BEFORE THE FLORIDA PUBLIC SERVICE MMISSION

In re: Petition for rate increase

Florida Public Utilities Company

______________________________/

Docket No. 070304-EI

Filed: December 27, 2007

In Re: Review of 2007 Electric Infrastructure Storm Hardening Plan filed pursuant to Rule 25-6.0342, F.A.C. submitted by Florida Public Utility Company

______________________________/

Docket No. 070300-EI

Filed: December 27, 2007

DIRECT TESTIMONY OF

HUGH LARKIN, JR.

ON BEHALF OF

THE OFFICE OF PUBLIC COUNSEL

Respectfully submitted,

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Public Counsel

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Attorney for the Citizens
Of the State of Florida

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TABLE OF CONTENTS

I. INTRODUCTION 1
II. WORKING CAPITAL 4
Other Property and Investments 5

Cash 6

Special Deposits - Electric 7

Customer Accounts Receivable 7

Accumulated Provision for Uncollectibles 11

Prepaid Insurance 12

Unbilled Revenue 13

Regulatory Asset - Retirement Plan 13

Temporary Services 15

Deferred Debits - Rate Case Expense 16

Regulatory Treatment of Over and Under Recovery of Fuel and Conservation Costs 19

Storm Reserve 23

Interest Accrued - Customer Deposits 27

III. OTHER OPERATING REVENUES 28
Forfeited Discounts 28

IV. OPERATING AND MAINTENANCE EXPENSE 29
Rate Case Expense 29

Other Informational Advertising 32

Tree Replacement 34

Inspection and Testing of Substation Equipment 35

Economic Development Expense 37

Postage Expense 38

Supervisory Training Expense 39

Travel for Compliance Accountant 40

BDO Seidman Increase 40

Uncollectible Accounts 43

Revisions to Projection Factors 45

Staff Audit Findings 50

V. STORM HARDENING EXPENSES 53
Collaborative Research 53

Post-Storm Data Collection and Review 53

VI. TAXES 54
Interest Synchronization Adjustment 54

Income Taxes 54

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ON BEHALF OF THE CITIZENS OF FLORIDA

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA PUBLIC UTILITIES COMPANY

DOCKETS NOS. 070304-EI and 070300-EI

I. INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Hugh Larkin, Jr. I am a Certified Public Accountant licensed in the States of Michigan and Florida and the senior partner of the firm of Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC, has extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings including numerous electric, water and sewer, gas and telephone utilities.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION?

A. Yes. Over the last 31 years, I have testified before the Florida Public Service Commission in numerous rate cases involving electric utilities.

Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix I, which is a summary of my regulatory experience and qualifications.

Q. BY WHOM WERE YOU RETAINED, AND WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. Larkin & Associates, PLLC, was retained by the Florida Office of Public Counsel ("OPC") to review the rate increase requested by Florida Public Utilities Company ("Company" or "FPU") for its consolidated electric division. Accordingly, I am appearing on behalf of the Citizens of Florida ("Citizens").

Q. WHAT AREAS WILL YOU BE ADDRESSING IN YOUR TESTIMONY?

A. I will be addressing various rate base and revenue requirement issues. Patricia W. Merchant, with the Florida Office of Public Counsel, will also be addressing rate base and revenue requirement issues, and J. Randall Woolridge will be filing testimony on behalf of the Citizens in the area of cost of capital/rate of return.

Q. WHAT IS THE PURPOSE OF THE ADJUSTMENTS THAT YOU AND OTHER OPC WITNESSES ARE RECOMMENDING?

A. Myself and OPC witnesses Merchant and Woolridge have examined the Company's rate filing. We have found significant overstatements in the areas we are addressing. If these overstatements are not corrected, ratepayers will pay rates in excess of what is necessary for safe and reliable service.

Q. WHO WILL BE SPONSORING THE OPC'S OVERALL REVENUE REQUIREMENT RECOMMENDATION REGARDING FPU?

A. I will be sponsoring the exhibits which incorporate my recommendations and those of Ms. Merchant and Dr. Woolridge. Therefore, I am sponsoring OPC's recommendation regarding revenue requirement.

Q. WHAT IS OPC'S OVERALL RECOMMENDATION REGARDING REVENUE REQUIREMENT?

A. Exhibit ___(HL-1) Schedule A-1 shows the revenue requirement increase that the OPC is recommending. That amount is $1,898,502 and is the result of the combined recommendations of myself, Ms. Merchant and Dr. Woolridge. Our recommended rate base and operating income are shown on Schedule B-1 and C-1, respectively. On Schedule D-1 I have shown Dr. Woolridge's recommended cost rates associated with the capital structure reconciled with our recommended rate base.

II. WORKING CAPITAL

Q. ARE YOU PROPOSING ADJUSTMENTS TO THE COMPANY'S WORKING CAPITAL REQUEST?

A. Yes, I am.

Q. WOULD YOU PLEASE DISCUSS FLORIDA PUBLIC UTILITIES COMPANY'S WORKING CAPITAL REQUEST AND THE ADJUSTMENTS YOU ARE RECOMMENDING?

A. Yes. On Schedule B-17, page 1 of 1, FPU shows its working capital request for the projected year 2007 and the projected test year 2008. The amount of working capital included in rate base upon which the Company's revenue requirement is calculated is the projected 2008 working capital amount. For the most part, this request is based upon the 2006 actual balance sheet amounts, escalated by a factor of inflation times customer growth. FPU's calculation of working capital is overstated in a number of areas.

Q. WOULD YOU PLEASE DISCUSS YOUR ADJUSTMENTS TO WORKING CAPITAL AND WHY SUCH ADJUSTMENTS ARE APPROPRIATE?

A. Yes, I will. Each of my recommended adjustments to the Company's working capital request are presented on Exhibit__(HL-1), Schedule B-2, attached to this testimony. Column (a) on this schedule is FPU's working capital request. Column (b) is my recommended adjustments, which are explained in the following paragraphs. Column (c) is the final amount I am recommending be included in working capital.

Q. WOULD YOU PLEASE DISCUSS EACH ADJUSTMENT YOU ARE RECOMMENDING?

A. Yes, I will. The first adjustment I am recommending is to Other Property and Investments.

<u>Other Property and Investments</u>

Q. WHAT IS THE ADJUSTMENT YOU HAVE MADE?

A. FPU has included an amount of $3,100 in working capital, which is shown in FPU's Balance Sheet under the heading "Other Property and Investments." The total amount is included in an account entitled "Other Special Funds." The $3,100 is an allocation of 31% of a total of $10,000. "Other Properties and Investments" are non-regulated assets and, in general, are not included as investments upon which ratepayers should provide a rate of return. FPU has failed to show that the other special funds investment is related to utility operations and is a required investment for utility services. As such, it should be eliminated from working capital requirements.

Cash

Q. WHAT RECOMMENDATION ARE YOU MAKING REGARDING THE CASH BALANCE FPU HAS REQUESTED?

A. FPU maintains unusually large balances of cash in its bank account. FPU, in the year 2006, allocated $247,509 of approximately $850,000 in average cash balances to the electric operations. In 2007, the total Company average cash balances were approximately $678,000, of which $210,108 was allocated to the electric operations. In the test year 2008, the total Company average cash balance was $227,993, of which $70,678 was allocated to electric operations for working capital requirements. The Commission, in the past, has reduced FPU's request for cash balances in its 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. Since FPU has not shown that the substantial balances it is requesting are necessary for the day-to-day operations of its electric divisions I have adjusted the working cash requirement to $10,000. This reduces working capital by $60,678, which is shown in Column (b) of Exhibit __(HL-1), Schedule B-2.

Special Deposits - Electric

Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING TO ACCOUNT 1340 - SPECIAL DEPOSITS - ELECTRIC?

A. I have eliminated these funds from the working capital requirement. According to his deposition, Mark Cutshaw stated that:

> "... the Company must submit a deposit that equals basically one month's transmission service prior to starting the negotiations on the contract, . . ."
> ...
> ". . . so at some point, we will get some or all of the deposit back."[1]

Further on the in deposition, Mr. Cutshaw states "they do pay interest", i.e., that interest is paid on the deposits.[2] It is not appropriate for the Company to earn a rate of return on these deposits through working capital when they will either be returned or the Company will be paid interest on the deposit. I have removed the total amount of these deposits of $317,836 on Schedule B-2.

Customer Accounts Receivable

Q. HOW DID THE COMPANY DETERMINE CUSTOMER ACCOUNTS RECEIVABLE

1 Cutshaw/Myers panel Deposition at p. 61, lines 1-3.

INCLUDED IN WORKING CAPITAL FOR THE PROJECTED TEST YEAR ENDING DECEMBER 31, 2008?

A. It appears that the Company started with the year 2006 and utilized the actual December 31, 2006 accounts receivable balance as the first month in its calculation of the 13-month average for 2007 on Schedule B-3 (line 18), page 1 of 6. It then escalated that amount by approximately 24% and used that balance for each of the twelve subsequent months in the year 2007. The December 31, 2007 projected balance then appears to be escalated by approximately 18.5% in January 2008 and that balance was used for the remainder of the year 2008. The result is that the 13-month average accounts receivable balance for the year 2008 has been escalated from the 13-month average of 2006 by approximately 46.4%. The Company's explanation of the growth between 2007 and 2008, as explained on Schedule B-5 (p. 27, line 14), states "Increase in base rates and fuel costs." In other words, the Company has projected the maximum increase in base rates in addition to whatever fuel rate it had assumed to arrive at the projected 2008 accounts receivable balance.

Q. DO YOU AGREE WITH THE COMPANY'S APPROACH TO DETERMINING THE PROJECTED TEST YEAR ACCOUNTS RECEIVABLE BALANCE TO BE INCLUDED IN WORKING CAPITAL?

A. No, I do not. First of all, the Company has included in the accounts receivable balance

2 Cutshaw/Myers panel Deposition at p. 61, lines 8-9.

receivables which are not related to the delivery of electric service. These include Account 1420.21 Customer Accounts Receivable Billed, Account 1420.22 Accounts Receivable - Jobbing, Account 1430.1 Accounts Receivable Employees, and Account 1430.2 Accounts Receivable - Miscellaneous. In Exhibit___(HL-1), Schedule B-3 I have shown the amount of receivables included in the Company's 2006 13-month average related to these receivables. These receivables were escalated to the 2008 rate year in the same manner I have previously discussed.

The Company has included for both divisions $206,380 of receivables which relate to jobbing, third-party damages owed to the Company, and other activities, including employee receivables, which are unrelated to the provision of electric service. These are below the line revenues and expenses and should be removed from rate base. Ratepayers should not be required to pay a rate of return on receivable balances associated with non-regulated activities like jobbing or third-party damages. The 13-month average of receivables in the year 2008 of $5,042,458 should be reduced by $206,380, escalated by approximately 46.4% to account for the difference between the 2006 13-month average of accounts receivables and the 2008 13-month average of accounts receivables. The total escalated amount is $302,140 ($206,380 x 1.464 = $302,140).

Q. AFTER REMOVING THE UNREGULATED RECEIVABLES, DO YOU FEEL THAT THE METHODOLOGY USED BY FPU TO PROJECT THE ACCOUNTS RECEIVABLE

BALANCE IS A REASONABLE BASIS FOR PROJECTING FUTURE ACCOUNTS RECEIVABLE BALANCES?

A. No, I do not. The Company has projected Customer Accounts Receivable for the year 2008 by escalating the 2006 balance by approximately 46.4%. This is not the methodology which the Company used to project sales growth. The accounts receivable balance is related to revenues. Historically, the Company's Utility Accounts Receivable has declined in total over the past several years. Exhibit___(HL-1), Schedule B-4 shows the annual average Utility Accounts Receivables from 1998 through the 12-months ended August 2007.

As can be seen from this schedule, the 13-month average accounts receivable has remained relatively constant through 2006, declining from $3,528,591 in 1998 to $3,407,042 for the 12-months ended August 2007. There is no relationship between the Company's projection method and the actual relationship between sales and accounts receivable. Since the level of accounts receivable as a percentage of revenues has declined over time, the use of the most recent historical test year relationship is a more reasonable way to project the accounts receivable balance in 2008. The 12-months ended August 2007 percentage of accounts receivable to revenue was 6.42%. Applying that percentage to the Company's projected revenue for 2008 of $62,488,964 (Schedule C-5, 2008) results in a projected accounts receivable 13-month average balance of $4,011,791. This is an increase from the 2006 balance of $3,237,585 (which excluded other receivables of $206,380) of $774,206. Exhibit ___(HL-1), Schedule B-2, line 6, shows the Company's projected balance to be

$5,042,458 including other accounts receivable estimated at $302,140. Excluding the other accounts receivable, the Company's balance would be $4,740,318. Reducing this balance to my projection would reduce the Company's balance by $728,527. The total reduction in accounts receivable projection would be $1,030,667 ($302,140 other accounts receivable and over projection $728,527 = 1,030,667).

Accumulated Provision for Uncollectibles

Q. HOW SHOULD THE ACCUMULATED PROVISION FOR UNCOLLECTIBLES BE CALCULATED?

A. The historical relationship between Accounts Receivable and the Accumulated Provision for Uncollectibles is shown on Schedule B-5. The accumulated provision for uncollectibles is related to the number of accounts in customer accounts receivable that maybe uncollectible. The historical relationship between customer accounts receivable and the provision for uncollectibles is an indication of what percentage of receivables may become uncollectible. The relationship of uncollectible to receivable had increased until 2001. The relationship declined in 2002 and through 2003. It increased in 2004 and 2005, and declined in 2006. The balances are presented in Exhibit___(HL-1), Schedule B-5.

I have used the average percentage of uncollectibles to accounts receivable for the years 2006 and 13-months ended September 2007 to estimate the provision of the year 2008. The average of those two years is 1.12%. Applying that percentage to customer accounts receivable for 2008 results in an accumulated provision for uncollectibles of $44,731 ($4,011,791 x 1.12% = $44,731). I have adjusted the balance of the accumulated provision for uncollectibles in Account 1440, line 7, Exhibit__(HL-1), Schedule B-2 to $44,462. This is an increase to the amount included by FPU of $7,986.

