State of Florida

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-

DATE: August 2, 2007

TO: Commission Clerk (Cole)

FROM: Division of Economic Regulation (Slemkewicz, Springer)
Office of the General Counsel (Jaeger)

RE: Docket No. 070107-GU – Investigation into 2005 earnings of the gas division of Florida Public Utilities Company

AGENDA: 08/14/07 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\070107.RCM.DOC

Case Background

Through the Commission's continuing earnings surveillance program, staff noted that the Gas Division of Florida Public Utilities Company (FPUC or Company) had reported an achieved return on equity (ROE) of 16.02 percent on its June 2005 Earnings Surveillance Report (ESR) that was timely filed on August 15, 2005. This reported ROE exceeded the 12.25 percent maximum ROE authorized in Docket No. 040216-GU.[1] Staff subsequently contacted FPUC concerning the potential for overearnings for calendar year 2005. On September 28, 2005,

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[1] Order No. PSC-04-1110-PAA-GU, issued November 8, 2004, in Docket No. 040216-GU, In re: Application for rate increase by Florida Public utilities Company.

FPUC submitted a letter[2] to the staff in which it agreed to cap the earnings of the Gas Division at a 12.25 percent ROE for calendar year 2005.

On March 6, 2006, FPUC submitted its December 2005 ESR and reported an achieved ROE of 13.82 percent. This reported ROE exceeded the 2005 ROE cap by 157 basis points. FPUC subsequently submitted another letter,[3] dated February 13, 2007, to staff. This letter proposed applying the overearnings to the unrecovered storm costs[4] currently being recovered through a surcharge with any remaining overearnings applied to the storm reserve. The Staff requested an audit of FPUC's December 2005 ESR to verify the amount of any overearnings.

The Gas Division of FPUC is engaged in business as a natural gas utility company providing distribution and gas transportation service to over 51,000 customers located in Broward, Martin, Palm Beach, Seminole and Volusia Counties. FPUC is also engaged in a separately regulated business as an electric utility providing service in Fernandina Beach and Marianna.

Jurisdiction over this matter is vested in the Commission by several provisions of Chapter 366, including Sections 366.04, 366.05 and 366.06, Florida Statutes.

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[2] Document No. 01310-07 in Docket No. 070107-GU.
[3] Document No. 01726-07 in Docket No. 070107-GU.
[4] Order No. PSC-05-1040-PAA-GU, issued October 25, 2005, in Docket No. 041441-GU, In re: Petition for approval of storm cost recovery clause to recover storm damage costs in excess of existing storm damage reserve, by Florida Public Utilities Company.

Discussion of Issues

Issue 1: What is the appropriate amount of rate base for the Gas Division of Florida Public Utilities Company for determining the amount of excess earnings for 2005?

Recommendation: The appropriate rate base for the Gas Division for 2005 is $57,808,910. (Slemkewicz)

Staff Analysis: Per the December 2005 ESR, the Company reported a total "FPSC Adjusted" rate base of $57,808,623. Based on the adjustment discussed below, staff recommends that the appropriate rate base for 2005 is $57,808,910. (Attachment A)

Barrier Wall at Sapodila Office (Audit Finding 12): During the audit, it was discovered that the Company had expensed $1,992 for a barrier wall at one of its office locations. However, it is the Company's policy that any additions over $500 are to be capitalized. To correct this error, expenses have to be reduced by the $1,992. In addition, the cost of the barrier wall should be added to plant in service. Since the barrier wall was not completed until November 2005, the 13-month average effect on rate base is a $288 increase in plant in service and a $1 increase in accumulated depreciation. The net effect is a $287 increase to rate base. The Company agrees with this adjustment.

Issue 2: What is the appropriate overall rate of return for the Gas Division of Florida Public Utilities Company for determining the amount of excess earnings for 2005?

Recommendation: The appropriate overall rate of return for the Gas Division of Florida Public Utilities Company for determining the amount of excess earnings for 2005 is 8.40 percent. (Springer)

Staff Analysis: Based on the proper components, amounts, and cost rates associated with the capital structure for the period ended December 31, 2005, staff recommends a weighted average cost of capital of 8.40 percent for purposes of determining the amount of excess earnings for 2005. Attachment B details staff's determination of its recommended overall rate of return.

