanent rates. Because the company has sold its water division and acquired South Florida Natural Gas, the rate base allocation adjustments are no longer appropriate. Consequently, because the staff audit for this case has not been completed and because the rate base adjustments from the last case are inappropriate for interim purposes, no adjustments to rate base from the last case are recommended.

Staff reviewed the rate base adjustments made in the current filing and believes that the company's adjustments are reasonable and consistent with the last case, with the exception of the following adjustments.

**Adjustment 1: Unamortized Rate Case Expense** - The company included in working capital \$4,576 in deferred rate case expense associated with this docket. In its last rate case, the Commission allowed one half of unamortized rate case expense in working capital, but only after approving the total rate case expense. Staff believes that the deferred rate case expense should be removed from working capital because rate case expense has not been approved by the Commission and thus, should be considered pro forma in nature and beyond the interim test year. Therefore, staff recommends that working capital be reduced by \$4,576. See Order No. PSC-03-0380-PCO-SU, issued March 19, 2003, in Docket No. 020408-SU, In re: Application for rate increase in Seminole County by Alafaya Utilities, Inc.

**Adjustment 2: Net Overrecovery – Unbundling** - The company made an adjustment to remove an unbundling net overrecovery, thereby increasing working capital by \$61,178. The company's expenses and revenues for unbundling are recovered through the Transition Cost Recovery Clause, similar to the PGA and conservation clauses. The company correctly included overrecoveries for PGA and conservation in working capital. Thus, consistent with Commission practice, staff believes that unbundling net overrecoveries should be treated like PGA and conservation overrecoveries and included in working capital as a liability. The rationale for including overrecoveries 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 to avoid large overrecoveries. See Order No. PSC-04-0180-PCO-GU, issued February 23, 2004, in Docket No. 030954-GU, In re: Petition for a rate increase by Indiantown Gas Company. Therefore, staff recommends that working capital be increased by \$683 for the unbundling underrecovery, and decreased by \$61,861 for the overrecovery to reverse the company's adjustments. This results in including a net overrecovery of \$61,178 (\$61,861 - \$683) in working capital.

**Adjustment 3: Negative Working Capital** - According to MFR Schedule F-1, the 13-month average per books working capital is a negative \$2,592,754. FPUC made several adjustments to

working capital, as reflected in Attachment 1A, which resulted in a negative working capital balance of \$1,530,974. The company made a further adjustment to increase adjusted working capital by \$1,530,974 to produce a working capital allowance of zero. In its last rate case, the balance sheet methodology was used and resulted in a positive working capital, therefore no adjustment was necessary to bring it to zero. Thus, staff believes that the company's adjustment is inconsistent with its last rate case.

Staff notes that the Commission has previously allowed adjustments to zero out negative working capital. In the FPUC gas division's last two interim orders, Order No. 23516, issued September 19, 1990, in Docket No. 900151-GU, In re: Application for a rate increase in natural gas operations by Florida Public Utilities Company and Order No. PSC-94-1519-FOF-GU, issued December 9, 1994, in Docket No. 940620, In re: Application for a rate increase by Florida Public Utilities Company, the Commission allowed adjustments to zero negative working capital. In addition, in the company's full revenue requirements case, by Order No. 24094, issued February 12, 1991, in Docket No. 900151-GU, In re: Application for a rate increase in natural gas operations by Florida Public Utilities Company, the Commission also allowed an adjustment to bring negative working capital to zero. Further, in the water and wastewater industry, negative working capital is generally increased to zero. However, as stated above, in FPUC's last rate case, the balance sheet methodology resulted in a positive working capital, therefore no adjustment was necessary to bring it to zero.