Prepaid Insurance

Q. DO YOU AGREE WITH THE COMPANY'S ALLOCATION OF PREPAID INSURANCE TO THE ELECTRIC OPERATIONS OF FPU?

A. No, I do not. The Company allocated prepaid insurance based on adjusted gross profit. The electric division of FPU was allocated 31% of prepaid insurance. The prepaid insurance is primarily for premiums associated with liability policies, directors and officers liability insurance and workmans compensation. Allocating these costs based on the electric operations proportion of total adjusted gross profit is not appropriate. These insurance costs are more related to labor costs, i.e., liability insurance and Workmen Compensation. A more appropriate allocation factor would be the electric operations proportion of total payroll. The electric operations payroll is approximately 25% of total Company payroll. Allocating the 2008 test year prepaid insurance of $629,658 by 25% results in electric operations prepaid insurance for Working Capital purposes of $157,415. This results in a reduction of prepaid insurance allocated to Working Capital of $37,779.

Unbilled Revenue

Q. DOES IT APPEAR THAT FPU HAS FOLLOWED THE SAME METHODOLOGY TO PROJECT UNBILLED REVENUE?

A. No, it does not. In response to OPC's First Set of Interrogatories, Interrogatory No. 9, FPU stated that it increased the historical 13-month average of unbilled revenue by 3.4% to project the year ended 2007 and by 3.5% to project the 13-month average for 2008. However, while it appears that the Company increased unbilled revenue by 3.4% for the year 2007, for the year 2008, the Company increased the 13-month average by approximately 23.5%. This appears to be a calculation error. Therefore, I have adjusted the 13-month average to reflect the 3.5% increase which the Company stated it escalated unbilled revenue by for the 13-month average for 2008. This reduces the Company's unbilled revenue in the working capital calculation by $88,808.

Regulatory Asset - Retirement Plan

Q. THE COMPANY HAS USED A DIFFERENT ALLOCATION FACTOR FOR PENSION ASSETS AND PENSION LIABILITIES. ARE THERE CONCERNS WITH THE USE OF DIFFERENT ALLOCATION PERCENTAGES?

A. Yes. There are two concerns. First, the Company allocated 34% of pension assets to electric and only 25% of pension liability to electric. This results in a working capital increase as a result of the different allocations. It is my understanding that FAS 158 requires recording of pension assets and pension liabilities in equal amounts. The Company claims that the non-regulated operations of the Company are treated differently and that the pension asset only represents the regulated portion of the Company. (Martin/Khojasteh/Mesite panel deposition, at pages 49 to 50.) There is no evidence to show that the use of a 34% allocation for pension assets is more appropriate and/or representative of the regulated payroll for electric operations. The Company should be required to provide supporting documentation and calculations for their use of a higher allocation percentage for the regulatory asset. Since that has not been provided, an adjustment to reduce working capital by $119,159 should be made based on a 25% allocation factor.

Q. WHAT IS YOUR SECOND CONCERN REGARDING THE PENSION ASSET ACCRUAL?

A. Under FAS 158 the additional obligation being accrued is to be charged to Other Comprehensive Income (OCI). The exception to that is under FASB 71, which states that a regulated utility can set up a deferred regulatory asset if the regulatory authority provided authority to defer the cost under the presumption that the costs will be recovered from ratepayers. The Company set up the regulatory asset in 2006 prior to receiving approval from the Commission. Instead, the asset was established and approval is being requested (after the fact) in this rate case. (Martin/Khojasteh/Mesite panel deposition, at page 51).

This practice is not consistent with the requirements of FASB 71.

Temporary Services

Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE REGARDING TEMPORARY SERVICES?

A. The Company has 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 of 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.

Q. WHAT DOES IT INDICATE WHEN THE TEMPORARY FACILITIES OR TEMPORARY SERVICES BALANCE IS A DEBIT AS OPPOSED TO A CREDIT?

A. This indicates that the Company is not collecting a sufficient amount of money for temporary facilities or services to offset all the costs of providing that service. FPU has indicated in response to OPC's Interrogatory Number 11, 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."

In every month that I have been able to examine, including the December 31, 2006, balance, the temporary service account had a debit balance. That means that the expenses incurred in providing temporary services exceeded the revenue received from such services. When the debit balance is written-off at the end of the year, December 31, ratepayers will subsidize this service and, in affect, be required to provide a return on services provided at below cost. I am removing the temporary service debit balance from rate base and am also increasing miscellaneous service revenue by the amount written off since ratepayers would be subsidizing this service if this adjustment is not made. I have reduced the working capital requirement for temporary services by $16,961. I have also increased miscellaneous service revenue by $27,150, the debit balance shown in temporary services at December 31, 2007 from Schedule B-3 (2007), page 1 of 6.

<u>Deferred Debits - Rate Case Expense</u>

Q. HOW HAS FPU CALCULATED THE DEFERRED DEBIT ASSOCIATED WITH RATE CASE EXPENSE?

A. The Company has calculated a 13-month average balance assuming that it would incur $622,000 in rate case expense associated with the current docket from the period June 2007 through March 2008. To this balance, it added the unrecovered rate case expense from the prior case of $106,000 at January 1, 2008. FPU then calculated a monthly amortization and calculated the 13-month average balance arriving at a total of $608,236.

Q. WAS THE COMPANY ALLOWED A 13-MONTH AVERAGE BALANCE OF DEFERRED RATE CASE EXPENSE IN THE SETTLEMENT ORDER RELATED TO THE LAST CASE?

A. No, it was not. In PSC-04-0369-AS-EI issued April 6, 2004, FPU was allowed one-half of the total rate case expense as a working capital allowance.

Q. WHY IS IT APPROPRIATE TO ALLOW ONLY HALF OF THE TOTAL RATE CASE EXPENSE AS A WORKING CAPITAL ALLOWANCE?

A. Because the Company will collect the rate case expense amortized monthly over the period of amortization, which is four years, the one-half amount is appropriate. If one were to allow the test year 13-month average balance, the Company would collect a return on the deferred rate case expense for every year subsequent to the test year as if that balance was never repaid. The Commission's approach, which I think is appropriate, is to allow only one-half of the deferred rate case expense as a working capital allowance; thus, the Company will receive a rate of return on half of the rate case expense over the life of the amortization instead of a return on a 13-month average which would over compensate the Company.

Q. MR. MESITE STATES THAT REFLECTING ONE HALF OF THE DEFERRED RATE CASE EXPENSE UNFAIRLY PENALIZES THE COMPANY, IS THAT CORRECT?

A. No, it is not. 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.

Q. HOW HAVE YOU CALCULATED THE TOTAL BALANCE OF RATE CASE EXPENSE WHICH WOULD ALLOW ONE-HALF AS A WORKING CAPITAL ALLOWANCE?

A. The Company has requested $622,000 of rate case expense in the current docket. I have removed $100,000 of that expense, which I will explain subsequently when I discuss rate case expense in my testimony. That leaves $522,000 of the Company's request which should be subsequently trued-up to actual. To that amount, I have added the unamortized balance of the prior rate case as of the estimated date that rates in this case will go into effect, which I assume will be in April 2008. The unamortized cost associated with the prior case would be approximately $84,800. Adding the $84,800 to the rate case expense recommended by me of $522,000, I arrive at a total rate case expense balance before rates go into effect of $606,800.

Following the Commission policy of allowing one-half of that as a working capital allowance, I arrive at the working capital allowance of $303,400. 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.

Regulatory Treatment of Over and Under Recovery of Fuel and Conservation Costs

Q. HAS FPU REQUESTED CHANGING THE COMMISSION'S LONG STANDING PRACTICE OF EXCLUDING UNDER-RECOVERIES OF FUEL COSTS AND CONSERVATION EXPENSE FROM WORKING CAPITAL REQUIREMENTS WHILE INCLUDING OVER-RECOVERIES OF FUEL COSTS AND CONSERVATION EXPENSE IN WORKING CAPITAL?

A. Yes, it has.

Q. WHAT IS FPU'S REASONING FOR REQUESTING A CHANGE IN THE COMMISSION POLICY RELATED TO OVER AND UNDER-RECOVERIES OF FUEL AND CONSERVATION COSTS?

A. The Company's reasoning is stated by Mr. Mesite on page 11 of the Company's testimony. Mr. Mesite's reasoning is as follows:

> We have included the net over and under recovery of fuel and conservation costs in working capital. Previously, only the over recoveries have been included. This is an unfair burden on the

company and penalizes the Company. 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. Factors such as sales levels, purchased fuel levels, and fuel costs different from expectations can all contribute to an over recovery; but are not in the direct control of the Company. These same circumstances may apply to conservation whereby the timing of revenues and expenses may deviate from projections. Therefore, the Company should not be penalized by only including over recoveries and not under recoveries in working capital. Although the projected test year includes an under recovery for fuel, this should be allowed in working capital so as to not unfairly penalize the Company.

Q. IS MR. MESITE'S REASONING FOR REQUESTING THE CHANGE IN COMMISSION POLICY CORRECT?

A. No, it is not. The Commission's policy is a well reasoned policy implemented in the 1980s to properly reflect how and who should pay the carrying cost on over and under recoveries of fuel and conservation costs.

The reasoning behind the Commission policy is as follows: 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 on customers' 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. The elimination of the income and expense related to these separate recovery mechanisms are appropriate because they are not, and should not, be included in base rates.

However, the over and under recoveries of these costs have to be treated differently in the working capital requirement so that the proper parties, that is, i.e., the ratepayer or the stockholder, receives or pays the proper return on the over or under recovery.

Q. WHY HAS THE COMMISSION HISTORICALLY ELIMINATED UNDER RECOVERIES FROM THE WORKING CAPITAL REQUIREMENT?

A. Under recoveries of fuel and conservation costs are assets to the Company. That is, they are receivables from ratepayers for costs incurred not currently recovered through the adjustment clauses. If these balances are included in working capital, then the Company would receive a rate of return on these assets through the working capital inclusion in rate base and the earning of a rate of return on rate base. The Company receives its rate of return on these assets through the fuel adjustment clause mechanism and the conservation adjustment clause mechanism. Those mechanisms add interest for any under-recovery to the cost which is subsequently billed through those mechanisms to ratepayers. So that if the receivable is included in working capital when base rates are established, then ratepayers would pay a double return on these under recoveries. They would pay once through the working capital requirement and a second time through the cost recovery mechanism as authorized by the Commission. The Commission policy of excluding under-recoveries from working capital is appropriate and allows the Company to only recover a return once through the cost recovery mechanism on these under-recoveries.

Q. MR. MESITE INDICATES THAT IF YOU EXCLUDE THE UNDER-RECOVERIES THEN YOU OUGHT TO ALSO EXCLUDE THE OVER-RECOVERIES WHEN CALCULATING WORKING CAPITAL. IS HIS THEORY CORRECT?

A. No, it is not. First of all, an over-recovery is a liability on the Company's balance sheet. In other words, the Company has collected more in fuel costs and conservation costs through its cost recovery mechanism than it actually incurred in expense on the income statement. Therefore, ratepayers have an amount due back from the Company for this over-recovery. The Company has the use of these funds during the period of time that the over collection has occurred and the period when they are returned to ratepayers. An interest calculation is made on these over recoveries and added to the amount returned to ratepayers through the cost recovery mechanism. However, if that liability is not included in working capital as a reduction of working capital, then the ratepayer is, in effect, paying his own interest to himself, because the working capital would be higher by the amount of funds that the Company actually has in its possession for use for working capital purposes. It is the intention of the mechanism that the stockholders pay the interest to ratepayers and that ratepayers not pay the interest to themselves. 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. This has been the historical treatment that the Commission has made regarding these two items and why they have historically excluded under-recoveries and included over-recoveries in the working capital requirement. There is no need to change this long-established Commission policy. No facts or circumstances have changed that warrant a re-evaluation. Therefore, I am removing the $1,143,377 related to under-recoveries.

Storm Reserve

Q. THE COMPANY IS ASKING FOR AN INCREASE IN THE ACCRUAL FOR STORM DAMAGE FROM THE CURRENT LEVEL OF $121,620 ANNUALLY TO $203,880 ANNUALLY. DO YOU THINK AN INCREASE IS JUSTIFIED?

A. No. The Company's increase is a 67.6% increase in the accrual for storm reserve. Company witness Cutshaw justifies this increase by stating that the storm reserve should be 5% of the Company's transmission and distribution system, or $3,338,800. He then deducts the reserve at the date the calculation was made and arrives at an unfunded reserve of $1,631,063. He then divides that by eight years to arrive at an annual accrual of $203,883.

Q. IN ITS LAST RATE FILING, DID THE COMPANY USE ESSENTIALLY THE SAME

ARGUMENT TO JUSTIFY AN INCREASE IN THE ACCRUED STORM DAMAGE RESERVE?

A. Yes, it did. Mr. Cutshaw, in that case, also picked a hypothetical total reserve number and then calculated an increase in reserve accrual to reach that amount of project reserves.

Q. DID MR. CUTSHAW PROVIDE ANY OTHER JUSTIFICATION FOR INCREASING THE RESERVE?

A. Yes. Mr. Cutshaw referred to the number of storms that hit Florida in the years 2004 and 2005 as additional justification for increasing the storm reserve.

Q. DOES THAT DATA INDICATE THAT THE STORM RESERVE WAS INADEQUATE TO HANDLE THE LARGE NUMBER OF STORMS WHICH HIT FLORIDA IN THE YEAR 2005 AND 2006?

A. No, it did not. In fact, it indicated that the Company's storm reserve was well above the requirements for the storm costs which were charged against the reserve in the years 2004 and 2005.

Q. HOW MUCH STORM DAMAGE COST HAS THE COMPANY ACTUALLY INCURRED AND CHARGED TO THE STORM RESERVE OVER THE LAST 19 YEARS?

A. In the following referenced schedule, I have shown the actual charges to the storm reserve from the years 1989 through 2007, a 19 year period. There were no charges from 1989 through 1993. Storm costs were only incurred in the years indicated in Exhibit___(HL-1), Schedule B-6.

As can be seen, in the last 19 years (1989 to 2007) there are only three years in which FPU incurred storm damage costs which exceeded $100,000. In the year in which the most storm damage was incurred, the year 2004, there were actually four storms that effected FPU. Two of those storms, Francis and Ivan, affected both the northeast and northwest division, although the dollar amounts were minor in the division farthest away from where the storm struck. FPU's storm reserve balance, at the end of 2005, was $1,506,887 after all 2004 and 2005 storm costs. Clearly, this balance was substantial compared to the highest dollar amount of storm costs incurred in the year 2004 of $810,502. There is no indication that the storm reserve was not sufficient to cover any cost which the Company incurred. To set a theoretical balance and then raise rates to allow that theoretical balance to be recovered from ratepayers when the last 19 years indicates that the maximum amount of storm damage incurred by the Company in any one year was only approximately 37% of the total reserve at the end of the prior year (2003) ($810,502 / $2,200,651 = 36.8%) is not reasonable. Clearly, there is no justification to increase the storm reserve accrual when it is apparent that there is sufficient dollars there to cover whatever storm damage has occurred on a historical basis.

