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SEPTEMBER 17, 2012

**HAND DELIVERY**

Mr. Marshall Willis, Director  
Division of Economic Regulation  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Re: Florida Public Utilities Company/Gas & Electric – 2nd Quarter (2012) Earnings  
Surveillance Reports

Dear Mr. Willis:

Enclosed, please find the 2<sup>nd</sup> Quarter Earnings Surveillance Report (ESR) for Florida Public Utilities Company's Electric and Natural Gas Divisions. One additional hard copy of each report is also included. Two copies of Schedule 1 are provided, because the signed copy of Schedule 1 is slightly less legible.

As always, please do not hesitate to give me a call if you have any questions or concerns whatsoever.

Sincerely,

Beth Keating  
Gunster, Yoakley, & Stewart, P.A.  
215 S. Monroe St., Suite 601  
Tallahassee, FL 32301  
(850) 521-1706

RECEIVED  
FLORIDA PUBLIC SERVICE  
COMMISSION  
12 SEP 17 PM 4: 19  
DIVISION OF  
ACCOUNTING & FINANCE

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Cc://Mr. John Slemkewicz ✓

FLORIDA PUBLIC UTILITIES COMPANY  
 NATURAL GAS  
 RATE OF RETURN REPORT SUMMARY  
 June 30, 2012

SCHEDULE 1

	(1) ACTUAL PER BOOKS	(2) FPSC ADJUSTMENTS	(3) FPSC ADJUSTED	(4) PRO FORMA ADJUSTMENTS	(5) PRO FORMA ADJUSTED
<b>I. AVERAGE RATE OF RETURN (JURISDICTIONAL)</b>					
NET OPERATING INCOME	\$ 7,363,587	(\$605,110)	\$6,758,477	\$1,465,439	\$8,223,916
AVERAGE RATE BASE	\$106,977,839	\$848,444	\$107,226,283	(\$32,973,758)	\$74,252,525
AVERAGE RATE OF RETURN	6.92%		6.30%		11.08%
<b>II. YEAR-END RATE OF RETURN (JURISDICTIONAL)</b>					
NET OPERATING INCOME	\$7,363,587	(\$625,087)	\$6,738,500	\$1,465,439	\$8,203,939
YEAR-END RATE BASE	\$105,311,400	(\$1,311,208)	\$104,000,192	(\$32,183,168)	\$71,817,024
YEAR-END RATE OF RETURN	6.99%		6.48%		11.42%
<b>III. REQUIRED RATES OF RETURN AVERAGE CAPITAL STRUCTURE (FPSC ADJUSTED BASIS)</b>			<b>IV. EARNED RETURN ON EQUITY (FPSC ADJUSTED BASIS)</b>		
LOW	7.10%		A.	INCL COMP RATE ADJ REVENUES	8.24%
MIDPOINT	7.59%		B.	EXCL COMP RATE ADJ REVENUES	8.24%
HIGH	8.08%				

I am aware that Section 837.06, Florida Statutes, provides:

Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree punishable as provided in s. 775.082, s. 775.083, or s. 775.084.

Cheryl M. Martin  
 Director - Regulatory Affairs

*Cheryl M. Martin per CMy*  
 Signature

9/17/2012  
 Date

FLORIDA PUBLIC UTILITIES COMPANY  
 NATURAL GAS  
 RATE OF RETURN REPORT SUMMARY  
 June 30, 2012

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Cheryl M. Martin  
 Director - Regulatory Affairs

Signature

Date

FLORIDA PUBLIC UTILITIES COMPANY  
 NATURAL GAS  
 AVERAGE RATE OF RETURN  
 For the 12 Months Ending June 30, 2012  
 RATE BASE