Staff began with the 13-month average capital structure from the Company's earnings surveillance report (ESR) for the period ended December 31, 2005. In its ESR, the Company removed its investment in Flo-Gas[5] entirely from common equity in a manner consistent with previous cases. In addition, the Company specifically identified the balances of deferred taxes, investment tax credits, and customer deposits.

Staff also made a specific adjustment in the amount of $333,049, representing staff's calculation of the 13-month average balance of excess earnings for 2005. This amount was included as a separate line item in the capital structure and was assigned an effective cost rate of 3.31 percent. The cost rate on excess earnings is based on a 12-month average of the 30-day commercial paper rate. The 30-day commercial paper rate is applied pursuant to Rule 25-6.109, Florida Administrative Code. This adjustment recognizes that the excess earnings are a source of capital to the Company. The treatment of excess earnings as a separate line item in the capital structure is consistent with the treatment of excess earnings in the 2002 earnings review of the Gas Division.[6] Attachment C details staff's calculation of the amount of excess earnings for 2005.

Finally, staff reconciled the adjustments to rate base on a pro rata basis over investor-supplied sources of capital. The Commission established the return on common equity (ROE) for the Gas Division of 11.25 percent, with a range from 10.25 percent to 12.25 percent, in Order No. PSC-04-1110-PAA-GU.[7] Based upon the proper components, amounts, and cost rates associated with the capital structure for the period ended December 31, 2005, discussed above, and using the top of the authorized ROE range of 12.25 percent, the appropriate weighted average cost of capital for purposes of determining the amount of excess earnings for 2005 is 8.40 percent.

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[5] Flo-Gas is an unregulated wholly owned subsidiary that sells propane gas.

[6] Order No. PSC-05-0769-PAA-GU, issued July 25, 2005, in Docket No. 050224-GU, In Re: Investigation into 2002 earnings of the Gas Division of Florida Public Utilities Company.

[7] Order No. PSC-04-1110-PAA-GU, issued November 8, 2004, in Docket No. 040216-GU, In Re: Application for rate increase by Florida Public Utilities Company.

Issue 3: What is the appropriate net operating income for the Gas Division of Florida Public Utilities Company for determining the amount of excess earnings for 2005?

Recommendation: The appropriate net operating income for 2005 is $5,265,100. (Slemkewicz)

Staff Analysis: Per the December 2005 ESR, the Company reported an "FPSC Adjusted" net operating income of $5,195,017. Based on the adjustments discussed below, staff recommends that the appropriate net operating income for 2005 is $5,265,100. (Attachment A)

Taxes Other Than Income Adjustment (Audit Finding 4): During a review of the Company's adjustments to net operating income, it was determined that the adjustment to remove the revenue taxes related to the purchased gas adjustment was understated by $1,640. As a result, the adjusted taxes other than income should be reduced by $1,640. The Company agrees with this adjustment.

General Liability Insurance Allocation (Audit Finding 6): The audit of the general liability insurance allocation disclosed that the amount allocated to the natural gas operations had not been properly calculated. Based on the correct allocation methodology, the amount of general liability insurance allocated to the natural gas division's O&M expenses should be reduced by $21,813. The Company agrees with this adjustment.

Hurricane Assistance to Mobil Gas (Audit Finding 8): FPUC provided assistance to Mobil Gas in Mobile, Alabama during the restoration of damages from Hurricane Katrina. The cost associated with the FPUC employees involved in the relief effort was $29,290. These expenses were charged to the natural gas operations. FPUC was not reimbursed for these expenses, nor does it expect any reimbursement. In its response to the audit, the Company stated that it "does not expect to seek reimbursement from Mobil Gas because it is confident that its participation in the SGA[8] mutual aid meetings would result in FPU and its customers receiving aid in reciprocation if needed."

Currently, FPUC is collecting a temporary surcharge[9] to recover storm-related costs of $500,187 associated with the 2004 storms that affected its service area. As of June 30, 2007, the remaining amount of the surcharge to be collected was $161,870. In staff's opinion, it is unreasonable to require FPUC's ratepayers to pay for costs incurred to assist another company while also paying a surcharge to recover storm damage costs to FPUC's own facilities. The expenses incurred to render assistance to Mobil Gas should be recovered directly from Mobil Gas. Therefore, staff recommends that the $29,290 be removed from the Company's O&M expenses.