There are also cases where the Commission has approved negative working capital. Most recently, by 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 Commission approved a negative working capital allowance for FPUC's electric division. Negative working capital was also approved by the Commission in Order No. PSC-97-0135-FOF-EI, issued February 10, 1997, in Docket No. 961542-EI, In Re: Investigation of 1995 earnings of Florida Public Utilities Company – Fernandina Beach Electric Division, and in Order No. 21532, issued June 12, 1989, in Docket No. 880558-EI, In re: Petition of Florida Public Utilities Company for rate increase for Marianna Division. In that case the Commission stated:

Arbitrarily increasing working capital, by raising a negative working capital to zero, would require additional dollars of return on an inflated rate base. However, Section 366.06(1), Florida Statutes, allows a utility to earn a return only on funds actually invested in used and useful assets. In certain instances it would be appropriate to use a zero working capital instead of a negative: (1) if a negative allowance would have the effect of penalizing a utility for subsidization received from its parent, or (2) large accumulated losses have resulted in a balance sheet which is not typical of a going concern.

Because of the time constraints for interim rates, staff has not attempted to determine if FPUC is being subsidized by its parent or whether the reasons causing the negative working capital are typical of a going concern. The determination of the appropriate interim amount is one strictly made following the formula found in Section 366.071, Florida Statutes.

The file and suspend law "was designed to provide accelerated [rate] relief without sacrificing the protections inherent in the overall regulatory scheme." Florida Power Corporation v. Hawkins, 367 So. 2d 1011, 1013 (Fla. 1979). Interim rates, which are one aspect

of this scheme, were designed “to make a utility whole during the pendency of the proceeding without the interjection of any opinion testimony.” Citizens v. Public Service Commission, 435 So. 2d 784, 786 (Fla. 1983). Thus, the provision of interim rates is a quick and dirty means by which a utility can obtain immediate financial relief. Citizens v. Mayo, 333 So. 2d 1, 5 (Fla. 1976). In the full case the company will have the opportunity to demonstrate any special circumstances that require the negative balance to be reversed and staff will analyze this issue further.

In pre-filed testimony, FPUC stated that it is neither logical nor appropriate for adjusted working capital to reflect a negative balance due to Commission mandated adjustments, as they would result in an artificially reduced overall rate base. However, FPUC’s working capital was negative before any Commission adjustments were made. Therefore, staff believes the company’s adjustment to bring working capital to zero should be reversed. Application of the balance sheet methodology yields a negative working capital balance. Use of this methodology is consistent with the treatment allowed in the last rate case. Therefore, staff recommends that working capital be reduced by \$1,530,974.

Rate Base is shown in Attachments 1 and 1A.

**Issue 3:** Is FPUC's proposed interim test year net operating income of \$3,078,737 appropriate?

**Recommendation:** No. The appropriate interim test year net operating income for FPUC is \$3,096,833. (Merta, Kenny, Winters)

**Staff Analysis:** Staff reviewed the net operating income adjustments made in the company's last case and in the current interim filing to determine if the current case was filed consistent with the findings in Order No. PSC-95-0518-FOF-GU. Staff believes the company's adjustments are consistent with the last case, with the exception of the following adjustments which are shown on Attachment 2.

**Adjustment 4:** Interest Earned on Cash in Working Capital – In the company's last rate case, the Commission made an adjustment to include the interest earned on interest bearing cash that was included in working capital. The company included the three-year average of cash in working capital in the interim test year. Consistent with the last rate case, staff recommends that revenues be increased by \$1,448 to include the interest earned on cash.

**Adjustment 5:** Annualization of Overheads for Discontinued Operations – In March 2003, FPUC sold its water operation. As a result, overheads are now allocated over fewer entities. FPUC made an adjustment to increase expenses by \$64,822 and \$534 to include three months of overheads to annualize these expenses. Pursuant to Section 366.071(5)(b)1., Florida Statutes, the only annualization adjustments that should be made to the interim test year amounts are customer rate changes that became effective during the interim test year. Therefore, staff recommends that expenses be reduced by \$64,822 and by \$534.

**Adjustment 6:** Taxes Other Than Income – Gross Receipts Tax - The calculated revenues include gross receipts tax (GRT) of \$1,172,812. The company has included \$1,177,606 of GRT in its calculation of taxes other than income (TOTI). The GRT included in the calculated revenues represents the actual amount of GRT collected. The GRT included in TOTI represents a calculated amount based on total revenues. The amount of GRT included in revenues should match the amount of GRT included in TOTI. Therefore, TOTI should be reduced by \$4,794 to reflect the actual amount of GRT collected.