Q. IS IT REASONABLE TO SET STORM DAMAGE ACCRUALS BASED ON A HYPOTHETICAL SCENARIO?

A. In my opinion, it is not. Mr. Cutshaw's assumption that 5% of all transmission and distribution plant should be set aside as a reserve has no historical basis based on the Company's storm damage experience, at least over the last 19 years.

Q. WHAT ADJUSTMENTS HAVE YOU MADE TO THE COMPANY'S FILING TO REDUCE THE STORM ACCRUAL TO THAT PREVIOUSLY APPROVED BY THE COMMISSION?

A. First, the reserve accrual charged to operating expense should be reduced from $203,880 to $121,620, a reduction of $82,260. The storm reserve is used as a reduction of working capital because FPU's storm reserve is not a funded reserve, and therefore, ratepayers must receive a reduction in capital cost on which they pay a return for the funds provided to the Company. The Company has reflected the higher accrual in this reserve.

The 13-month average calculation of storm damage reserve balance is increased by $8,871. This is an increase because the Company has miscalculated the 13-month average. 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. There appears to be no storm damage in the year 2007, according to the Company's response to OPC Interrogatory No. 80, Exhibit 80. Additionally, the Company started the calculation with the wrong balance at December 31, 2007. After correcting for these two errors, the 13-month average balance increases. The balance increases because the two errors are larger than the decrease in the accrual. I have increased the storm reserve balance on Schedule B-2 by $8,871.

<u>Interest Accrued - Customer Deposits</u>

Q. HAVE YOU ADJUSTED THE WORKING CAPITAL ALLOWANCE FOR INTEREST ACCRUED - CUSTOMER DEPOSITS?

A. Yes, I have. Comparing what the Company has used for the 13-month average ended December 31, 2008 to the actual 13-month average of Interest Accrued - Customer Deposit at September 30, 2007, it is apparent that the Company's projection methodology results in too low of a interest accrued balance. The 13-month average at September 30, 2007 was $71,025. This is an increase of 8.6% over the 13-month average for the period 13-months ended December 31, 2006. I have escalated the actual 13-month balance for the period ended September 30, 2007 by an additional 8.6% to arrive at the December 31, 2008 balance of $77,133. This is an increase in this accrual of $10,178 over the Company's balance, which I reflect on Schedule B-2, line 35.

Q. WHAT IS YOUR TOTAL RECOMMENDED ADJUSTMENT TO WORKING CAPITAL?

A. As shown on Schedule B-2, line 57, Working Capital should be reduced by $3,150,236 to ($4,460,890).

III. OTHER OPERATING REVENUES

Forfeited Discounts

Q. FPU HAS PROJECTED THAT FORFEITED DISCOUNTS WILL DECREASE FROM THE TEST YEAR ENDED DECEMBER 31, 2006 TO THE TEST YEAR ENDING DECEMBER 31, 2008. DO YOU AGREE WITH THAT PROJECTION?

A. No, I do not. Although the account is labeled "Forfeited Discounts" in the Company's rate case filing, the Company's tariffs and actual accounting system correctly labeled this as a late payment charge. The Company, in this filing, is proposing to actually shorten up the period time that ratepayers have to pay their bills. The revised tariff sheets indicate that the Company wants to change the 20-day grace period from the date of the mailing or other delivery thereof, to the date the bill is generated. This would have the effect of shortening the period of time that ratepayers would have to pay their bill. In addition to this fact, which would increase the amount of service charges, the amount of the ratepayer's bills will also increase. With the implementation of the new purchase power contracts and transmission delivery agreements, rates have increased significantly. Therefore, it is very unlikely that late charge payments will decrease, but in fact, will increase both because of the shortened time period to pay the bill and the larger bills. The Company's tariff sheet states that "The balance of all past due charges for services rendered are subject to a late payment charge of 1.5% or $5.00, which ever is the greater, except the accounts of Federal, State, and local government entities, agencies, and instrumentalities." These entities would be subject to a late payment charge as allowed by law.

The actual late payment charges for the year 2006 were $354,696. I have escalated that amount by 5% for each of the years 2007 and 2008 to arrive at a late payment fee of $391,052. This is an increase over the Company's projected 2008 late payment fees of $342,133 of $48,919. There are at least three factors which will cause the Company's late payment fees to increase. The first is the decrease of 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. I am recommending that late fees be increased by $48,919.

IV. OPERATING AND MAINTENANCE EXPENSE

Rate Case Expense

Q. DO YOU AGREE WITH FPU'S ESTIMATED TOTAL RATE CASE EXPENSE FOR DOCKET NO. 070304-EI?

A. No, I do not. The Company has included costs which should not be recovered from ratepayers as rate case expense.

Q. WOULD YOU PLEASE ENUMERATE THOSE ESTIMATED EXPENSES AND WHY

THEY SHOULD NOT BE INCLUDED IN RATES?

A. The Company has entered into a fixed fee contract with Christensen Associates for $165,000 for rate case preparation. The Company has included an additional $45,000 over and above the fixed fee contract, which it has labeled either "Other Costs" or "Estimate from consultant $165,000 plus estimate for extraordinary cost after filing." The Company should not be allowed to include costs which are over and above the fixed fee contract. The filing was completed and the Company has made that filing. If Christensen Associates goes over the amount agreed upon, then the Company should be responsible for that amount since the rate case analysis was completed and filed on a timely basis.

Q. WHAT OTHER COSTS DO YOU THINK SHOULD BE EXCLUDED FROM RATE CASE EXPENSE?

A. The Company has included $30,000 of costs which it has labeled "extra work by internal auditors due to rate case and tax consultant due to work constraints of rate case." Only those costs which are directly related to the preparation, filing and testimony before the Commission are legitimate rate case expenses. To argue that there are some extraordinary costs incurred by the Company as a result of the filing and that ratepayers are responsible for that cost is egregious. The filing itself was prepared by outside consultants. To argue that the Company's personnel were too busy preparing the rate case that they could not do other work does not justify including costs as rate case expense. I am recommending that the

$30,000 of supposed rate case expense be eliminated from consideration as rate case expense.

Q. WHAT OTHER COSTS DO YOU THINK SHOULD BE ELIMINATED FROM RATE CASE EXPENSE?

A. The Company has included $25,000, which it has labeled "Salaried Overtime Pay for Extraordinary Work Load." First, it makes no sense to have salaried employees if, when they are required to fulfill the obligation of their jobs, they are paid overtime. The preparation and filing of rate cases are normal costs incurred by utilities in the normal course of business. When salaried employees are employed, they are employed with the understanding that their work will be determined by the requirements of the job. They would not be limited to 40 hour work week and that time spent would be based on the requirements of the job. Additionally, the bulk of this filing was prepared by outside consultants. The Company's documentation shows that it has budgeted close to $200,000 in consulting fees from Christensen Associations ($165,000) and Darryl Troy ($30,000). Substantially all of the work load of preparing schedules and analysis was borne by these outside consultants. To now ask ratepayers to pay overtime pay for salaried workers is not justified. I am recommending that the $45,000 of additional costs for Christensen Associates, the $30,000 for internal audit work, and $25,000 for overtime pay be eliminated from consideration as rate case expense. Of course, after the completion of the rate case, the Company should file complete documentation of every cost related to the rate case and an adjustment should be made to true-up estimated costs to actual.

Q. WHAT IS THE ADJUSTMENT TO THE COMPANY'S AMORTIZATION OF RATE CASE EXPENSE THAT YOU ARE RECOMMENDING?

A. I have assumed that the rates associated with Docket No. 070304-EI will go into effect April 1, 2008. The Company will have remaining from the prior rate case approximately $84,811 of rate case expense. I am recommending the removal of $100,000 of costs from the Company's current projection of rate case expense of $622,000. This leaves $522,000 plus the remainder from the prior rate case of $84,811 for a total of $606,811. Amortized over a four-year period, this would be approximately $152,000 in amortization expense. This is $30,000 less than the Company's proposed amortization. I am recommending that the amortization of rate case expense be $152,000 over a four-year period, which reduces the Company's amortization by $30,000.

Other Informational Advertising

Q. FPU HAS INCLUDED IN THE TEST YEAR 2008 $159,543 OF WHAT IS TERMED "OTHER INFORMATIONAL ADVERTISING". WOULD YOU PLEASE DISCUSS THIS CATEGORY OF EXPENSE AND WHETHER THE COMMISSION SHOULD APPROVE EXPENSES OF THIS TYPE?

A. First, let me state the historical experience of FPU in making expenditures for other informational advertising. The Company's expenditures were $1,037, $783 and $261, in 2003, 2004 and 2005, respectively. In the test year 2006, FPU incurred expenses of $121,226. As of year-to-date September 30, 2007. it has incurred $100,476. In actuality, these expenses were incurred through August, as there were no expenditures in the month of September. When asked to explain the Company's requested increase in the test year ended December 31, 2008, the Company stated in its response to Citizens Interrogatory No. 46:

> Beginning in 2006 with the expiration of purchase power contracts and the resulting dramatic increase in fuel costs, the Company saw the need to increase communications to customers to keep customers informed and provide information on methods that could be used to control those costs. This information is also required to be provided in accordance with FPSC rules when customer cost is affected significantly.

FPU was also asked to provide in Citizens Interrogatory No. 102:

> . . . a breakdown all communication expense for each year 2006, 2007 and projected 2008 and include description and amount of each type (by media type) and a statement as to the necessity of each type to be incurred annually. For each type of media, provide the type of communication, the cost of production or printing, how many copies will be produced, the number of times any advertisements will run, how many bill inserts will be used, etc.

The Company stated that the information was not available as requested, but provided an exhibit numbered 102.1 with its response to Interrogatory No. 102. This exhibit listed, among other things, the vendor name, invoice number, invoice date and invoice amount with an explanation of purpose for the expenditure. In almost every instance, the expenditure was

"Advertising of company name and website at an event where a large number of customers attend," or "Advertising and public relations work related to fuel increase."

FPU's responses indicate that it intends to continue with the same type of advertising, providing the same information. Clearly, ratepayers are already aware of the significant fuel increase that occurred in 2006 and continued in 2007. To provide dollars of advertising to state the same message over and over again is not appropriate or reasonable. Ratepayers already know that there has been a significant increase in fuel and the related transmission costs. FPU has not justified continuing this level of expense, let alone increasing the test year 2006 actual expenditures of $121,227 to $159,243. An increase of $38,316.

Unless FPU has a detailed customer information plan that it can present to the Commission which justifies continuing any information program about increased fuel costs, I am recommending that the expense in this account be limited to an average of the actual expenditures over the last five years. That average, including the year 2007 year-to-date, would amount to $44,757. This would reduce the requested 2008 test year other informational advertising expense of $159,543 by $114,786.

Tree Replacement

Q. FPU HAS REQUESTED IN BOTH DIVISIONS A TOTAL OF $31,050 FOR REPLACING CUSTOMER TREES WITH LOW GROWING TREES. WHAT IS YOUR OPINION REGARDING THIS REQUEST?

A. I do not believe the Commission should authorize the Company to spend $31,050 on an annual basis to dig out and replace trees on private property with trees funded by ratepayers. Customers are responsible for planting and keeping trees away from power lines. Additionally, the Company has a program for tree trimming and line clearance, which supposedly keeps trees away from power lines. I do not believe it is ratepayers responsibility to fund the replacement of trees by FPU. I am, therefore, removing the $31,050 of expense requested by FPU.

Inspection and Testing of Substation Equipment

Q. WHAT HAS FPU REQUESTED IN TERMS OF INCREASE IN EXPENSE FOR INSPECTION AND TESTING?

A. FPU incurs two types of inspection and testing expense. The first, which is accounted for in Account 562 - Station Expense, relates to substations which handle transmission line voltage. FPU is asking for an increase in the level of expense for inspection and testing of transmission substations of 154% from a test year amount of $17,124 to a projected test year amount of $43,478.

The other type of inspection and testing which FPU incurs relates to substations in the distribution system. FPU is asking for a 112% increase in this level of expense from the test year December 31, 2006 amount of $47,082 to the projected test year amount for 2008 of

$99,878. FPU, in its response to Interrogatory No. 50, states:

> . . . 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. (Emphasis added)

Q. HAS FPU PROVIDED A SPECIFIC PLAN WITH DOCUMENTATION OF WHAT IS NECESSARY AND WHY ITS PRIOR PROGRAM NEEDS TO BE INCREASED BY SUCH A DRASTIC AMOUNT?

A. No. FPU provided a one page document, which I have included as Exhibit__(HL-2) which shows the extent of the detail behind FPU's requested increase in station expense.

In addition, FPU has copied pages from a document prepared by InterNational Electric Testing Association, Inc. dated in 2005. This obviously is a generic document and does not pertain specifically to the needs of FPU and what FPU would implement as necessary components of its own inspection and testing program. Unless FPU has a specific program which deals with each individual substation and what is necessary for that particular substation over and above its current inspection and testing program, then generic increases in these categories of expenses which FPU has requested should be disallowed. I have taken the test year December 31, 2006 station expense in Account 562 for is inspection and testing of transmission substations in the amount of $17,124 and escalated that by the compound inflation for 2007 and 2008 to arrive at a test year 2008 amount of $18,323. I have reduced

FPU's projected test year amount by $25,155 ($43,478-18,323). For Account 582 - Station Expense, for the inspection and testing of distribution substations, I have also taken the test year December 31, 2006 amount of $47,082 and escalated it by the compound inflation rate to arrive at the 2008 level of expense of $50,378. This results in a reduction to Account 582 - Station Expense Inspection and Testing of $49,600 ($99,878 - $50,378). FPU has not provided substantiation for these projected increases and they should, therefore, be disallowed.

Economic Development Expense

Q. WHAT AMOUNT HAS FPU INCLUDED FOR ECONOMIC DEVELOPMENT COSTS?

A. FPU is requesting recovery of $15,701 for Economic Development Costs. In its last rate case, FPU was allowed $22,641 Economic Development Costs per calendar year. In any calendar year where the Company spent less than that amount, 95% of the difference between $22,641 and the amount spent was to be credited to its storm damage reserve. FPU refers to Florida Rule 25-6.0426, Recovery of Economic Development Expenses in its response to Interrogatory 52. Florida Rule 25-6.0426 (4) states that:

> At the time of each utility's next rate case and for subsequent rate proceedings enumerated in subsection (6) the Commission will determine the level of sharing of prudent economic development costs and the future treatment of these expenses for surveillance purposes.