Donations (Audit Finding 9): During 2005, the Company made a donation of $7,500 to the March of Dimes and charged it to various advertising expenses. Per Order No. PSC-05-

[8] The Southern Gas Association is a natural gas industry association.

[9] Order No. PSC-05-1040-PAA-GU, issued October 25, 2005, in Docket No. 041441-GU, In re: Petition for approval of storm cost recovery clause to recover storm damage costs in excess of existing storm damage reserve, by Florida Public Utilities Company.

0769-PAA-GU,[10] expenses that were deemed to be charitable contributions were removed from the Company's advertising expenses. Per the Uniform System of Accounts prescribed by Rule 25-7.014(1), Florida Administrative Code, all payments or donations for charitable, social or community welfare purposes are to be recorded in Account 426.1, Donations. This is considered a below-the-line account. The expenses recorded in a below-the-line account are not included in the calculation of net operating income for revenue requirement purposes. In its response to the audit report, the Company stated that the donation to the March of Dimes should be included in its O&M expenses.

The Commission's policy concerning the recoverability of charitable donations is stated in the following quote:

> In earlier rate cases, we have held that it is within our discretion and authority to allow charitable contributions in reasonable amounts as operating expenses for ratemaking purposes, and the decision to include or exclude them is discretionary with the Commission. However, there are policy considerations which argue both for and against the inclusion of such expenses for ratemaking purposes. In this case, FP&L Witness Tallon asserted that the Company's customers are the beneficiaries of the work that charitable organizations accomplish. However, upon consideration, we disagree that such contributions are "truly contributions from the corporation" rather than from the customers. We are persuaded that such contributions are instead more in the nature of involuntary contributions by ratepayers. As a matter of policy, we do not believe such contributions should be borne by ratepayers. We note our disallowance of such contributions for ratemaking purposes does not have the effect of precluding the Company from continuing to make contributions to charities. It only requires that such contributions be borne by stockholders rather than ratepayers. Accordingly, we have removed from operating expenses the entire amount of contributions to charities projected for the test period.

Order No. 10306[11] at 25.

The staff recommends that advertising expenses be reduced by $7,500 to remove the contribution made to the March of Dimes. This disallowance is consistent with prior Commission policy concerning charitable contributions.

Promotional Advertising (Audit Finding 10): The audit disclosed that a $52,000 payment was made to St. Joe/Arvida Homes for co-op advertising. This payment was booked as a promotional advertising expense. The ad promoted the sale of new homes in the St. Joe development at Victoria Park in the DeLand, Florida area. The only reference to FPUC is a small generic FPUC logo in the lower left hand corner of the ad. The ad does not contain any

[10] Issued July 25, 2007, in Docket No. 050224-GU, In re: Investigation into 2002 earnings of the gas division of Florida Public Utilities Company.
[11] Issued December 21, 1981, in Docket No. 810002-EU, In re: Petition of Florida Power and Light Company for an increase in rates.

safety, conservation, instructional or informational material regarding the use of natural gas. It appears that the sole purpose of the ad is to induce the public to purchase homes in Victoria Park.

The Company believes that it is appropriate to include the $52,000 as an advertising expense. The co-op advertising is the result of an agreement signed with St. Joe/Arvida Homes in 2002. Because of this agreement, FPUC was chosen to provide gas service to 100 percent of the 4,500 homes that are scheduled to be built in Victoria Park.

The Commission's general policy regarding advertising expenses is to allow advertising that contains informational and instructional material. This type of advertising primarily conveys information as to what the utility urges or suggests customers should do in utilizing gas service to protect health and safety, to encourage environmental protection, to utilize their gas equipment safely and economically, or to conserve natural gas. Advertising that is considered to be institutional, goodwill, promotional or image-enhancing is usually not allowed for revenue requirement purposes.[12] In staff's opinion, the Victoria Park ad does not meet the criteria for inclusion as an advertising expense for the purposes of determining the amount of overearnings for 2005. Therefore, staff recommends that advertising expenses be reduced by $52,000.