**Adjustment 7:** Taxes Other Than Income – Regulatory Assessment Fees - The company has included \$265,788 of regulatory assessment fees (RAF) in its calculation of taxes other than income. The company removed a total of \$151,283 of RAF related to fuel, conservation and unbundling, and Area Expansion Program revenues to reflect a balance of \$114,505. Based on staff's calculated revenues of \$21,719,048, RAF should reflect a balance of \$108,595. Therefore, staff has adjusted taxes other than income to decrease RAF by \$5,910.

**Adjustment 8:** Income Taxes – Interest Reconciliation Adjustment – Staff made an adjustment to increase the company's income tax expense by \$26,994. This adjustment represents staff's adjustments based on the recommended capital structure and cost rates.

**Adjustment 9:** Income Taxes – Tax Effect of Permanent Differences – Staff made an adjustment to increase the company's income tax expense by \$3,251. This adjustment represents the income tax on permanent differences (nondeductible meals of \$8,641).

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**Adjustment 10:** Income Taxes – Tax Effect of Other Adjustments – Staff made an adjustment to increase the company's income tax expense by \$29,166. This adjustment is a fallout based on other income and expense adjustments.

Based on the net effect of the adjustments discussed above, staff recommends interim test year net operating income of \$3,096,833.



**Issue 4:** Are FPUC's proposed return on equity of 10.40% and overall cost of capital of 7.68% appropriate for purposes of determining interim rates?

**Recommendation:** No. Staff recommends that, while FPUC's proposed return on equity of 10.40% is appropriate, the overall cost of capital should be 7.65%. (Lester)

**Staff Analysis:** The Commission traditionally establishes a range around the return on equity of plus or minus 100 basis points, and interim rates are set using the return on equity at the low end of the range (the authorized return on equity minus 100 basis points). However, in the last rate case, the Commission approved a stipulation by Order PSC-95-0518-FOF-GU, issued April 26, 1995, in which FPUC's return on equity was set at 11.40% with no range. In its request for interim rates, FPUC used a return on equity of 10.40%. Staff notes this agrees with the Commission's traditional method and believes the 10.40% return on equity is appropriate.

In agreement with its last rate case, FPUC removed non-utility investment (Flo-Gas, its propane gas operations) specifically from common equity at the consolidated level in reconciling rate base and capital structure. Staff's adjustment to interim rate base has a nominal impact effect on the overall cost of capital because the rate base adjustment is reconciled to the capital structure on a pro rata basis over investor sources. This treatment slightly increases the relative weight of deferred taxes, investment tax credits, and customer deposits in the capital structure. Based upon the proper components, amounts, and cost rates associated with the capital structure for the interim test year ended December 31, 2003, staff recommends a weighted average cost of capital of 7.65%. Attachment 3 details staff's recommendation.

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**Issue 5:** Are FPUC's proposed revenue expansion factor and interim net operating income multiplier of 0.618087 and 1.61790, respectively, appropriate?

**Recommendation:** Yes. The appropriate revenue expansion factor is .618087, and the appropriate net operating income multiplier is 1.6179. (Winters, Merta)

**Staff Analysis:** On MFR Schedule F-6, the company calculated a revenue expansion factor of 0.618087 and a net operating multiplier of 1.61790, using a 34% federal income tax rate and a 5.5% state income tax rate. Additionally, the company applied a 0.5% factor for regulatory assessment fees and a 0.4% bad debt rate. Staff reviewed the company's calculation of the revenue expansion factor and the net operating income multiplier and is proposing no adjustments. The revenue expansion factor and net operating income multiplier are shown on Attachment 4.