SCHEDULE 2  
 PAGE 1 OF 2

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	PLANT IN SERVICE	ACCUMULATED DEPRECIATION & AMORTIZATION	PLANT IN SERVICE	NET PROPERTY HELD FOR FUTURE USE	CONSTRUCTION WORK IN PROGRESS	NET UTILITY PLANT	WORKING CAPITAL	TOTAL RATE BASE
PER BOOKS	\$161,942,864	(\$48,723,082)	\$113,219,782	\$0	\$1,608,757	\$114,828,539	(\$8,450,700)	\$106,377,839
FPSC ADJUSTMENTS:								
ELIMINATIONS TO WORKING CAPITAL	\$0	\$0	\$0			\$0	(\$1,428,738)	(\$1,428,738)
ELIMINATE ACQUISITION ADJ.	(\$34,390,292)	\$126,196	(\$34,264,096)			(\$34,264,096)		(\$34,264,096)
ELIMINATE REG ASSET	\$0	\$0	\$0			\$0	(\$785,616)	(\$785,616)
ELIM. NON-UTILITY PLANT	(\$1,959,775)	\$701,841	(\$1,257,933)			(\$1,257,933)		(\$1,257,933)
ACQUISITION ADJUSTMENT	\$34,192,493	(\$2,469,457)	\$31,723,036			\$31,723,036		\$31,723,036
REG ASSET-TRNSCTN & TRNSITN CSTS	\$0	\$0	\$0			\$0	\$1,250,722	\$1,250,722
ELIMINATE DEFERRED ENVIRONMENTAL COSTS							\$5,611,069	\$5,611,069
TOTAL FPSC ADJUSTMENTS	(\$2,157,574)	(\$1,641,419)	(\$3,798,993)	\$0	\$0	(\$3,798,993)	\$4,647,437	\$848,444
FPSC ADJUSTED	\$159,785,291	(\$50,364,501)	\$109,420,790	\$0	\$1,608,757	\$111,029,547	(\$3,803,263)	\$107,226,283
FLEX RATE REVENUES	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
ADJUSTED FOR FLEX RATE REVENUES	\$159,785,291	(\$50,364,501)	\$109,420,790	\$0	\$1,608,757	\$111,029,547	(\$3,803,263)	\$107,226,283
PROFORMA ADJUSTMENTS								
			\$0			\$0		\$0
			\$0			\$0		\$0
ELIM. ACQUISITION ADJUSTMENT	(\$34,192,493)	\$2,469,457	(\$31,723,036)			(\$31,723,036)		(\$31,723,036)
ELIM. REG ASSET-TRNSCTN & TRNSITN CSTS							(\$1,250,722)	(\$1,250,722)
TOTAL PRO FORMA ADJUSTMENTS	(\$34,192,493)	\$2,469,457	(\$31,723,036)	\$0	\$0	(\$31,723,036)	(\$1,250,722)	(\$32,973,758)
PRO FORMA ADJUSTED	\$125,592,798	(\$47,895,044)	\$77,697,754	\$0	\$1,608,757	\$79,306,511	(\$5,053,986)	\$74,252,525



FLORIDA PUBLIC UTILITIES COMPANY  
 NATURAL GAS  
 YEAR END RATE OF RETURN  
 For the 12 Months Ending June 30, 2012  
 RATE BASE

SCHEDULE 3  
 PAGE 1 OF 2

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	PLANT IN SERVICE	ACCUMULATED DEPRECIATION & AMORTIZATION	PLANT IN SERVICE	NET PROPERTY HELD FOR FUTURE USE	CONSTRUCTION WORK IN PROGRESS	NET UTILITY PLANT	WORKING CAPITAL	TOTAL RATE BASE
PER BOOKS	<u>\$164,648,436</u>	<u>(\$51,036,293)</u>	<u>\$113,612,143</u>	<u>\$0</u>	<u>\$3,137,562</u>	<u>\$116,749,705</u>	<u>(\$11,438,305)</u>	<u>\$105,311,400</u>
FPSC ADJUSTMENTS:								
ELIMINATIONS TO WORKING CAPITAL	\$0	\$0	\$0			\$0	(\$2,063,596)	(\$2,063,596)
ELIMINATE ACQUISITION ADJ.	(\$34,517,689)	\$0	(\$34,517,689)			(\$34,517,689)		(\$34,517,689)
ELIMINATE REG ASSET			\$0			\$0	(\$1,317,809)	(\$1,317,809)
ELIM. NON-UTILITY PLANT	(\$1,920,685)	\$714,333	(\$1,206,352)			(\$1,206,352)		(\$1,206,352)
ACQUISITION ADJUSTMENT	\$34,192,493	(\$3,039,331)	\$31,153,162			\$31,153,162		\$31,153,162
REG ASSET-TRNSCTN & TRNSITN CSTS	\$0	\$0	\$0			\$0	\$1,030,006	\$1,030,006
ELIMINATE DEFERRED ENVIRONMENTAL COSTS							\$5,611,069	\$5,611,069
TOTAL FPSC ADJUSTMENTS	<u>(\$2,245,881)</u>	<u>(\$2,324,998)</u>	<u>(\$4,570,879)</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$4,570,879)</u>	<u>\$3,259,671</u>	<u>(\$1,311,208)</u>
FPSC ADJUSTED	<u>\$162,402,555</u>	<u>(\$53,361,291)</u>	<u>\$109,041,265</u>	<u>\$0</u>	<u>\$3,137,562</u>	<u>\$112,178,827</u>	<u>(\$8,178,635)</u>	<u>\$104,000,192</u>
COMP RATE ADJ REVENUES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
ADJUSTED FOR COMP RATE ADJ REVENUE	<u>\$162,402,555</u>	<u>(\$53,361,291)</u>	<u>\$109,041,265</u>	<u>\$0</u>	<u>\$3,137,562</u>	<u>\$112,178,827</u>	<u>(\$8,178,635)</u>	<u>\$104,000,192</u>
PROFORMA ADJUSTMENTS								
ELIM. ACQUISITION ADJUSTMENT	(\$34,192,493)	\$3,039,331	(\$31,153,162)			(\$31,153,162)		(\$31,153,162)
ELIM. REG ASSET-TRNSCTN & TRNSITN CSTS			\$0			\$0		\$0
TOTAL PRO FORMA ADJUSTMENTS	<u>(\$34,192,493)</u>	<u>\$3,039,331</u>	<u>(\$31,153,162)</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$31,153,162)</u>	<u>(\$1,030,006)</u>	<u>(\$32,183,168)</u>
PRO FORMA ADJUSTED	<u>\$128,210,062</u>	<u>(\$50,321,960)</u>	<u>\$77,888,103</u>	<u>\$0</u>	<u>\$3,137,562</u>	<u>\$81,025,665</u>	<u>(\$9,208,641)</u>	<u>\$71,817,024</u>