Q. DO YOU AGREE WITH THE COMPANY'S PROJECTION FOR THIS EXPENSE?

A. No. FPU is clearly not spending the funds it previously projected to maximize growth within the community. FPU has spent $5,000 in each of the years 2003 through year-to-date 2007, with the exception of 2004, in which it did not spend any money for Economic Development. Thus, FPU should not be allowed to recover more than what it has historically been spending.

Q. WHAT AMOUNT ARE YOU RECOMMENDING FOR ECONOMIC DEVELOPMENT COSTS?

A. I am recommending the Company be allowed to recover $5,000 for Economic Development Expense, which equates to what FPU has spent in each year except 2004.

Q. WHAT ADJUSTMENT IS NEEDED FOR THIS EXPENSE?

A. A reduction of $10,701 should be made to the Company's proposed 2008 test year amount.

<u>Postage Expense</u>

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO POSTAGE EXPENSE.

A. The Company has projected an increase of $20,100, with $6,030 allocated to the electric division. In the Martin/Khojasteh/Mesite panel deposition at page 38, of the accounting panel, the Company asserted that the increase was based on assumptions of increases in future years based on historical increases, rather than other factors such as increased mailings. The Company also acknowledged it has not received any notification from the post office as to potential future postage increases. Therefore, I am recommending a reduction to Customer Information Expense of $6,030 related to the hypothetical postage increase.

Supervisory Training Expense

Q. WHAT AMOUNT HAS FPU INCLUDED IN THE TEST YEAR FOR SUPERVISORY TRAINING EXPENSE?

A. FPU has projected $21,100, with $5,486 allocated to its electric operations.

Q. HAS THE COMPANY PROVIDED ADEQUATE SUPPORT FOR THIS INCREASE?

A. No. The Company asserted that it has provided supervisory training since 2002, with the exception of 2006 because it did not have time or ability to do so. It trended the 2006 expense to account for the absence of training in that year. FPU's response to Citizens Interrogatory No. 76 states that actual expenditures relating to supervisory training expense or 2007 through September were are $7,350. As the Company has not reached the level of supervisory training it projected for 2007, test year expense should be reduced.

Q. WHAT ADJUSTMENT IS NEEDED TO FOR THIS EXPENSE?

A. Annualizing the current year-to-date expenses amounts to $9,800 ($7,350/9 x 12), with $2,548, or 26% allocated to electric operations. Therefore, Supervisory Training Expense should be reduced by $2,938.

Travel for Compliance Accountant

Q. OPC WITNESS MERCHANT HAS REMOVED THE COMPANY'S REQUEST FOR A NEW POSITION FOR A COMPLIANCE ACCOUNTANT. SHOULD THE TRAVEL ASSOCIATED WITH THAT POSITION ALSO BE REMOVED?

A. Yes. If a new employee has not been hired and Ms. Merchant has determined that one is not necessary, it would not be appropriate to increase travel expenses for a position which will not be filled. I am, therefore, removing $5,200 from Account 921.5.

BDO Seidman Increase

Q. THE COMPANY IS REQUESTING AN INCREASE FOR ITS AUDITORS OF $292,500 IN THE TEST YEAR 2008. DOES THE CALCULATION AND UNDERLYING SUPPORT APPEAR CORRECT?

A. The Company's calculation of the adjustment itself is flawed in several ways. First, it appears that the Company did not reflect the actual audit fees for the year 2006 when it attempted to calculate the increase for 2008. For the test year ended December 31, 2006, the expense on a total Company basis in Account 923.3 for Outside Audit and Accounting was

$447,874. This included amounts paid both to the external auditor BDO Seidman and fees paid to another CPA firm Crowe, Chaizek for internal audit work. Second, the Company did not analyze the year 2006 to determine what fees would be ongoing for Crowe, Chaizek and did not use the proper expense level for its external audit by BDO Seidman. It, therefore, derived an increase in audit fees which is materially overstated.

Q. CAN YOU EXPLAIN FURTHER HOW THIS ERROR WAS MADE?

A. The Company did not originally submit workpapers to OPC's repeated discovery requests. The Company, however, did eventually provide workpapers for this adjustment as a result of a deposition late-filed request. One of the workpapers shows how the Company arrived at the December 31, 2006 audit fees. An examination of this workpaper shows that the Company added two amounts that are labeled "estimated liability (excluding payments) to arrive at an audit fee of $125,000. Thus, the Company has excluded any payments it made during in 2006 for the 2006 audit. This exclusion understated the 2006 audit fees by at least $145,000.

Q. HOW DID FPU CALCULATE THE INCREASED AUDIT FEES FOR 2008?

A. The Company sent an email to its auditor with an estimate of the 2008 audit fees and quarterly review, which totaled $680,000. The auditor replied that the Company's estimate was overstated and that the audit fees including fees for an internal control and financial reporting audit would be $417,500. The auditors email also stated that the internal control and financial report audit for 2008 was needed regardless of whether the Company became accelerated or not. So it appears that the audit fee estimated by the auditor has some options. That is, whether the Company becomes an accelerated filer or not.

The Company took the $417,500 estimated by its auditor, BDO Seidman, and subtracted the understated 2006 audit fees of $125,000 to arrive an increase of $292,500. Of this amount, it allocated 31% to the electric division, or $90,675.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THIS ADJUSTMENT?

A. It is clear that the adjustment is miscalculated. It is also clear that the Company has some options regarding becoming an accelerated filer, if one is to accept what the email states. Additionally, if the internal control and financial reporting audit is conducted by the outside auditor, BDO Seidman, one must question whether the substantial fees paid to Crowe, Chaizek in 2006 of approximately $144,000 would be an ongoing expense to the Company. None of these questions have been answered by the Company in its analysis or in its testimony. I am, therefore, removing the entire adjustment of $90,675 from audit fees until the Company presents a full analysis of the 2006 audit fees of $447,874 and a document explaining what actually would be required in the year 2008.

Uncollectible Accounts

Q. FPU HAS REQUESTED UNCOLLECTIBLE ACCOUNTS EXPENSE OF $216,664. DO YOU AGREE WITH THAT EXPENSE LEVEL?

A. No. On Schedule C-11 of the Company's filing, FPU calculates a bad debt write-off based on projected 2008 revenues exclusive of the impact of the requested increase in rates of $144,563. However, in its filing on Schedule C-7 (2008), p. 1 of 3, in Account 904, Uncollectible Accounts, the Company has requested $216,664. When asked to explain why there is a difference between what it calculated on Schedule C-11 and reflected on Schedule C-7, the Company gave the following answer in Interrogatory No. 115:

> The $144,563 projection of bad debt write-off differs from the $216,664 bad debt expense due to the timing delay between the accrual of the bad debt provision (when the expense is incurred) and the actual write-off of the uncollectible account. We are however expecting a large increase in bad debts due to both our base rate increase and the larger part, the fuel increases.

This explanation makes no sense. Bad debt expense is a result of accruing a potential write-off to expense and then writing off the bad debts against the provision for bad debts when the bad debt actually occurs. It is my opinion that the Company made an error in its calculation and does not want to own up to it. So at a minimum, the expense should be reduced for this clear error.

Q. DO YOU AGREE WITH THE COMPANY'S CALCULATION OF THE 2008 EXPENSE OF $144,563?

A. No, I do not. The Company has not shown that its bad debt write-off percentage of 0.2340% in the year 2008 has any validity or is related in any way to actual experience. It appears to be a percentage that the Company created without a proper analysis of historical write-offs net of recoveries as a percentage of total revenues. On Exhibit ___(HL-1), Schedule C-4, I have shown the Company's calculation from Schedule C-11 for the years 2002 through 2005. I have added the information for the year 2006 and recoveries for each of the years 2002 through 2006. The net write-offs are shown in Column (E). I totaled the net write-offs and divided it by the revenues for the five years to arrive at an average write-off percentage for the last five years of 0.11552%. I have applied this factor to the Company's projected revenues in the year 2008 absent the rate increase of $61,786,961 to arrive at the 2008 bad debt expense of $71,179. This is significantly less than what the Company has in its filing of $216,664. I am recommending an adjustment to the Company's uncollectible accounts expense in Account 905 of $145,485.

Q. IS THERE ANY OTHER ADJUSTMENT THAT SHOULD BE MADE TO REFLECT THE APPROPRIATE UNCOLLECTIBLE FACTOR?

A. Yes, the revenue conversion factor includes a 0.20% uncollectible factor. This should be adjusted to the historical average of 0.1152%. I have done that in calculating the revenue deficiency of the Company.

Revisions to Projection Factors

Q. HOW DID FPU PROJECT THE HISTORIC TEST YEAR OPERATION AND MAINTENANCE EXPENSES?

A. Various projection factors were used. Thirteen accounts were escalated using a payroll projection factor of 5.5% per year, or 11.3% to go from 2006 to 2008 projected. For twelve expense accounts, the Company used an inflation factor based on CPI, which resulted in a factor of 4.6% to go from 2006 to 2008 projected. For thirty-three expense accounts, the Company applied a factor consisting of inflation times customer growth, resulting in a projection rate of 7.0% to go from 2006 to projected 2008. For twenty accounts, FPU applied a factor of 14.1% to go from 2006 to projected 2008 consisting of payroll times customer growth.

Q. FOR EXPENSE ACCOUNTS IN WHICH BOTH PAYROLL AND NON-PAYROLL

COSTS WOULD BE RECORDED, DID THE COMPANY SEPARATE OUT THE PAYROLL AND NON-PAYROLL COSTS PRIOR TO TRENDING?

A. No, it did not. In some other recent Florida regulatory proceedings in which I've participated, the utility separated the accounts between payroll and non-payroll and would apply separate factors. For example, a payroll trend factor would be applied to the payroll related costs in the account while a non-payroll related trend factor would be applied to the non-payroll costs. FPU's application of a payroll factor or combination payroll and customer growth factor to the full balances in certain accounts would result in a higher trending to that account as the payroll factor is considerably higher than the inflation factors used in this case. For example, the Company applied the payroll trend factor to the entire balance of Account 903 - Customer Records and Collection Expense. While this account may include some payroll costs, it is also likely that it contains non-payroll related costs.

Q. DID YOU REVISE THE COMPANY'S ESCALATION ADJUSTMENTS TO SEPARATE THE PAYROLL FROM NON-PAYROLL COSTS IN THE VARIOUS EXPENSE ACCOUNTS.

A. No, I did not. I did not have the information necessary to separate the various expense accounts between payroll and non-payroll costs in order to apply separate trend factors. Thus, for the accounts in which the Company applied a payroll trend factor or payroll times customer growth factor to the entire account balance, the projected 2008 amount would be overstated.

Q. IS THE COMPANY'S USE OF COMBINED TREND RATES APPROPRIATE?

A. No, not in this case. The use of the combined payroll and customer growth trend rate for projecting 2008 costs is not appropriate. The Company applied this combined factor to twenty separate expense accounts, including its FICA expense account (Account 4080.7). The rationale for using a combined rate is that as the number of customers increase, a need for additional employees arises. However, increased productivity and cost savings measures, including the implementation of new technologies and better computer systems, would alleviate the need for additional employees. In addition, the Company is making several specific adjustments in addition to its trending adjustments for new employees it is projecting to add between 2006 and the projected 2008 test year. It is not appropriate to apply a trending rate to factor in employee increases associated with customer growth and also make specific adjustments to add projected additional employees. To do so would result in a double-counting of costs associated with hiring new employees. For the accounts in which the combined payroll and customer growth factor was applied, I recommend that the payroll only factor of 11.3% be used. The adjustment needed to reflect the lowering of the 14.1% factor used by the Company to the 11.3% payroll only factor is calculated on Schedule C-3, page 2 of 3, reducing 2008 expenses by $36,691.

As previously mentioned, the application of the payroll factor to the full 2006 amounts in these accounts likely also results in an overstatement of projected 2008 costs as several of these accounts would include both payroll and non-payroll costs. Consequently, an even larger adjustment to the trending in these accounts may be appropriate.

Q. IS THE USE OF THE COMBINED INFLATION AND CUSTOMER GROWTH TREND RATE APPROPRIATE?

A. I also disagree with the Company's use of the combined inflation and customer growth trend rates. As mentioned above, the Company applied this combined rate of 7.0% to go from 2006 to 2008 projected amounts to thirty-three separate expense accounts. In its filing, the Company did not provide sufficient evidence to justify the application of the combined rate. Customer growth would have little to no impact on many of the accounts to which the Company applied the combined factor. For example, the combined factor was applied to all of the advertising expense accounts, industry association dues and economic development costs. The Company also applied this combined factor to Account 593.1 - Maintenance of Poles/Towers in addition to making a specific adjustment for the amount of line crews projected to be added. This would result in a double-counting of cost increases associated partially with customer growth. The Company has not demonstrated that productivity increases and cost savings resulting from improved technologies would not offset the increase associated with customer growth. In fact, in many cases in which I have participated over the last few years, the number of utility employees has been declining, with the ratio of utility employees to customers declining. In other words, the utilities have been reducing the number of employees despite customer growth.

For the accounts in which the combined inflation and customer growth factor was applied, I recommend that the inflation only factor of 4.6% to go from 2006 to projected 2008 be applied. The adjustment needed to reflect the lowering of the 7.0% factor used by the Company to the 4.6% inflation only factor is calculated on Schedule C-3, page 1 of 3, reducing 2008 expenses by $65,491.

Q. IS THERE ANY ADDITIONAL INFORMATION THE COMMISSION SHOULD CONSIDER WHEN EVALUATING THE COMPANY'S PROPOSED ESCALATION/TREND FACTORS?

A. Yes. Page 3 of Schedule C-3 provides a comparison, by account, of the Company's projected 2007 operation and maintenance expenses contained in the filing to the annualized 2007 actual costs recorded to date. In response to a Citizens' request for Production of Documents (11), the Company provided its trial balance for 2007 through September. On page 3 of Schedule C-3, I annualized the through September amounts. As shown on the schedule, the 2007 annualized actual expense amounts are considerably less than the projected 2007 amounts contained in the filing. On pages 1 and 2 of Schedule C-3, for each account in which I revised the Company's proposed projection/trend factor, I provide the amount by which the 2007 projected amount exceeded the annualized 2007 actual costs.

Q. WHAT IS THE OVERALL IMPACT OF YOUR REVISIONS TO THE COMBINED TREND RATES TO REFLECT PAYROLL ONLY OR INFLATION ONLY RATES?