**Issue 6:** Should FPUC's requested interim revenue increase of \$1,490,980 be granted?

**Recommendation:** No. After making the previous adjustments, the interim revenue increase for FPUC should be \$1,236,108. (Merta)

**Staff Analysis:** The company requested \$1,490,980 in interim revenue relief for the historical base year ended December 31, 2003. Based on the company's calculations and adjustments, this would have allowed the company to earn an overall rate of return of 7.68%. Based on the previously discussed staff adjustments, staff has determined the interim rate base is \$50,496,627, and the net operating income is \$3,096,833. Applying a 7.65% overall rate of return, the company is entitled to \$1,236,108 in interim relief, as shown on Attachment 5.

**Issue 7:** How should the interim revenue increase for FPUC be distributed among the rate classes?

**Recommendation:** Any interim revenue increase approved should be applied evenly across the board to all rate classes based on their base rate revenues, as required by Rule 25-7.040, Florida Administrative Code, and should be recovered on a cents-per-therm basis. The interim rates should be made effective for all meter readings made on or after thirty days from the date of the vote approving any interim increase. The company should give notice to customers of the interim increase commencing with the first bill for service that reflects the increase. (Wheeler, Springer)

**Staff Analysis:** As shown on Attachments 6A and 6B, staff has determined the cents-per-therm increases to be applied to each rate class based on staff's recommended interim increase of \$1,236,108. The increases were calculated using the methodology contained in Rule 25-7.040, Florida Administrative Code, which requires that any increase be applied evenly across the board to all rate classes based on their base rate revenues. Attachment 7 contains monthly bill amounts for each rate class comparing the present rates with the staff-recommended interim rates.

The interim rates should be made effective for all meter readings made on or after thirty days from the date of the Commission vote approving any interim increase. FPUC should be required to give appropriate notice to customers commencing with the first bill for service that reflects the approved interim increase that explains the nature, purpose, and effect of the increase. A copy of the notice should be submitted to the Division of Economic Regulation for approval prior to its use.

**Issue 8:** What is the appropriate security to guarantee the amount collected subject to refund?

**Recommendation:** The appropriate security to guarantee the funds collected subject to refund is a corporate undertaking. (Lester)

**Staff Analysis:** Staff analyzed FPUC's financial statements for 2001, 2002, and 2003. Based on the financial ratios from this analysis, staff notes that FPUC has adequate liquidity, profitability, ownership equity, and interest coverage to support a corporate undertaking in the amount of \$622,689. Staff calculated this amount based on the recommended interim increase being in effect for 6 months plus an allowance for interest.

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**Issue 9:** Should this docket be closed?

**Recommendation:** No, this docket should remain open to process the revenue increase request of the company. (Jaeger)

**Staff Analysis:** This docket should remain open pending the Commission's final resolution of the company's requested rate increase.

COMPARATIVE RATE BASES

FLORIDA PUBLIC UTILITIES COMPANY  
DOCKET NO. 040216-GU  
TYE 12/31/03 INTERIM

ATTACHMENT 1  
22-Jun-04

ADJ. NO.	TOTAL PER BOOKS	COMPANY ADJS.	COMPANY ADJUSTED	STAFF ADJS.	STAFF ADJUSTED
PLANT IN SERVICE					
UTILITY PLANT	76,939,416				
Remove nonregulated plant		(1,140,078)			
Remove Misc. Intangible Plant-non-comp		(584,615)			
Remove Misc. Intangible Plant-non-comp		(1,315,385)			
COMMON PLANT ALLOCATED	2,875,870				
ACQUISITION ADJUSTMENT	1,816,579				
Remove SFNG acquisition goodwill		(1,513,179)			
PLANT HELD FOR FUTURE USE	0				
CONSTRUCTION WORK IN PROGRESS	2,415,486				
COMMON CWIP ALLOCATED	75,007				
TOTAL PLANT	<u>84,122,358</u>	<u>(4,553,257)</u>	<u>79,569,101</u>	<u>0</u>	<u>79,569,101</u>
DEDUCTIONS					
ACCUM. DEPR.- PLANT IN SERVICE	26,054,856				
Remove nonregulated Plant reserve		(511,973)			
ACCUM. DEPR.- COMMON PLANT	697,676				
ACCUM. DEPR.- ACQUISITION ADJ.	310,180				
CUSTOMER ADVANCES FOR CONSTR.	925,007				
TOTAL DEDUCTIONS	<u>27,987,719</u>	<u>(511,973)</u>	<u>27,475,746</u>	<u>0</u>	<u>27,475,746</u>
NET UTILITY PLANT	56,134,639	(4,041,284)	52,093,355	0	52,093,355
WORKING CAPITAL ALLOWANCE	<u>(2,592,754)</u>	<u>2,592,754</u>	<u>0</u>	<u>(1,596,728)</u>	<u>(1,596,728)</u>
TOTAL RATE BASE	<u>53,541,885</u>	<u>(1,448,530)</u>	<u>52,093,355</u>	<u>(1,596,728)</u>	<u>50,496,627</u>