<u>Barrier Wall at Sapodila Office (Audit Finding 12)</u>: As discussed in Issue 1, the Company had expensed $1,992 for a barrier wall at one of its office locations. However, it is the Company's policy that any additions over $500 are to be capitalized. To correct this error, expenses should be reduced by the $1,992. In addition, depreciation expense has to be increased by $4 because the barrier wall was capitalized as plant in service. The net effect is a $1,988 decrease to operating expenses. The Company agrees with this adjustment.

<u>Interest Synchronization</u>: As a result of the adjustments to the amounts for long-term debt, short-term debt and the 2005 excess earnings components in the capital structure, interest expense decreased by $3,091. Since interest expense is a deduction in the calculation of income taxes for net operating income purposes, the decreased interest expense results in a higher income tax expense. Utilizing a 37.60 percent income tax rate, the increase in income tax expense for 2005 is $1,163.

<u>Income Taxes</u>: This is a fallout calculation based on the above adjustments to net operating income. As a result, total income taxes should be increased by $42,985. This does not include the specific $1,163 income tax adjustment related to interest synchronization.

[12] Order No. PSC-94-1519-FOF-GU, issued December 9, 1994, in Docket No. 940620-GU, <u>In re: Application for a rate increase by Florida Public Utilities Company</u>.

Issue 4: What is the amount of excess earnings for the Gas Division of Florida Public Utilities Company for 2005?

Recommendation: The total amount of excess earnings for 2005 for the Gas Division is $666,099, plus interest of $69,083, through July 31, 2007. Interest should continue to accrue until a final disposition of the excess earnings is made. (Slemkewicz)

Staff Analysis: Based on the recommendations discussed in the previous issues, staff has determined that the excess earnings for 2005 are $666,099, plus interest of $69,083 calculated through July 31, 2007. As of July 31, 2007, the total amount of excess earnings is $735,182 including interest. (Attachments C and D) With the excess earnings of $666,099 included, FPUC had a 2005 achieved ROE of 14.22 percent which exceeds the maximum authorized ROE of 12.25 percent. Interest should continue to be accrued until a final disposition of the excess earnings is made.

Issue 5: What is the appropriate disposition of the 2005 excess earnings for the Gas Division of Florida Public Utilities Company?

Recommendation: The total 2005 excess earnings of $735,182, including interest, should first be used to offset the uncollected remainder of the natural gas storm surcharge authorized by Order No. PSC-05-1040-PAA-GU.[13] FPUC should stop collecting the natural gas storm surcharge in the first billing cycle within a new calendar month thirty days after the order approving this recommended offset becomes final. The remaining amount of the 2005 excess earnings should be applied to the storm reserve to cover future storm-related costs. (Slemkewicz)

Staff Analysis: FPUC submitted a letter,[14] dated February 13, 2007, to staff. The letter proposed applying the overearnings to the unrecovered storm costs[15] currently being recovered through a temporary surcharge with any remaining overearnings applied to the storm reserve.

As of June 30, 2007, the amount of unrecovered storm costs was $161,870. Applying a portion of the excess earnings to the unrecovered storm costs would provide an immediate benefit to FPUC's ratepayers. The surcharge would be eliminated and the monthly bill for a residential customer using 25 therms would be reduced by $.1745. FPUC should stop collecting the natural gas storm surcharge in the first billing cycle within a new calendar month thirty days after the order approving this recommended offset becomes final. Once the unrecovered storm costs have been fully recovered, the Company is required to notify the Commission per Order No. PSC-05-1040-PAA-GU.

In Order No. PSC-05-1040-PAA-GU which established the storm cost surcharge, it was determined that FPUC had incurred 2004 storm restoration costs of $534,602 that could be charged against the storm damage reserve. As of June 30, 2007, the balance of the natural gas storm damage reserve is a negative balance of $13,287. The Company does not currently book any accruals to its storm damage reserve. Given the $534,602 of storm damage sustained by the Company during 2004, the current balance in the storm damage reserve is inadequate to offset damages from any future storms. Staff believes the establishment of an adequate storm damage reserve is a reasonable disposition of the remaining amount of the 2005 excess earnings.