A. As shown on page 1 of Schedule C-3, projected 2008 operation and maintenance expense should be reduced by $102,182 and taxes other than income should be reduced by $5,802.

Staff Audit Findings

Q. WHAT STAFF AUDIT FINDINGS DO YOU AGREE WITH AND ARE REFLECTING IN YOUR SUMMARY SCHEDULES ON EXHIBIT__(HL-1) SCHEDULE C-2?

A. The OPC agrees that many of Staff's audit findings are appropriate and should be reflected in the revenue requirement calculations. I agree that the following Staff Audit adjustments to operation and maintenance expenses should be reflected:

a. Audit Finding 5- Legal and Mailing. FPU included in account 928, regulatory commission expense, costs paid to Messer, Caparello and Self for costs related to obtaining the new fuel contracts for expanding the territory. The fuel contracts will not be renewed for another ten years, therefore, these costs are not recurring. FPU also included in Account 923.1, Outside Services, postage and printing costs for a letter pertaining to increased electric costs. These Staff adjustments reduce projected

2008 expenses in Account 928 and 923.1 by $35,808 and $6,911, respectively.

b. Audit Finding 6- Miscellaneous Sales Expense-Customer Survey. In 2006 the utility conducted a customer survey and allocated the costs equally between Marianna and Fernandina. The utility plans to conduct surveys in the future, but they will not be as extensive and costly as the one in 2006. Therefore, this also may be a non-recurring expense and $27,397 should be removed from the test year.

c. Audit Finding 7- Economic Development. Account 920.23 includes membership dues to Opportunity Florida. The utility joined this organization for networking and opportunities with other industries. These costs should not be charged to ratepayers; thus, projected 2008 expense should be reduced by $5,351.

d. Audit Finding 8- Maintenance of General Plant. FPU constructed a wall in its Marianna office in March 2006. This should be capitalized in account 114.1010.39, Structures and Improvements, and depreciated, rather than expensed. Therefore, 2008 Account 935, should be reduced by $2,375 and Plant should be increased in 2006 by the average of $1,707. Average accumulated depreciation should be increased by $16 and depreciation expense should be increased by $37.

e. Audit Finding 9- Other Distribution Expense. Account 588.2, included airline expenses for a safety contractor's wife. This account should be reduced by $773 a it should not be charged to ratepayers.

f. Audit Finding 10- Maintenance of Transformers. FPU removed a pad and set a new transformer at the Ritz Carlton Hotel in August of 2006. This should be capitalized in account 11.1010.368, and depreciated, rather than expensed. Therefore, 2008 Account 595.3, should be reduced by $2,738 and Plant should be increased in 2006 by the average of $923. Average accumulated depreciation should be increased by $10 and depreciation expense should be increased by $42.

g. Audit Finding 11- Moving Expenses. FPU paid moving expenses of a deposit on a rental house and two months rent for the new Division Manager. These costs may not be recurring, and $3,835 should be should be removed from the test year.

h. Audit Finding 16- Clearing Accounts. FPU allocated several expenses to its clearing accounts via a payroll entry rather than the regular allocation process. The General Liability, Pension, Medical and 401K clearing accounts should be reduced by $52,628, $88,510, $120,339, and $975, respectively.

On Schedule C-2, I provide a summary of each of the above adjustments, by account. The overall adjustment on this schedule is flowed-through to the summary of adjustments to net operating income on Schedule C-1, page 2.

V. STORM HARDENING EXPENSES

Collaborative Research

Q. IN ITS ORIGINAL FILING, FPU HAS REQUESTED $25,750 FOR TRAVEL AND PURC COSTS IN THE UTILITY COLLABORATIVE RESEARCH PROJECTS. IS THE COMPANY STILL REQUESTING THAT LEVEL OF COSTS?

A. No. In a data response the Company initially revised the cost down to, $5,170 and at deposition, further reduced it to $832. I have adjusted the Company's filing from $25,750 to $832, an adjustment of $24,918.

Post-Storm Data Collection and Review

Q. WOULD YOU PLEASE EXPLAIN WHAT THE COMPANY IS REQUESTING IN THE AREA OF POST-STORM DATA COLLECTION AND REVIEW?

A. The Company has requested that expenses be increased by $27,000 on an annual basis. In response to OPC's Interrogatory No. 59, the Company stated:

> The Company needs to develop a post-storm data collection and forensic review for damage associated with hurricanes in accordance with the storm hardening initiatives which will improve future reliability during these situations.

The Company further states that the $27,000 includes $17,000 of a development of the overall program methodology and that the additional $10,000 is an annualized estimate amount for four days of contractor work per year to perform this work. The Company assumes that on average some type of hurricane will hit one of the two divisions "... almost two times per year." (See, Interrogatory No. 59)

From the Company's explanation, it appears that this work will only take place after a hurricane. The development of the overall program methodology is a one-time cost. The logical conclusion of the Company's explanation is that the entire cost is directly related to storm costs. As such, should be charged to the storm reserve when and if the Company incurs such costs. I have, therefore, removed the entire $27,000 since it will not be an annual recurring expense and it should be charged against storm reserve.

VI. TAXES

Interest Synchronization Adjustment

Q. HAVE YOU CALCULATED AN INTEREST SYNCHRONIZATION ADJUSTMENT?

A. Yes, I have. The OPC's recommended adjustments to rate base and the capital structure impact the amount of interest deduction for tax purposes. OPC's recommended adjustment to income taxes for interest synchronization is shown on Schedule C-5.

Income Taxes

Q. HAVE YOU CALCULATED THE IMPACT OF THE OPC'S RECOMMENDED ADJUSTMENTS TO OPERATING INCOME ON INCOME TAXES?

A. Yes. The impact of the OPC's recommended adjustments to operating income on income tax expense is shown on Schedule C-6. The calculation uses the composite state and federal income tax rate of $37.63%.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

Filename:	larkin testimony 12.27.doc	
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Template:	C:\documents and settings\all users\templates\Normal.dot	
Title:		
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Author:	Kerry	
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accounting firm of Tischler & Lipson of Detroit. In April of 1970, I left the latter firm to form the certified public accounting firm of Larkin, Chapski & Company. In September 1982 I re-organized the firm into Larkin & Associates, a certified public accounting firm. The firm of Larkin & Associates performs a wide variety of auditing and accounting services, but concentrates in the area of utility regulation and ratemaking. I am a member of the Michigan Association of Certified Public Accountants and the American Institute of Certified Public Accountants. I testified before the Michigan Public Service Commission and in other states in the following cases:

U-3749	Consumers Power Company - Electric Michigan Public Service Commission
U-391	Detroit Edison Company Michigan Public Service Commission
U-4331	Consumers Power Company - Gas Michigan Public Service Commission
U-4332	Consumers Power Company - Electric Michigan Public Service Commission
U-4293	Michigan Bell Telephone Company Michigan Public Service Commission
U-4498	Michigan Consolidated Gas sale to Consumers Power Company Michigan Public Service Commission
U-4576	Consumers Power Company - Electric Michigan Public Service Commission
U-4575	Michigan Bell Telephone Company Michigan Public Service Commission
U-4331R	Consumers Power Company - Gas - Rehearing Michigan Public Service Commission
6813	Chesapeake and Potomac Telephone Company of Maryland, Public Service Commission, State of Maryland
Formal Case No. 2090	New England Telephone and Telegraph Co. State of Maine Public Utilities Commission
Dockets 574, 575, 576	Sierra Pacific Power Company, Public Service Commission, State of Nevada

U-5131	Michigan Power Company Michigan Public Service Commission
U-5125	Michigan Bell Telephone Company Michigan Public Service Commission
R-4840 & U-4621	Consumers Power Company Michigan Public Service Commission
U-4835	Hickory Telephone Company Michigan Public Service Commission
36626	Sierra Pacific Power Company v. Public Service Commission, et al, First Judicial District Court of the State of Nevada
American Arbitration Association	City of Wyoming v. General Electric Cable TV
760842-TP	Southern Bell Telephone and Telegraph Company, Florida Public Service Commission
U-5331	Consumers Power Company Michigan Public Service Commission
U-5125R	Michigan Bell Telephone Company Michigan Public Service Commission
770491-TP	Winter Park Telephone Company, Florida Public Service Commission
77-554-EL-AIR	Ohio Edison Co., Public Utility Commission of Ohio
78-284-EL-AEM	Dayton Power and Light Co., Public Utility Commission of Ohio
0R78-1	Trans Alaska Pipeline, Federal Energy Regulatory Commission (FERC)
78-622-EL-FAC	Ohio Edison Co., Public Utility Commission of Ohio
U-5732	Consumers Power Company - Gas, Michigan Public Service Commission

77-1249-EL-AIR, et al	Ohio Edison Co., Public Utility Commission of Ohio
78-677-EL-AIR	Cleveland Electric Illuminating Co., Public Utility Commission of Ohio
U-5979	Consumers Power Company, Michigan Public Service Commission
790084-TP	General Telephone Company of Florida, Florida Public Service Commission
79-11-EL-AIR	Cincinnati Gas and Electric Co., Public Utilities Commission of Ohio
790316-WS	Jacksonville Suburban Utilities Corp., Florida Public Service Commission
790317-WS	Southern Utility Company, Florida Public Service Commission
U-1345	Arizona Public Service Company, Arizona Corporation Commission
79-537-EL-AIR	Cleveland Electric Illuminating Co., Public Utilities Commission of Ohio
800011-EU	Tampa Electric Company, Florida Public Service Commission
800001-EU	Gulf Power Company, Florida Public Service Commission
U-5979-R	Consumers Power Company, Michigan Public Service Commission
800119-EU	Florida Power Corporation, Florida Public Service Commission
810035-TP	Southern Bell Telephone and Telegraph Company, Florida Public Service Commission
800367-WS	General Development Utilities, Inc., Port Malabar, Florida Public Service Commission

TR-81-208**	Southwestern Bell Telephone Company, Missouri Public Service Commission
810095-TP	General Telephone Company of Florida, Florida Public Service Commission
U-6794	Michigan Consolidated Gas Company, 16 refunds Michigan Public Service Commission
U-6798	Cogeneration and Small Power Production -PURPA, Michigan Public Service Commission
0136-EU	Gulf Power Company, Florida Public Service Commission
E-002/GR-81-342	Northern State Power Company Minnesota Public Utilities Commission
820001-EU	General Investigation of Fuel Cost Recovery Clauses, Florida Public Service Commission
810210-TP	Florida Telephone Corporation, Florida Public Service Commission
810211-TP	United Telephone Co. of Florida, Florida Public Service Commission
810251-TP	Quincy Telephone Company, Florida Public Service Commission
810252-TP	Orange City Telephone Company, Florida Public Service Commission
8400	East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission
U-6949	Detroit Edison Company - Partial and Immediate Rate Increase Michigan Public Service Commission
18328	Alabama Gas Corporation, Alabama Public Service Commission
U-6949	Detroit Edison Company - Final Rate Recommendation Michigan Public Service Commission

820007-EU	Tampa Electric Company, Florida Public Service Commission
820097-EU	Florida Power & Light Company, Florida Public Service Commission
820150-EU	Gulf Power Company, Florida Public Service Commission
18416	Alabama Power Company, Public Service Commission of Alabama
820100-EU	Florida Power Corporation, Florida Public Service Commission
U-7236	Detroit Edison-Burlington Northern Refund Michigan Public Service Commission
U-6633-R	Detroit Edison - MRCS Program, Michigan Public Service Commission
U-6797-R	Consumers Power Company - MRCS Program, Michigan Public Service Commission
82-267-EFC	Dayton Power & Light Company, Public Utility Commission of Ohio
U-5510-R	Consumers Power Company - Energy Conservation Finance Program, Michigan Public Service Commission
82-240-E	South Carolina Electric & Gas Company, South Carolina Public Service Commission
8624 8625	Kentucky Utilities, Kentucky Public Service Commission
8648	East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission
U-7065	The Detroit Edison Company (Fermi II) Michigan Public Service Commission
U-7350	Generic Working Capital Requirements, Michigan Public Service Commission

820294-TP	Southern Bell Telephone Company, Florida Public Service Commission
Order RH-1-83	Westcoast Gas Transmission Company,Ltd., Canadian National Energy Board
8738	Columbia Gas of Kentucky, Inc., Kentucky Public Service Commission
82-168-EL-EFC	Cleveland Electric Illuminating Company, Public Utility Commission of Ohio
6714	Michigan Consolidated Gas Company Phase II, Michigan Public Service Commission
82-165-EL-EFC	Toledo Edison Company, Public Utility Commission of Ohio
830012-EU	Tampa Electric Company, Florida Public Service Commission
ER-83-206**	Arkansas Power & Light Company, Missouri Public Service Commission
U-4758	The Detroit Edison Company (Refunds), Michigan Public Service Commission
8836	Kentucky American Water Company, Kentucky Public Service Commission
8839	Western Kentucky Gas Company, Kentucky Public Service Commission
83-07-15	Connecticut Light & Power Company, Department of Utility Control State of Connecticut
81-0485-WS	Palm Coast Utility Corporation, Florida Public Service Commission
U-7650	Consumers Power Company - (Partial and Immediate), Michigan Public Service Commission
83-662**	Continental Telephone Company, Nevada Public Service Commission

U-7650	Consumers Power Company – Final Michigan Public Service Commission
U-6488-R	Detroit Edison Co. (FAC & PIPAC Reconciliation), Michigan Public Service Commission
Docket No. 15684	Louisiana Power & Light Company, Public Service Commission of the State of Louisiana
U-7650	Consumers Power Company (Reopened Reopened Hearings) Michigan Public Service Commission
38-1039**	CP National Telephone Corporation Nevada Public Service Commission
83-1226	Sierra Pacific Power Company (Re application to form holding company) Nevada Public Service Commission
U-7395 & U-7397	Campaign Ballot Proposals Michigan Public Service Commission
820013-WS	Seacoast Utilities Florida Public Service Commission
U-7660	Detroit Edison Company Michigan Public Service Commission
U-7802	Michigan Gas Utilities Company Michigan Public Service Commission
830465-EI	Florida Power & Light Company Florida Public Service Commission
U-7777	Michigan Consolidated Gas Company Michigan Public Service Commission
U-7779	Consumers Power Company Michigan Public Service Commission
U-7480-R	Michigan Consolidated Gas Company Michigan Public Service Commission
U-7488-R	Consumers Power Company – Gas Michigan Public Service Commission