COMPARATIVE WORKING CAPITAL COMPONENTS

FLORIDA PUBLIC UTILITIES COMPANY  
DOCKET NO. 040216-GU  
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ATTACHMENT 1A  
22-Jun-04

ADJ. NO.	TOTAL PER BOOKS	COMPANY ADJS.	COMPANY ADJUSTED	STAFF ADJS.	STAFF ADJUSTED
<b>ASSETS</b>					
	5,446		5,446		5,446
	1,030,151	(772,110)	258,041		258,041
	3,039,411	(3,039,411)	0		0
	(1)		(1)		(1)
	8,623		8,623		8,623
	4,426,935		4,426,935		4,426,935
	249,459		249,459		249,459
	(139,296)		(139,296)		(139,296)
	438,569		438,569		438,569
	17,909		17,909		17,909
	271,292		271,292		271,292
	1,497,990		1,497,990		1,497,990
	66,755		66,755		66,755
	705,691		705,691		705,691
	3,503	(3,503)	0		0
1	4,576		4,576	(4,576)	0
	26,363		26,363		26,363
	89,594		89,594		89,594
	3,770,461	(3,770,461)	0		0
	169,687		169,687		169,687
2	683	(683)	0	683	683
	1,436,180		1,436,180		1,436,180
	18,388		18,388		18,388
	(27)		(27)		(27)
<b>LIABILITIES</b>					
	59,070		59,070		59,070
	1,299,227		1,299,227		1,299,227
	267,483		267,483		267,483
	3,376,586		3,376,586		3,376,586
	436,296		436,296		436,296
	2,644		2,644		2,644
	107,013		107,013		107,013
	63,244		63,244		63,244
	1,640,149		1,640,149		1,640,149
	330,063		330,063		330,063
	4,577		4,577		4,577
	592,894		592,894		592,894
	106,230		106,230		106,230
	1,617		1,617		1,617
	61,627		61,627		61,627
	704,143		704,143		704,143
	161,444		161,444		161,444
	661,997		661,997		661,997
	82,253		82,253		82,253
	454		454		454
	360		360		360
	462,110		462,110		462,110
	550,897		550,897		550,897
2	61,861	(61,861)	0	61,861	61,861
	4,927,395	(4,927,395)	0		0
	3,658,692	(3,658,692)	0		0
	110,770		110,770		110,770
3		(1,530,974)	(1,530,974)	1,530,974	0
TOTALS	(2,592,754)	2,592,754	0	(1,596,728)	(1,596,728)