AVERAGE	ADJUSTMENTS		ADJUSTED BOOKS	PRO-RATA	SPECIFIC	BALANCE	RATIO (%)	LOW POINT		MIDPOINT		HIGH POINT	
	PER BOOKS	NON-UTILITY						COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
COMMON EQUITY	\$52,245,369	(\$1,257,933)	\$50,987,436	\$4,323,005	(\$2,541,060)	\$52,769,381	49.21%	9.85%	4.85%	10.85%	5.34%	11.85%	5.83%
LONG TERM DEBT	\$27,232,655		\$27,232,655	\$273,140		\$27,505,795	25.65%	6.77%	1.74%	6.77%	1.74%	6.77%	1.74%
SHORT TERM DEBT	\$5,113,908		\$5,113,908	\$51,292		\$5,165,200	4.82%	1.26%	0.06%	1.26%	0.06%	1.26%	0.06%
STD REFINANCED LTD	\$0		\$0	\$0		\$0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	\$7,956,729		\$7,956,729			\$7,956,729	7.42%	6.00%	0.45%	6.00%	0.45%	6.00%	0.45%
DEFERRED INCOME TAXES	\$13,786,113		\$13,786,113			\$13,786,113	12.86%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TAX CREDITS - WEIGHTED COST	\$43,065		\$43,065			\$43,065	0.04%	6.65%	0.00%	7.14%	0.00%	7.63%	0.00%
<b>TOTAL AVERAGE</b>	<b>\$106,377,839</b>	<b>(\$1,257,933)</b>	<b>\$105,119,906</b>	<b>\$4,647,436</b>	<b>(\$2,541,060)</b>	<b>\$107,226,283</b>	<b>100.00%</b>		<b>7.10%</b>		<b>7.59%</b>		<b>8.08%</b>

YEAR-END	ADJUSTMENTS		ADJUSTED BOOKS	PRO-RATA	SPECIFIC	BALANCE	RATIO (%)	LOW POINT		MIDPOINT		HIGH POINT	
	PER BOOKS	NON-UTILITY						COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
COMMON EQUITY	\$53,501,314	(\$1,206,352)	\$52,294,962	\$3,724,951	(\$3,364,527)	\$52,655,387	50.63%	9.85%	4.99%	10.85%	5.49%	11.85%	6.00%
LONG TERM DEBT	\$26,327,174		\$26,327,174	(\$416,268)		\$25,910,906	24.91%	7.01%	1.75%	7.01%	1.75%	7.01%	1.75%
SHORT TERM DEBT	\$3,099,857		\$3,099,857	(\$49,013)		\$3,050,844	2.93%	2.07%	0.06%	2.07%	0.06%	2.07%	0.06%
STD REFINANCED LTD	\$0		\$0	\$0		\$0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	\$7,398,627		\$7,398,627			\$7,398,627	7.11%	6.45%	0.46%	6.45%	0.46%	6.45%	0.46%
DEFERRED INCOME TAXES	\$14,951,732		\$14,951,732			\$14,951,732	14.38%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TAX CREDITS - WEIGHTED COST	\$32,696		\$32,696			\$32,696	0.03%	6.80%	0.00%	7.30%	0.00%	7.81%	0.00%
<b>TOTAL YEAR-END</b>	<b>\$105,311,400</b>	<b>(\$1,206,352)</b>	<b>\$104,105,049</b>	<b>\$3,259,671</b>	<b>(\$3,364,527)</b>	<b>\$104,000,192</b>	<b>100.00%</b>		<b>7.26%</b>		<b>7.76%</b>		<b>8.27%</b>