U-7484-R	Michigan Gas Utilities Company Michigan Public Service Commission
U-7550-R	Detroit Edison Company Michigan Public Service Commission
U-7477-R	Indiana & Michigan Electric Company Michigan Public Service Commission
U-7512-R	Consumers Power Company – Electric Michigan Public Service Commission
18978	Continental Telephone Company of the South - Alabama, Alabama Public Service Commission
9003	Columbia Gas of Kentucky, Inc. Kentucky Public Service Commission
R-842583	Duquesne Light Company Pennsylvania Public Utility Commission
9006*	Big Rivers Electric Corporation Kentucky Public Service Commission *Company withdrew filing
U-7830	Consumers Power Company - Electric (Partial and Immediate) Michigan Public Service Commission
7675	Consumers Power Company - Customer Refunds Michigan Public Service Commission
5779	Houston Lighting & Power Company Texas Public Utility Commission
U-7830	Consumers Power Company - Electric – "Financial Stabilization" Michigan Public Service Commission
U-4620	Mississippi Power & Light Company (Interim) Mississippi Public Service Commission
U-16091	Louisiana Power & Light Company Louisiana Public Service Commission

9163	Big Rivers Electric Corporation Kentucky Public Service Commission
U-7830	Consumers Power Company - Electric - (Final) Michigan Public Service Commission
U-4620	Mississippi Power & Light Company - (Final) Mississippi Public Service Commission
76-18788AA & 76-18788AA	Detroit Edison (Refund - Appeal of U-4807) Ingham County Circuit Court Michigan Public Service Commission
U-6633-R	Detroit Edison (MRCS Program Reconciliation) Michigan Public Service Commission
19297	Continental Telephone Company of the South - Alabama, Alabama Public Service Commission
9283	Kentucky American Water Company Kentucky Public Service Commission
850050-EI	Tampa Electric Company Florida Public Service Commission
R-850021	Duquesne Light Company Pennsylvania Public Service Commission
TR-85-179**	United Telephone Company of Missouri Missouri Public Service Commission
6350	El Paso Electric Company The Public Utility Board of the City of El Paso
6350	El Paso Electric Company Public Utility Commission of Texas
85-53476AA & 85-534855AA	Detroit Edison-refund-Appeal of U-4758 Ingham County Circuit Court Michigan Public Service Commission
U-8091/ U-8239	Consumers Power Company-Gas Michigan Public Service Commission
9230	Leslie County Telephone Company, Inc. Kentucky Public Service Commission

85-212	Central Maine Power Company Maine Public Service Commission
850782-EI & 850783-EI	Florida Power & Light Company Florida Public Service Commission
ER-85646001 & ER-85647001	New England Power Company Federal Energy Regulatory Commission
Civil Action * No. 2:85-0652	Allegheny & Western Energy Corporation, Plaintiff, - against – The Columbia Gas System, Inc. Defendant
Docket No. 850031-WS	Orange Osceola Utilities, Inc. Before the Florida Public Service Commission
Docket No. 840419-SU	Florida Cities Water Company South Ft. Myers Sewer Operations Before the Florida Public Service Commission
R-860378	Duquesne Light Company Pennsylvania Public Service Commission
R-850267	Pennsylvania Power Company Pennsylvania Public Service Commission
R-860378	Duquesne Light Company - Surrebuttal Testimony - OCA Statement No. 2D Pennsylvania Public Service Commission
Docket No. 850151	Marco Island Utility Company Before the Florida Public Service Commission
Docket No. 7195 (Interim)	Gulf States Utilities Company Public Utility Commission of Texas
R-850267 Reopened	Pennsylvania Power Company Pennsylvania Public Service Commission
Docket No. 87-01-03	Connecticut Natural Gas Corporation Connecticut Department of Public Utility Control
Docket No. 5740	Hawaiian Electric Company Hawaii Public Utilities Commission

1345-85-367	Arizona Public Service Company Arizona Corporation Commission
Docket 011	Tax Reform Act of 1986 - California No. 86-11-019 California Public Utilities Commission
Case No. 29484	Long Island Lighting Company New York Department of Public Service
Docket No. 7460	El Paso Electric Company Public Utility Commission of Texas
Docket No. 870092-WS*	Citrus Springs Utilities Before the Florida Public Service Commission
Case No. 9892	Dickerson Lumber EP Company - Complainant vs. Farmers Rural Electric Cooperative and East Kentucky Power Cooperative – Defendants Before the Kentucky Public Service Commission
Docket No. 3673-U	Georgia Power Company Before the Georgia Public Service Commission
Docket No. U-8747	Anchorage Water and Wastewater Utility Report on Management Audit
Docket No. 861564-WS	Century Utilities Before the Florida Public Service Commission
Docket No. FA86-19-001	Systems Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. 870347-TI	AT&T Communications of the Southern States, Inc. Florida Public Service Commission
Docket No. 870980-WS	St. Augustine Shores Utilities Inc. Florida Public Service Commission
Docket No. 870654-WS*	North Naples Utilities, Inc. Florida Public Service Commission
Docket No. 870853	Pennsylvania Gas & Water Company Pennsylvania Public Utility Commission

Civil Action* No. 87-0446-R	Reynolds Metals Company, Plaintiff, v. The Columbia Gas System, Inc., Commonwealth Gas Services, Inc., Commonwealth Gas Pipeline Corporation, Columbia Gas Transmission Corporation, Columbia Gulf Transmission Company, Defendants - In the United States District Court for the Eastern District of Virginia - Richmond Division
Docket No. E-2, Sub 537	Carolina Power & Light Company North Carolina Utilities Commission
Case No. U-7830	Consumers Power Company - Step 2 Reopened Michigan Public Service Commission
Docket No. 880069-TL	Southern Bell Telephone & Telegraph Florida Public Service Commission
Case No. U-7830	Consumers Power Company - Step 3B Michigan Public Service Commission
Docket No. 880355-EI	Florida Power & Light Company Florida Public Service Commission
Docket No. 880360-EI	Gulf Power Company Florida Public Service Commission
Docket No. FA86-19-002	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket Nos. 83-0537-Remand & 84-0555-Remand	Commonwealth Edison Company Illinois Commerce Commission
Docket Nos. 83-0537 Remand & 84-0555 Remand	Commonwealth Edison Company Surrebuttal Illinois Commerce Commission
Docket No. 880537-SU	Key Haven Utility Corporation Florida Public Service Commission
Docket No. 881167-EI***	Gulf Power Company Florida Public Service Commission
Docket No. 881503-WS	Poinciana Utilities, Inc. Florida Public Service Commission

Cause No. U-89-2688-T	Puget Sound Power & Light Company Washington Utilities & Transportation Committee
Docket No. 89-68	Central Maine Power Company Maine Public Utilities Commission
Docket No. 861190-PU	Proposal to Amend Rule 25-14.003, F.A.C. Florida Public Service Commission
Docket No. 89-08-11	The United Illuminating Company State of Connecticut, Department of Public Utility Control
Docket No. R-891364	The Philadelphia Electric Company Pennsylvania Public Utility Commission
Formal Case No. 889	Potomac Electric Power Company Public Service Company of the District of Columbia
Case No. 88/546*	Niagara Mohawk Power Corporation, et al Plaintiffs, v. Gulf+Western, Inc. et al, defendants (In the Supreme Court County of Onondaga, State of New York)
Case No. 87-11628*	Duquesne Light Company, et al, plaintiffs, against Gulf + Western, Inc. et al, defendants (In the Court of the Common Pleas of Allegheny County, Pennsylvania Civil Division)
Case No. 89-640-G-42T*	Mountaineer Gas Company West Virginia Public Service Commission
Docket No. 890319-EI	Florida Power & Light Company Florida Public Service Commission
Docket No. EM-89110888	Jersey Central Power & Light Company Board of Public Utilities Commissioners
Docket No. 891345-EI	Gulf Power Company Florida Public Service Commission
BPU Docket No. ER 8811 0912J	Jersey Central Power & Light Company Board of Public Utilities Commissioners
Docket No. 6531	Hawaiian Electric Company Hawaii Public Utilities Commissioners

Docket No. 890509-WU	Florida Cities Water Company, Golden Gate Division Florida Public Service Commission
Docket No. 880069-TL	Southern Bell Telephone Company Florida Public Service Commission
Docket Nos. F-3848, F-3849, and F-3850	Northwestern Bell Telephone Company South Dakota Public Utilities Commission
Docket Nos. ER89-* 678-000 & EL90-16-000	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. 5428	Green Mountain Power Corporation Vermont Department of Public Service
Docket No. 90-10	Artesian Water Company, Inc. Delaware Public Service Commission
Case No. 90-243-E-42T*	Wheeling Power Company West Virginia Public Service Commission
Docket No. 900329-WS	Southern States Utilities, Inc. Florida Public Service Commission
Docket Nos. ER89-* 678-000 & EL90-16-000	System Energy Resources, Inc. (Surrebuttal) Federal Energy Regulatory Commission
Application No. 90-12-018	Southern California Edison Company California Public Utilities Commission
Docket No. 90-0127	Central Illinois Lighting Company Illinois Commerce Commission
Docket No. FA-89-28-000	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. U-1551-90-322	Southwest Gas Corporation Before the Arizona Corporation Commission
Docket No. R-911966	Pennsylvania Gas & Water Company The Pennsylvania Public Utility Commission
Docket No. 176-717-U	United Cities Gas Company Kansas Corporation Commission

Docket No. 860001-EI-G	Florida Power Corporation Florida Public Service Commission
Docket No. 6720-TI-102	Wisconsin Bell, Inc. Wisconsin Citizens' Utility Board
(No Docket No.)	Southern Union Gas Company Before the Public Utility Regulation Board of the City of El Paso
Docket No. 6998	Hawaiian Electric Company, Inc. Before the Public Utilities Commission of the State of Hawaii
Docket No. TC91-040A	In the Matter of the Investigation into the Adoption of a Uniform Access Methodology Before the Public Utilities Commission of the State of South Dakota
Docket Nos. 911030-WS & 911067-WS	General Development Utilities, Inc. Before the Florida Public Service Commission
Docket No. 910890-EI	Florida Power Corporation Before the Florida Public Service Commission
Docket No. 910890-EI	Florida Power Corporation, Supplemental Before the Florida Public Service Commission
Case No. 3L-74159	Idaho Power Company, an Idaho corporation In the District Court of the Fourth Judicial District of the State of Idaho, In and For the County of Ada - Magistrate Division
Cause No. 39353*	Indiana Gas Company Before the Indiana Utility Regulatory Commission
Docket No. 90-0169 (Remand)	Commonwealth Edison Company Before the Illinois Commerce Commission
Docket No. 92-06-05	The United Illuminating Company State of Connecticut, Department of Public Utility Control
Cause No. 39498	PSI Energy, Inc. Before the State of Indiana - Indiana Utility Regulatory Commission

Cause No. 39498	PSI Energy, Inc. - Surrebuttal testimony Before the State of Indiana - Indiana Utility Regulatory Commission
Docket No. 7287	Public Utilities Commission - Instituting a Proceeding to Examine the Gross-up of CIAC Before the Public Utilities Commission of the State of Hawaii
Docket No. 92-227-TC	US West Communications, Inc. Before the State Corporation Commission of the State of New Mexico
Docket No. 92-47	Diamond State Telephone Company Before the Public Service Commission of the State of Delaware
Docket Nos. 920733-WS & 920734-WS	General Development Utilities, Inc. Before the Florida Public Service Commission
Docket No. 92-11-11	Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control
Docket Nos.EC92-21-000 & ER92-806-000	Entergy Corporation Before the Federal Energy Regulatory Commission
Docket No. 930405-EI	Florida Power & Light Company Before the Florida Public Service Commission
Docket No. UE-92-1262	Puget Sound Power & Light Company Before the Washington Utilities & Transportation Commission
Docket No. 93-02-04	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 93-02-04	Connecticut Natural Gas Corporation, Supplemental State of Connecticut, Department of Public Utility Control
Docket No. 93-057-01	Mountain Fuel Supply Company Before the Utah Public Service Commission

Cause No. 39353 (Phase II)	Indiana Gas Company Before the Indiana Utility Regulatory Commission
PU-314-92-1060	US West Communications, Inc. Before the North Dakota Public Service Commission
Cause No. 39713	Indianapolis Water Company Before the Indiana Utility Regulatory Commission
93-UA-0301*	Mississippi Power & Light Company Before the Mississippi Public Service Commission
Docket No. 93-08-06	SNET America, Inc. State of Connecticut, Department of Public Utility Control
Docket No. 93-057-01	Mountain Fuel Supply Company - Rehearing on Unbilled Revenues - Before the Utah Public Service Commission
Case No. 78-T119-0013-94	Guam Power Authority vs. U.S. Navy Public Works Center, Guam - Assisting the Department of Defense in the investigation of a billing dispute. Before the American Arbitration Association
Application No. 93-12-025 - Phase I	Southern California Edison Company Before the California Public Utilities Commission
Case No. 94-0027-E-42T	Potomac Edison Company Before the Public Service Commission of West Virginia
Case No. 94-0035-E-42T	Monongahela Power Company Before the Public Service Commission of West Virginia
Docket No. 930204-WS**	Jacksonville Suburban Utilities Corporation Before the Florida Public Service Commission
Docket No. 5258-U	Southern Bell Telephone and Telegraph Company Before the Georgia Public Service Commission
Case No. 95-0011-G-42T*	Mountaineer Gas Company Before the West Virginia Public Service Commission
Case No. 95-0003-G-42T*	Hope Gas, Inc. Before the West Virginia Public Service Commission

Docket No. 95-02-07	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 95-057-02*	Mountain Fuel Supply Before the Utah Public Service Commission
Docket No. 95-03-01	Southern New England Telephone Company State of Connecticut, Department of Public Utility Control
BRC Docket No. EX93060255 OAL Docket PUC96734-94	Generic Proceeding Regarding Recovery of Capacity Costs Associated with Electric Utility Power Purchases from Cogenerators and Small Power Producers Before the New Jersey Board of Public Utilities
Docket No. U-1933-95-317	Tucson Electric Power Before the Arizona Corporation Commission
Docket No. 950495-WS	Southern States Utilities Before the Florida Public Service Commission
Docket No. 960409-EI	Prudence Review to Determine Regulatory Treatment of Tampa Electric Company's Polk Unit 1
Docket No. 960451-WS	United Water Florida Before the Florida Public Service Commission
Docket No. 94-10-05	Southern New England Telephone Company State of Connecticut Department of Public Utility Control
Docket No. 96-UA-389	Generic Docket to Consider Competition in the Provision of Retail Electric Service Before the Public Service Commission of the State of Mississippi
Docket No. 970171-EU	Determination of appropriate cost allocation and regulatory treatment of total revenues associated with wholesale sales to Florida Municipal Power Agency and City of Lakeland by Tampa Electric Company Before the Florida Public Service Commission