COMPARATIVE NOIs

FLORIDA PUBLIC UTILITIES COMPANY  
DOCKET NO. 040216-GU  
TYE 12/31/03 INTERIM

ATTACHMENT 2  
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22-Jun-04

ADJ. NO.	TOTAL PER BOOKS	COMPANY ADJS.	COMPANY ADJUSTED	STAFF ADJS.	STAFF ADJUSTED
OPERATING REVENUES					
	Base Revenues	17,043,850			
	Fuel	27,772,085	(27,772,085)		
	Conservation	2,125,541	(2,125,541)		
	Unbundling	(24,125)	24,125		
	Gross Receipts Tax	1,172,812			
	Franchise Tax	1,287,446			
	Other Operating Revenues	4,232,866			
	Lake Worth termination fee		(1,500,000)		
	Area Expansion Program		(354,368)		
	Est. overearnings to be applied to Environ.		105,000		
	Other fuel, conser. & unbundling revs.		(270,006)		
4	Include interest on cash in working capital			1,448	
	<b>TOTAL REVENUES</b>	<b>53,610,475</b>	<b>(31,892,875)</b>	<b>21,717,600</b>	<b>1,448</b>
OPERATING EXPENSES					
	Operation	10,556,373			
	To average uncollectibles/Lake Worth		189,122		
	Exclude economic development exp.		(250)		
5	Discontinued operations		64,822	(64,822)	
	Correction of an allocation		(9,103)		
	Corrections of vouchers		(7,894)		
	Transfer of advertising for builder		(18,000)		
	Maintenance	1,077,610			
	Cost of Gas	27,837,662	(27,837,662)		
	Conservation	2,115,951	(2,115,950)		
	Storage & Unbundling	44,349	(44,349)		
5	Discontinued operations		534	(534)	
	<b>TOTAL O &amp; M EXPENSE</b>	<b>41,631,945</b>	<b>(29,778,730)</b>	<b>11,853,215</b>	<b>(65,356)</b>

COMPARATIVE NOIs

FLORIDA PUBLIC UTILITIES COMPANY  
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ATTACHMENT 2  
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ADJ. NO.	TOTAL				
	PER BOOKS	COMPANY ADJS.	COMPANY ADJUSTED	STAFF ADJS.	STAFF ADJUSTED
	DEPRECIATION	2,315,532			
	Remove Nonutility Plant Depreciation		(51,597)		
	AMORTIZATION	251,640			
	Remove Area Expansion Program		(352,596)		
	Reverse Environ adj. prior year		100,000		
	TOTAL DEPRECIATION & AMORT.	2,567,172	(304,193)	2,262,979	0
	TAXES OTHER THAN INCOME	4,221,195			
	Remove Fuel related RAF		(138,994)		
	Remove Conserv. & unbundling related RAF		(10,517)		
	Remove common property		(42,563)		
	Remove AEP related RAF		(1,772)		
6	Reduce GRT expense to match GRT revenue adj.			(4,794)	
7	Reduce RAF to staff calculation			(5,910)	
	TOTAL TAXES OTHER THAN INCOME	4,221,195	(193,846)	4,027,349	(10,704)
	INCOME TAX EXPENSE	(455,518)			
	Increase for Fuel Related		1,016		
	Increase for Conserv./ Unbundling Related		476		
	Increase for est. overearnings - environ.		39,512		
	Increase for economic development		94		
	Decrease for Environmental amort. adj.		(37,630)		
	Increase for Non-utility depreciation		19,416		
	Decrease for discontinued operations		(24,593)		
	Decrease for IT adjustments		(574,029)		
8	Interest Synch.		214,764	26,994	
9	Increase for permanent differences			3,251	
10	Increase income tax exp for other adjustments			29,166	
	DEFERRED INCOME TAX	1,353,123			
	INVESTMENT TAX CREDIT	(41,310)			
	TOTAL INCOME TAXES	856,295	(360,974)	495,321	59,411
	TOTAL OPERATING EXPENSES	49,276,607	(30,637,743)	18,638,864	(16,649)
	NET OPERATING INCOME	4,333,868	(1,255,132)	3,078,736	18,097