Staff recommends that the total 2005 excess earnings of $735,182, including interest, should first be used to offset the uncollected remainder of the natural gas storm surcharge authorized by Order No. PSC-05-1040-PAA-GU. The remaining amount of the 2005 excess earnings should be applied to the storm reserve to cover future storm-related costs.

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[13] Docket No. 041441-GU, issued October 25, 2005, In re: Petition for approval of storm cost recovery clause to recover storm damage costs in excess of existing storm damage reserve, by Florida Public Utilities Company.
[14] Document No. 01726-07 in Docket No. 070107-GU.
[15] Order No. PSC-05-1040-PAA-GU, issued October 25, 2005, in Docket No. 041441-GU, In re: Petition for approval of storm cost recovery clause to recover storm damage costs in excess of existing storm damage reserve, by Florida Public Utilities Company.

Issue 6: Did Florida Public Utilities Company appropriately cease its accrual to the storm damage reserve after 2002?

Recommendation: Yes. FPUC is not required to seek Commission approval to either start or cease an accrual to the storm damage reserve. (Slemkewicz)

Staff Analysis: During the review of FPUC's 2004 storm-related costs in Docket No. 041441-GU, a question arose concerning the appropriateness of the cessation of the storm damage accrual after 2002. Staff was directed to review the circumstances surrounding the Company's decision to cease making the accrual. The Company states that it started its own storm accrual after its 1993 rate case,[16] but did not get any recovery from its ratepayers. The accrual was stopped before the 2004 historical year in the Company's last rate case.[17]

A review of the attachments to Order No. PSC-95-0518-FOF-GU shows that $18,303 was included in Account 924, Property Insurance, for the 1993 historical test year. Accruals to the storm damage reserve would be included in this account as well as insurance premiums. There is insufficient documentation to ascertain the specific purpose of the $18,303 that was included in the 1993 historical test year. However, FPUC subsequently began to make annual accruals of $18,000 to the storm reserve through the end of 2002. A review of the minimum filing requirements in the last rate case shows that no accruals were made to the storm damage reserve during the test year.

Rule 25-6.0143(1)(k), Florida Administrative Code, prohibits investor-owned electric utilities from either establishing or changing an annual accrual for the storm damage reserve without prior Commission approval. However, there is no corresponding rule for investor-owned natural gas utilities that would require prior Commission approval for making such changes. Although it appears that the $18,000 may have been included in base rates prior to the most recent rate case, FPUC was not specifically prohibited from ending the accrual at any time at its own option. Since the accrual was not included in the Company's last rate case, it does not have any impact on the determination of the excess earnings for 2005.

Because Commission approval to start or cease its storm damage accrual was not required, FPUC did not act inappropriately when it ceased making the storm damage accrual at the end of 2002. Therefore, staff recommends that no adjustment is necessary to the Company's storm damage reserve.

[16] 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.
[17] Order No. PSC-04-1110-PAA-GU, issued November 8, 2004, in Docket No. 040216-GU, In re: Application for a rate increase by Florida Public Utilities Company.

Issue 7: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (Jaeger)

Staff Analysis: At the conclusion of the protest period, if no protest is filed by a substantially affected person, this docket should be closed upon the issuance of a consummating order.