Case No. PUE960296 *	Virginia Electric and Power Company Before the Commonwealth of Virginia State Corporation Commission
Docket No. 97-035-01	PacifiCorp, dba Utah Power & Light Company Before the Public Service Commission of Utah
Docket No. G-03493A-98-0705*	Black Mountain Gas Division of Northern States Power Company, Page Operations Before the Arizona Corporation Commission
Docket No. 98-10-07	United Illuminating Company State of Connecticut Department of Public Utility Control
Docket No. 98-10-07	Connecticut Light & Power Company State of Connecticut Department of Public Utility Control
Docket NO. 99-02-05	Connecticut Light & Power Company State of Connecticut Department of Public Utility Control
Docket No. 99-03-36	Connecticut Light & Power Company State of Connecticut Department of Public Utility Control
Docket No. 99-03-35	United Illuminating Company State of Connecticut Department of Public Utility Control
Docket No. 99-03-04	United Illuminating Company State of Connecticut Department of Public Utility Control
Docket No. 99-08-02	Yankee Energy System, Inc. State of Connecticut Department of Public Utility Control
Docket No. 99-08-09	CTG Resources, Inc. State of Connecticut Department of Public Utility Control
Docket No. 99-07-20	Connecticut Energy Corporation / Energy East State of Connecticut Department of Public Utility Control

Docket No. 99-09-03 Phase II	Connecticut Natural Gas State of Connecticut Department of Public Utility Control
Docket No. 99-09-03 Phase III	Connecticut Natural Gas State of Connecticut Department of Public Utility Control
Docket No. 99-04-18 Phase II	Southern Connecticut Gas Company State of Connecticut Department of Public Utility Control
Docket No. 99-057-20*	Questar Gas Company Public Service Commission of Utah
Docket No. 99-035-10	PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah
Docket No. T-1051B-99-105	U.S. West Communications, Inc. Arizona Corporation Commission
Docket No. 01-035-10*	PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah
Docket No. 991437-WU	Wedgefield Utilities, Inc. Before the Florida Public Service Commission
Docket No. 991643-SU	Seven Springs Before the Florida Public Service Commission
Docket No. 98P55045	General Telephone and Electronics of California California Public Utilities Commission
Docket No. 00-01-11	Consolidated Edison, Inc. and Northeast Utilities Merger State of Connecticut Before the Department of Public Utility Control
Docket No. 00-12-01	Connecticut Light & Power Company State of Connecticut Before the Department of Public Utility Control
Docket No. 000737-WS	Aloha Utilities/Seven Springs Utilities Before the Florida Public Service Commission

Consolidated Docket Nos. EL00-66-000 ER00-2854-000 EL95-33-000	Entergy Services, Inc. Before the Federal Energy Regulatory Commission
Docket No. 950379-EI	Tampa Electric Company Before the Florida Public Service Commission
Docket No. 010503-WU	Aloha Utilities, Inc. – Seven Springs Water Division Before the Florida Public Service Commission
Docket No. 01-07-06*	The Towns of Durham and Middlefield State of Connecticut Before the Department of Public Utility Control
Docket No. 99-09-12-RE-02	Connecticut Light & Power/Millstone State of Connecticut Before the Department of Public Utility Control
Civil Action No. C2-99-1181	The United States et al v. Ohio Edison et al U.S. District Court, S.D. Ohio
Docket No. 001148-ET****	Florida Power & Light Company Before the Florida Public Service Commission
Civil Action No. 99-833-Per *	The United States et al v. Illinois Power Company U.S. District Court, S.D. Illinois
Civil Action No. IP99-1692-C-M/s *	The United States et al v. Southern Indiana Gas and Electric Company U.S. District Court, S.D. Indiana
Docket No. 02-057-02*	Questar Gas Company Public Service Commission of Utah
Docket No. EL01-88-000	Entergy Services, Inc. et. al. Mississippi Public Service Commission
Docket No. 9355-U	Georgia Power Company Before the Georgia Public Service Commission
Case No. 1016	Washington Gas Light Company Before the Public Service Commission of the District of Columbia

Civil Action Nos. C2 99-1182 C2 99-1250 (Consolidated)	The United States et al v. American Electric Power Company, ET, AL
Docket No. 030438-EI *	Florida Public Utilities Company Before the Florida Public Service Commission
Docket No. EL01-88-000	Entergy Services, Inc., et al Before the Federal Energy Regulatory Commission
Application No. 02-12-028	San Diego Gas & Electric Company Before the California Public Utilities Commission
Civil Action No. 1:00 CV1262	The United States et al v. Duke Energy Company
Docket No. 050045-EI *	Florida Power & Light Corporation Before the Florida Public Service Commission
Docket No. 050078-EI *	Progress Energy Florida, Inc. Before the Florida Public Service Commission
Civil Action No. 1P99-1693 C-M/S	The United States et al. v. Cinergy Corporation, ET AL.
Civil Action No. 04-34-KSF	The United States et al. v. East Kentucky Power Cooperative, Inc. ET AL.
Case No. 05-0304-G-42T *	Hope Gas, Inc. d/b/a Dominion Hope Consumer Advocate Division of the Public Service Commission of West Virginia
Case No. 05-E-1222	New York State Electric & Gas Corporation Before the New York Public Service Commission
Case Nos. 05-E-0934 05-G-0935	Central Hudson Gas & Electric Corporation Before the New York Public Service Commission
Case No. 05-G-1494	Orange and Rockland Utilities, Inc. Before the New York Public Service Commission
Docket No. 060038-EI	Florida Power & Light Company Before the Florida Public Service Commission
Docket No. 060154-EI*	Gulf Power Company Before the Florida Public Service Commission

Docket No. 060300-TL	GTC, Inc. d/b/a GT Com Before the Florida Public Service Commission
Case Nos. 06-G-1185 06-G-1186	KeySpan Gas East Corporation Before the New York Public Service Commission
Docket No. U-29203 (Phase II)	Gulf States, Inc. and Entergy Louisiana, Inc. Before the Louisiana Public Service Commission
Formal Case No. 1053	Potomac Electric Power Company Before the Public Service Commission of the District of Columbia
Application No. 06-12-009	San Diego Gas & Electric Company Before the California Public Utilities Commission

*Case Settled
**Issues Stipulated
***Testimony Withdrawn
****Case Settled, Testimony Not Filed

Exhibit__(HL-1)

FLORIDA PUBLIC UTILITIES
Dockets Nos. 070304-EI and 070300-EI

Exhibits of Hugh Larkin, Jr.

TABLE OF CONTENTS

Schedule No.	Schedule Title
A-1	Revenue Requirement
A-2	Revenue Expansion Factor
B-1	Adjusted Rate Base
B-2	Working Capital
B-3	Receivables - Working Capital
B-4	Utility Accounts Receivable
B-5	Uncollectibles
B-6	Charges to Storm Reserve, 1989 - 2007
B-7	Plant in Service Adjustments
C-1	Adjusted Net Operating Income
C-2	Staff Audit Adjustments
C-3	Revision to Company Projection Factors
C-4	Uncollectible Expense
C-5	Interest Synchronization Adjustment
C-6	Income Tax Expense
D-1	Overall Cost of Capital, per OPC

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2008

Revenue Requirement

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule A-1
Page 1 of 1

Line No.	Description	Per Company Amount (A)		Per OPC Amount (B)		Reference:
1	Adjusted Rate Base	43,020,997	[1]	38,913,742	[2]	
2	Required Rate of Return	8.07%	[3]	7.09%	[4]	
3	Income Required	3,471,794		2,758,984		Line 1 x Line 2
4	Adjusted Net Operating Income	206,341	[5]	1,577,105	[6]	
5	Income Deficiency (Sufficiency)	3,265,453		1,181,879		Line 3 - Line 4
6	Earned Rate of Return	0.480%		4.053%		Line 4 / Line 1
7	Gross Revenue Conversion Factor	1.60771	[7]	1.60634		Schedule A-2
8	Revenue Deficiency (Sufficiency)	5,249,895		1,898,502		Line 5 x Line 7

Source/Notes:
[1] MFR Schedule B-1, p.3
[2] Schedule B-1
[3] MFR Schedule D-1a, p.3
[4] Schedule D-1
[5] MFR Schedule C-1
[6] Schedule C-1
[7] Company: MFR Sch. C-44 (p. 93), OPC: Schedule A-2

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2008

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule A-2

Revenue Expansion Factor
(Gross Revenue Conversion Factor)

Line No.	Description	Percentage Per Company	Percentage Per OPC
1	Revenue Requirement	100.0000%	100.0000%
2	Gross Receipts Tax Rate	0.0000%	0.0000%
3	Regulatory Assessment Rate	0.0720%	0.0720%
4	Bad Debt Rate	0.2000%	0.1152%
5	Net Before Income Taxes (1) - (2) - (3) - (4)	99.7280%	99.8128%
6	State Income Tax Rate	5.5000%	5.5000%
7	State Income Tax Rate (5) x (6)	5.4850%	5.4897%
8	Net Before Federal Income Tax (5) - (7)	94.2430%	94.3231%
9	Federal Income Tax Rate	34.0000%	34.0000%
10	Federal Income Tax Rate (8) x (9)	32.0426%	32.0699%
11	Revenue Expansion Factor (8) - (10)	62.2004%	62.2532%
12	Net Operating Income Multiplier	1.6077	1.6063

Source/Notes:
MFR Schedule C-43, p. 94

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2008

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule B-1
Page 1 of 2

Adjusted Rate Base

Line No.	Rate Base Components	Adjusted Total Amount per Company	OPC Adjustments	Adjusted Total Amount per OPC	
		(A)	(B)	(C)	
	Utility Plant				
1	Plant Closed & In Service	79,641,581	(1,010,809)	78,630,772	
2	Common Plant Allocated	1,853,396		1,853,396	
3	CWIP	75,000	(75,000)	-	[1]
4	Non-regulated propane operations	(57,464)		(57,464)	
5	Total	81,512,513		80,426,704	
	Deductions				
6	Accumulated Depreciation Utility Plant	(35,667,257)	128,791	(35,538,466)	
7	Accumulated Depreciation Common Plant	(660,224)		(660,224)	
8	2520 Cust. Advances for Construction	(878,824)		(878,824)	
9	Non-regulated propane operations	25,443		25,443	
10	Total	(37,180,862)		(37,052,071)	
11	Utility Plant - Net	44,331,651		43,374,633	
	Allowance for Working Capital				
12	Working Capital - Balance Sheet Method	(1,310,654)	(3,150,236)	(4,460,890)	
13	Total Rate Base	43,020,997		38,913,742	

Source/Notes:
Col. (A): MFR Sch. B-1, p. 3; B-3, pp. 19, 23
Col. (B): See page 2
[1] T. Merchant Testimony

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2008

Adjusted Rate Base - Summary of Adjustments

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule B-1
Page 2 of 2

Line No.	Adjustment Title	Reference	Amount
	Plant Adjustments:		
1	Reflects Staff audit adjustments to Plant	Schedule B-7	2,630
2	Missing invoices (Staff Audit Finding 1)	T. Merchant Testimony	(900,539)
3	Replacement of Wood Poles with Concrete	T. Merchant Testimony	8,638
4	13-Month Average of 2008 Transformer Addition	T. Merchant Testimony	(121,538)
5	*Total Common Plant Allocated*		(1,010,809)
	Construction Work in Progress:		
6	Remove Construction Work in Progress from Rate Base	T. Merchant Testimony	(75,000)
	Accumulated Depreciation Adjustments Plant:		
7	Reflects Staff audit adjustments to Plant Allocated	Schedule B-7	(26)
8	Missing invoices (Staff Audit Finding 1)	T. Merchant Testimony	125,449
9	Replacement of Wood Poles with Concrete	T. Merchant Testimony	(126)
10	13-Month Average of 2008 Transformer Addition	T. Merchant Testimony	3,494
11	*Total Accumulated Depreciation Plant*		128,791
	Working Capital Adjustments:		
12	Reduction to Working Capital	Schedule B-2	(3,150,236)

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2008

Working Capital

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule B-2
Page 1 of 1

Line No.	Account Number(s)	Primary Account	FPU Proposed WC 13 Month Avg. (A)	OPC Adjustments (B)	Adjusted Total per OPC (C)
		Assets			
1	1280.1	Other Special Funds	$ 3,100	$ (3,100)	$ -
2	1310	Cash	$ 70,678	$ (60,678)	$ 10,000
3	1340	Special Deposits - Elect.	$ 317,836	$ (317,836)	$ -
4	1350.1	Working Funds - Petty	$ 8,000	$ -	$ 8,000
5	1350.1	Working Funds - Petty	$ 125	$ -	$ 125
6	1420, 1430	Accounts Receivable	$ 5,042,458	$ (1,030,667)	$ 4,011,791
7	1440	Allowance for Uncollectibles	$ (36,745)	$ (7,986)	$ (44,731)
8	1540.1	Materials & Supplies	$ 940,015	$ -	$ 940,015
9	1630.3	Stores Expense	$ -	$ -	$ -
10	1650.2, 5	Prepaid Expense - Insurance	$ 195,194	$ (37,779)	$ 157,415
11	1650.4	Prepaid Expense - Other	$ 62,910	$ -	$ 62,910
12	1650.41	Prepaid Expense - Maintenance	$ 17,062	$ -	$ 17,062
13	1730.1	Unbilled Revenues	$ 548,394	$ (88,808)	$ 459,586
14	1820.2	Reg Asset - Ret Plans	$ 460,155	$ (119,159)	$ 340,996
15	1840.7	Clearing Account Refunds	$ -		$ -
16	1850.1	Temporary Services	$ 16,961	$ (16,961)	$ -
17	1860.1	Deferred Debits - Other	$ 50,954		$ 50,954
18	1860.1	Deferred Debits - Rate Case	$ 608,236	$ (304,836)	$ 303,400
19	1860.3	Misc Defd DR-Undist	$ 15,066		$ 15,066
20	1860.21	Deferred Debits - Under Rec Fuel	$ 1,143,377	$ (1,143,377)	$ -
21		**Total Assets**	$ 9,463,776	$ (3,131,187)	$ 6,332,589
		Liabilities			
22	2280.11	Electric Storm Reserve	$ (1,809,677)	$ (8,871)	$ (1,818,548)
23	2280.31	Pensions Reserve	$ (1,630,273)		$ (1,630,273)
24	2280.32	Medical Post-Retirement	$ (606,115)		$ (606,115)
25	2280.34	401(k) Accrual Company SH	$ -		$ -
26	2280.201	Accrued Liability Insurance	$ (63,110)		$ (63,110)
27	2320	Accounts Payable -Fuel	$ (3,524,452)		$ (3,524,452)
28	2320	Accounts Payable - Net of Gas & Fuel	$ (912,711)		$ (912,711)
29	2320	Accounts Payable - Other	$ (216,064)		$ (216,064)
30	2360.1	Taxes Accrued - Ad Valorem	$ (197,240)		$ (197,240)
31	2360.2	Taxes Accrued - State Gross Receipts	$ (109,896)		$ (109,896)
32	2360.3	Taxes Accrued - FPSC Assessment	$ (42,859)		$ (42,859)
33	2360	Taxes Accrued - Unemployment & FICA	$ (3,168)		$ (3,168)
34	2360	Taxes Accrued - Income Tax	$ (596,675)		$ (596,675)
35	2370	Interest Accrued - Customer Deposits	$ (66,955)	$ (10,178)	$ (77,133)
36	2370	Interest Accrued - Notes and Loans	$ (325,764)		$ (325,764)
37	2380	Dividends Declared - Preferred	$ (340)		$ (340)
38	2410	Withholding Taxes Payable	$ (340)		$ (340)
39	2410	Tax Collections Payable	$ (304,279)		$ (304,279)
40	2420	Employee Fund	$ (908)		$ (908)
41	2420	Accrued Vacation	$ (309,441)		$ (309,441)
42	2420	Professional Fees & Expenses Accrued	$ (53,600)		$ (53,600)
43	2530.1	Other DF CR - Cashier	$ 64		$ 64
44	2530.21	Over Recovery - Fuel	$ -		$ -
45	2530.61	Over Recovery - Conservation	$ (627)		$ (627)
46		**Total Liabilities**	$ (10,774,430)	$ (19,049)	$ (10,793,479)
47		***Total Working Capital***	$ (1,310,654)	$ (3,150,236)	$ (4,460,890)