Docket No. 040216-GU  
Date: June 24, 2004

FLORIDA PUBLIC UTILITIES  
COMPANY  
TYE12/31/03 INTERIM  
DOCKET NO. 040216-GU

CAPITAL STRUCTURE – 13 MONTH AVERAGE

ATTACHMENT 3  
22-Jun-04

	CONSOLIDATED	13 MO AVG FLO- GAS	FPUC PER BOOKS	GAS SPECIFIC	ADJUSTED BALANCE	PRO RATA	STAFF ADJUSTED	RATIO	COST RATE	WEIGHTED COST
LONG TERM DEBT	50,142,509	0	50,142,509		50,142,509	(27,754,709)	22,387,800	44.34%	8.13%	3.80%
SHORT TERM DEBT	4,390,462	0	4,390,462		4,390,462	(2,430,193)	1,960,269	3.88%	1.71%	0.07%
PREFERRED STOCK	600,000	0	600,000		600,000	(332,110)	267,890	0.53%	4.75%	0.03%
COMMON EQUITY	39,621,866	(2,136,611)	37,485,255		37,485,255	(20,748,709)	16,736,546	33.14%	10.40%	3.45%
CUSTOMER DEPOSITS	5,843,116	(501,480)	5,341,636	(1,710,275)	3,631,361		3,631,361	7.19%	6.13%	0.44%
DEFERRED TAXES	11,276,005	(1,837,401)	9,438,604	(4,284,529)	5,154,075		5,154,075	10.21%	0.00%	0.00%
ITC AT ZERO COST	1,731	0	1,731	(1,612)	119		119	0.00%	0.00%	0.00%
ITC AT OVERALL COST	639,402	(6,061)	633,341	(274,773)	358,568		358,568	0.71%	8.72%	0.06%
TOTAL	112,515,091	(4,481,553)	108,033,538	(6,271,189)	101,762,349	(51,265,722)	50,496,627	100.00%		7.65%

NET OPERATING INCOME MULTIPLIER  
 FLORIDA PUBLIC UTILITIES COMPANY  
 DOCKET NO. 040216-GU  
 TYE 12/31/03 INTERIM

ATTACHMENT 4  
 22-Jun-04

DESCRIPTION	COMPANY PER FILING	STAFF
REVENUE REQUIREMENT	100.0000%	100.0000%
GROSS RECEIPTS TAX RATE	0.0000%	0.0000%
REGULATORY ASSESSMENT RATE	0.5000%	0.5000%
BAD DEBT RATE	0.4000%	0.4000%
NET BEFORE INCOME TAXES	<u>99.1000%</u>	<u>99.1000%</u>
STATE INCOME TAX RATE	5.5000%	5.5000%
STATE INCOME TAX	5.4505%	5.4505%
NET BEFORE FEDERAL INCOME TAXES	<u>93.6495%</u>	<u>93.6495%</u>
FEDERAL INCOME TAX RATE	34.0000%	34.0000%
FEDERAL INCOME TAX	31.8408%	31.8408%
REVENUE EXPANSION FACTOR	<u>61.8087%</u>	<u>61.8087%</u>
NET OPERATING INCOME MULTIPLIER	<u><u>1.6179</u></u>	<u><u>1.6179</u></u>

COMPARATIVE REVENUE DEFICIENCY CALCULATIONS

FLORIDA PUBLIC UTILITIES COMPANY  
 DOCKET NO. 040216-GU  
 TYE 12/31/03 INTERIM

ATTACHMENT 5  
 22-Jun-04

	<u>COMPANY ADJUSTED</u>	<u>STAFF</u>
RATE BASE (AVERAGE)	\$52,093,355	\$50,496,627
RATE OF RETURN	X <u>7.68%</u>	X <u>7.65%</u>
REQUIRED NOI	<u>\$4,000,289</u>	<u>\$3,860,853</u>
Operating Revenues	21,717,600	21,719,048
Operating Expenses:		
Operation & Maintenance	11,853,215	11,787,859
Depreciation & Amortization	2,262,979	2,262,979
Amortization of Environ. Costs	0	0
Taxes Other than Income Taxes	4,027,349	4,016,645
Income Taxes	495,321	554,732
Total Operating Expenses	18,638,864	18,622,215
ACHIEVED NOI	<u>3,078,736</u>	<u>3,096,833</u>
NET REVENUE DEFICIENCY	921,553	764,020
Revenue Tax Factor	1.6179	1.6179
TOTAL REVENUE DEFICIENCY	<u><u>\$1,490,980</u></u>	<u><u>\$1,236,108</u></u>