FLORIDA PUBLIC UTILITIES COMPANY
CONSOLIDATED GAS DIVISION
DOCKET NO. 070107-GU
REVIEW OF 2005 EARNINGS

ATTACHMENT A

	As Filed FPSC Adjusted Basis	Audit Finding 4 Taxes Other Than Income	Audit Finding 6 General Liability Ins.	Audit Finding 8 Hurricane Assistance to Mobil Gas	Audit Finding 9 Donations	Audit Finding 10 Promotional Advertising	Audit Finding 12 Barrier Wall		Interest Synch	Total Adjustments	Total Adjusted Rate Base
RATE BASE											
Plant in Service	87,077,497						288			288	87,077,785
Accumulated Depreciation	(30,419,256)						(1)			(1)	(30,419,257)
Net Plant in Service	56,658,241	0	0	0	0	0	287	0	0	287	56,658,528
Property Held for Future Use	0									0	0
Construction Work in Progress	2,157,009									0	2,157,009
Net Utility Plant	58,815,250	0	0	0	0	0	287	0	0	287	58,815,537
Working Capital	(1,006,627)									0	(1,006,627)
Total Rate Base	57,808,623	0	0	0	0	0	287	0	0	287	57,808,910
INCOME STATEMENT											
Operating Revenues	28,997,299									0	28,997,299
Operating Expenses:											
Operation & Maintenance - Fuel	0									0	0
Operation & Maintenance - Other	13,668,914		(21,813)	(29,290)	(7,500)	(52,000)	(1,992)			(112,595)	13,556,319
Depreciation & Amortization	4,059,230						4			4	4,059,234
Taxes Other Than Income	4,400,903	(1,640)								(1,640)	4,399,263
Income Taxes - Current	867,013	617	8,208	11,022	2,822	19,568	748	0	1,163	44,148	911,161
Deferred Income Taxes (Net)	850,412									0	850,412
Investment Tax Credit (Net)	(44,190)									0	(44,190)
(Gain)/Loss on Disposition	0									0	0
Total Operating Expenses	23,802,282	(1,023)	(13,605)	(18,268)	(4,678)	(32,432)	(1,240)	0	1,163	(70,083)	23,732,199
Net Operating Income	5,195,017	1,023	13,605	18,268	4,678	32,432	1,240	0	(1,163)	70,083	5,265,100
OVERALL RATE OF RETURN	8.99%									0.12%	9.11%
RETURN ON EQUITY	13.82%									0.40%	14.22%

FLORIDA PUBLIC UTILITIES COMPANY
CONSOLIDATED GAS DIVISION
DOCKET NO. 070107-GU
REVIEW OF 2005 EARNINGS

ATTACHMENT B

CAPITAL STRUCTURE AS FILED - FPSC ADJUSTED	Amount	Ratio	Cost Rate	Weighted Cost
Long Term Debt	$24,174,969	41.82%	8.04%	3.36%
Short Term Debt	1,504,220	2.60%	2.52%	0.07%
Preferred Stock	289,633	0.50%	4.75%	0.02%
Customer Deposits	4,784,170	8.28%	6.50%	0.54%
Common Equity	20,746,094	35.89%	12.25%	4.40%
Deferred Revenues	0	0.00%	0.00%	0.00%
Deferred Income Taxes	6,032,983	10.44%	0.00%	0.00%
Tax Credits - Zero Cost	0	0.00%	0.00%	0.00%
Tax Credits - Weighted Cost	276,554	0.48%	9.71%	0.05%
Total	$57,808,623	100.00%		8.44%

		Adjustments					
ADJUSTED	Amount	Specific	Pro Rata	Adjusted Total	Ratio	Cost Rate	Weighted Cost
Long Term Debt	$24,174,969		($172,204)	$24,002,765	41.52%	8.04%	3.34%
Short Term Debt	1,504,220		(10,715)	1,493,505	2.58%	2.52%	0.07%
Preferred Stock	289,633		(2,063)	287,570	0.50%	4.75%	0.02%
Customer Deposits	4,784,170			4,784,170	8.28%	6.50%	0.54%
Common Equity	20,746,094		(147,780)	20,598,314	35.63%	12.25%	4.36%
2005 Excess Earnings	0	333,049		333,049	0.58%	3.31%	0.02%
Deferred Income Taxes	6,032,983			6,032,983	10.44%	0.00%	0.00%
Tax Credits - Zero Cost	0			0	0.00%	0.00%	0.00%
Tax Credits - Weighted Cost	276,554			276,554	0.48%	9.71%	0.05%
Total	$57,808,623	$333,049	($332,762)	$57,808,910	100.00%		8.40%

INTEREST SYNCHRONIZATION

	Adjustments	Cost Rate	Effect on Interest Exp.	Tax Rate	Effect on Income Taxes
Long Term Debt	($172,204)	8.04%	($13,845)	37.630%	$5,210
Short Term Debt	(10,715)	2.52%	(270)	37.630%	102
2005 Excess Earnings	333,049	3.31%	11,024	37.630%	(4,148)
Customer Deposits	0	6.50%	0	37.630%	0
Total	$150,130		($3,091)		$1,163

CHANGE IN COST RATE

	Cost Rate as Filed	Revised Cost Rate	Difference	$ Amount	Effect on Interest Exp.	Tax Rate	Effect on Income Taxes
N/A			0.00%		0	37.63%	0

TOTAL EFFECT ON INCOME TAXES

Interest Synchronization	$1,163
Change in Cost Rate	0
Total	$1,163

FLORIDA PUBLIC UTILITIES COMPANY
CONSOLIDATED GAS DIVISION
DOCKET NO. 070107-GU
REVIEW OF 2005 EARNINGS

ATTACHMENT C

Adjusted Rate Base		$57,808,910
Adjusted Required Rate of Return	x	8.40%
Required Net Operating Income		$4,855,948
Adjusted Achieved Net Operating Income	-	5,265,100
Excess Net Operating Income		409,151
Revenue Expansion Factor	x	1.628002
Excess Revenues		$666,099
Excess Earnings - 13 Month Average		$333,049

FLORIDA PUBLIC UTILITIES COMPANY
CONSOLIDATED GAS DIVISION
DOCKET NO. 070107-GU
REVIEW OF 2005 EARNINGS

ATTACHMENT D

	2005 January	February	March	April	May	June	July	August	September	October	November	2005 December
Beginning Balance	0	55,564	111,251	167,074	223,050	279,189	335,507	392,029	448,774	505,758	563,004	620,541
Additions	55,508	55,508	55,508	55,508	55,508	55,508	55,508	55,508	55,508	55,508	55,508	55,508
Ending Balance	55,508	111,072	166,759	222,582	278,558	334,697	391,015	447,538	504,283	561,266	618,513	676,049
Average Balance	27,754	83,318	139,005	194,828	250,804	306,943	363,261	419,784	476,528	533,512	590,758	648,295
Average Interest Rate	2.420%	2.575%	2.715%	2.880%	3.020%	3.165%	3.350%	3.535%	3.715%	3.910%	4.120%	4.255%
Interest	56	179	314	468	631	810	1,014	1,237	1,475	1,738	2,028	2,299
Ending Bal. w/ Interest	55,564	111,251	167,074	223,050	279,189	335,507	392,029	448,774	505,758	563,004	620,541	678,348

	2006 January	February	March	April	May	June	July	August	September	October	November	2006 December
Beginning Balance	678,348	680,637	683,201	685,851	688,635	691,495	694,463	697,545	700,634	703,708	706,796	709,894
Additions	0	0	0	0	0	0	0	0	0	0	0	0
Ending Balance	678,348	680,637	683,201	685,851	688,635	691,495	694,463	697,545	700,634	703,708	706,796	709,894
Average Balance	678,348	680,637	683,201	685,851	688,635	691,495	694,463	697,545	700,634	703,708	706,796	709,894
Average Interest Rate	4.050%	4.520%	4.655%	4.870%	4.985%	5.150%	5.325%	5.315%	5.265%	5.265%	5.260%	5.260%
Interest	2,289	2,564	2,650	2,783	2,861	2,968	3,082	3,090	3,074	3,088	3,098	3,112
Ending Bal. w/ Interest	680,637	683,201	685,851	688,635	691,495	694,463	697,545	700,634	703,708	706,796	709,894	713,006

	2007 January	February	March	April	May	June	July	August	September	October	November	2007 December
Beginning Balance	713,006	716,134	719,273	722,426	725,592	728,773	731,974	735,182				
Additions	0	0	0	0	0	0	0					
Ending Balance	713,006	716,134	719,273	722,426	725,592	728,773	731,974					
Average Balance	713,006	716,134	719,273	722,426	725,592	728,773	731,974					
Average Interest Rate	5.265%	5.260%	5.260%	5.260%	5.260%	5.270%	5.260%					
Interest	3,128	3,139	3,153	3,167	3,181	3,201	3,208					
Ending Bal. w/ Interest	716,134	719,273	722,426	725,592	728,773	731,974	735,182					

Total Interest
01/01/05 - 07/31/07 69,083