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2008

Receivables - Working Capital

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule B-3
Page 1 of 1

13-Month Average December 31, 2006

	Marianna Division	Fernandina Beach Division	Total
Account 1420.21 Accounts Receivable Customers A/R Billed		$ 84,607	$ 84,607
Account 1420.22 Accounts Receivable - Jobbing	$ (66)	$ 19,986	$ 19,920
Account 1430.1 Other Accounts Receivable - Employees	$ 2,831	$ 622	$ 3,453
Account 1430.2 Other Accounts Receivable - Miscellaneous	$ 60,630	$ 37,770	$ 98,400
Total	$ 63,395	$ 142,985	$ 206,380

Source/Notes:
POD Exhibit 11

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2008

Utility Accounts Receivable
(1998 to 12-months ended August 2007)

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule B-4
Page 1 of 1

Year	13-Month Average Accounts Receivable	12-Months Operating Revenues	Receivable as a Percentage of Revenues
1998	$ 3,528,591	$ 40,253,776	8.77%
1999	3,476,995	37,544,667	9.26%
2000	3,545,382	39,304,084	9.02%
2001	3,023,955	39,049,631	7.74%
2002	3,023,156	40,929,682	7.39%
2003	3,055,102	39,519,249	7.73%
2004	2,936,145	42,909,848	6.84%
2005	3,375,984	47,449,558	7.11%
2006	3,237,585	48,527,231	6.67%
12-months Ended August 2007	$ 3,407,042	$ 53,095,703	6.42%

Source/Notes:
Prior case, Form 1

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2008

Uncollectibles

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule B-5
Page 1 of 1

Year		13-Month Average Accounts Receivable		13-Month Provision for Uncollectible Accounts	Percentage of Uncollectibles to Accounts Receivable
1998		3,528,591		(43,682)	1.24%
1999		3,476,995		(83,798)	2.41%
2000		3,545,382		(94,155)	2.66%
2001		3,023,955		(101,037)	3.34%
2002		3,023,156		(91,567)	3.03%
2003		3,055,102		(56,354)	1.84%
2004		2,936,645		(73,730)	2.51%
2005		3,375,984		(95,597)	2.83%
2006		3,237,585		(30,063)	0.93%
2007 (13-Months Ended September)	$	3,485,864	$	(45,173)	1.30%
Average of 2006 & 2007					1.12%

Source/Notes:
Prior case, POD Exhibit 11

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2008

Charges to Storm Reserve, 1989 - 2007

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule B-6
Page 1 of 1

Year	Combined Total	Marianna	Fernandina
1989 - 1993	$ -	$ -	$ -
1994	22,576	11,608	10,968
1995	142,850	142,850	-
1996	8,089	8,089	-
1999	72,395	-	72,395
2001	6,155	-	6,155
2003	21,066	-	21,066
2004	810,502	280,081	530,421
2005	164,772	108,306	56,466
2006	9,148	9,148	-
Totals	$ 1,257,554	$ 560,082	$ 697,472

Source/Notes:
Company's response to Interrogatory 80

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2008

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule B-7

Plant In Service Adjustments

Line No.	Description	Total Plant Adjustment	
	Plant in Service Adjustment		
1	Adjustment to PIS - 2006 (Audit Finding 8)	$ 1,707	
2	Adjustment to PIS - 2006 (Audit Finding 10)	$ 923	
3	Increase to Plant in Service	$ 2,630	
	Depreciation Expense Increase/(Decrease) Adjustment		
4	Depreciation Expense Increase (Audit Finding 8)	$ 37	
5	Depreciation Expense Increase (Audit Finding 10)	$ 42	
6	Depreciation Expense - Transformer Addition	(3,950)	[1]
7	Depreciation Expense - Missing Invoices (Staff Audit Finding 1)	(43,391)	[1]
8	Depreciation Expense - Replace Wood Transmission Poles with Concrete	$ 235	[1]
9	Increase in Depreciation Expense	$ (47,027)	
		Total Reserve (Decrease)/Increase	
	Reserve for Depreciation Adjustment		
10	2006 - Additions (Audit Finding 8)	$ (16)	
11	2006 - Additions (Audit Finding 10)	$ (10)	
12	Net Increase in Depreciation Reserve	$ (26)	

Source/Notes:
Amounts from Staff Audit Report, Audit Control No. 07-262-4-1
[1] T. Merchant Testimony

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2008

Adjusted Net Operating Income

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule C-1

Line No.	Description	Adjusted Total per Company	OPC Adjustments	Adjusted Total per OPC
		(A)	(B)	(C)
	Operating Revenues:			
1	Base Revenue	16,484,962		16,484,962
2	Other Operating Revenues	702,003	76,069	778,072
3	Total Operating Revenues	17,186,965		17,263,034
	Operating Expenses:			
4	Operation & Maintenance	10,081,391	(2,165,357)	7,916,034
5	Depreciation & Amortization	3,418,847	(47,027)	3,371,820
6	Taxes Other Than Income	4,287,783	(5,802)	4,281,981
7	Current Income Taxes	(1,360,960)	923,492	(437,468)
8	Deferred Income Taxes	581,498		581,498
9	Investment Tax Credit-Net	(27,935)		(27,935)
10	Total Operating Expenses	16,980,624		15,685,929
11	Net Operating Income	206,341		1,577,105

Source/Notes:
Col. (A): MFR Sch. (C-2), p.6
Col. (B): See Page 2

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2008

Adjusted Net Operating Income
Summary of Adjustments

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule C-1
Page 2 of 2

Line No.	Adjustment Title	Reference	Amount
	Operating Revenue Adjustments:		
1	Miscellaneous Revenues	Testimony of H. Larkin	27,150
2	Forfeited Discounts	Testimony of H. Larkin	48,919
3	*Total Operating Revenue*		76,069
	Operating Expense Adjustments:		
	Operation & Maintenance:		
4	Reduction to Storm Reserve Accrual	Testimony of H. Larkin	(82,260)
5	Reduction to Rate Case Expense	Testimony of H. Larkin	(30,000)
6	Reduction to Other Informational Advertising Expense	Testimony of H. Larkin	(114,786)
7	Removal to Tree Replacement	Testimony of H. Larkin	(31,050)
8	Reduction to Inspection & Testing of Substations (Transmission)	Testimony of H. Larkin	(25,155)
9	Reduction to Inspection & Testing of Substations (Distribution)	Testimony of H. Larkin	(49,600)
10	Reduction to Economic Development Expense	Testimony of H. Larkin	(10,701)
11	Reduction to Postage Expense	Testimony of H. Larkin	(6,030)
12	Reduction to Supervisory Training Expense	Testimony of H. Larkin	(2,938)
13	Travel for Compliance Accountant	Testimony of H. Larkin	(5,200)
14	BDO Seidman Increase	Testimony of H. Larkin	(90,675)
15	Uncollectible Expense	Testimony of H. Larkin	(145,485)
17	Staff Audit Exceptions 5-11, 16	Schedule C-2 (H. Larkin)	(347,640)
18	Revisions to Company Projection Factors	Schedule C-3 (H. Larkin)	(102,182)
19	Collaborative Research	Testimony of H. Larkin	(24,918)
20	Post-Storm Data Collection and Review	Testimony of H. Larkin	(27,000)
21	Advanced Recovery of Pole Replacements	Testimony of T. Merchant	(354,000)
22	Rental Expense	Testimony of T. Merchant	(28,582)
23	Vacant Positions	Testimony of T. Merchant	(5,310)
24	Training & Linemen Apprentices for NE Florida	Testimony of T. Merchant	(54,354)
25	Safety Coordinator Upgrade Adjustment	Testimony of T. Merchant	(3,158)
26	Clerical Position for Maintaining Compliance	Testimony of T. Merchant	(9,318)
27	Travel Expenses for Joint Use Audits	Testimony of T. Merchant	(22,838)
28	Benefits for NE Trainer/Audits/Pole Inspections & Safety	Testimony of T. Merchant	(2,358)
29	Storm Handling Salaries & Contracts	Testimony of T. Merchant	(4,635)
30	Contractor for Distribution Pole Inspections	Testimony of T. Merchant	(25,467)
31	Unsupported Distribution Pole Inspections	Testimony of T. Merchant	(28,975)
32	Vegetation Management/Tree Trimming NW FL	Testimony of T. Merchant	(353,260)
33	Personnel to be Located at EOC during Emergencies	Testimony of T. Merchant	(19,991)
34	New Positions (SOX 404 IC Requirements)	Testimony of T. Merchant	(17,098)
35	Special Audit:Inventory, Cash & Other Procedures	Testimony of T. Merchant	(17,760)
36	SOX 404 Information Technology	Testimony of T. Merchant	(38,026)
37	Executive Salaries	Testimony of T. Merchant	(41,225)
38	Salary Adjustment	Testimony of T. Merchant	(43,382)
39	*Total Operation and Maintenance*		(2,165,357)
	Depreciation and Amortization:		
40	Reflects Staff audit adjustments to Plant	Schedule B-7 (H. Larkin)	(47,027)
41			
42	*Total Depreciation and Amortization*		(47,027)
	Taxes Other Than Income:		
43	Revisions to Company Projection Factors - FICA	Schedule C-3 (H. Larkin)	(5,802)
44	*Total Taxes Other Than Income*		(5,802)
45			
46	Interest Synchronization Adjustment	Schedule C-4 (H. Larkin)	60,164
	Income Taxes:		
47	Impact of Other Adjustments	Schedule C-5 (H. Larkin)	863,328
48	*Total Income Tax*		923,492

FLORIDA PUBLIC UTILITIES
Projected Test Year Ending December 31, 2008

Staff Audit Adjustments

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule C-2
Page 1 of 1

Line No	Audit Finding No.	Description	Account	2006 Amount	2008 Amount	
1	5	Regulatory Commission Expense	928	34,250	(35,808)	[1]
2	5	Outside Services-postage and printing costs	923.1	6,610	(6,911)	[2]
3	6	Miscellaneous Sales Expense-Customer Survey	916	25,600	(27,397)	
4	7	Economic Development	930.23	5,000	(5,351)	
5	8	Maintenance of General Plant	935	2,219	(2,375)	
6	9	Other Distribution Expense	588.2	678	(773)	
7	10	Maintenance of Transformers	595.3	2,400	(2,738)	
8	11	Moving Expenses	580/590/ 901/1	3,734	(3,835)	
9	16	Clearing Accounts-General Liability	952.2		(52,628)	
10	16	Clearing Accounts-Pension	926.1		(88,510)	
11	16	Clearing Accounts-Medical	926.2		(120,339)	
12	16	Clearing Accounts-401K	926.4		(975)	
13		Reduction to Projected 2007 O&M Expense			(347,640)	

Source/Notes:
Amounts from Staff Audit Report, Audit Control No. 07-262-4-1

[1] Account 928 $34,249.67 x 1.022 = $35,003.16 x 1.023 = $35,808
[2] Account 923.1 $6,609.96 x 1.022 = $6,755.37 x 1.023 = $6,910.75

FLORIDA PUBLIC UTILITIES
Projected Test Year Ending December 31, 2008

Revision to Company Projection Factors

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule C-3
Page 1 of 3

Line No	Description		Company Adj. 2006 Amount	Reduction to Proj. Factor	Adjustment to 2008 Expense	Comparison of FPU '07 Proj. w/Actual Thru Sept. Annualized
			(A)	(B)	(C)	(D)
	Accounts Projected Using Inflation X Customer Growth					
1	566	Miscellaneous Transmission Expense	112	-2.40%	(3)	5,775
2	573	Maintenace of Misc Transmission	446	-2.40%	(11)	461
3	905	Miscellaneous Customer Accounting	78,109	-2.40%	(1,875)	14,902
4	9051	Miscellaneous Customer Accounting	16,251	-2.40%	(390)	685
5	907	Supervision	73,941	-2.40%	(1,775)	(22,133)
6	908	Customer Assistance	200,295	-2.40%	(4,807)	(59,955)
7	909	Info & Instructional	159,139	-2.40%	(3,819)	(47,635)
8	910	Misc Customer Service	22,786	-2.40%	(547)	(6,820)
9	9131	Promotional Advertising Expenses	-	-2.40%	-	(400)
10	9132	Conservation Advertising Expenses	1,537	-2.40%	(37)	(3,238)
11	9133	Safety Advertising Expenses	8,224	-2.40%	(197)	1,559
12	9134	Other Info/Instr/Con	121,226	-2.40%	(2,909)	20,180
13	9135	Community Affairs Advertising Expenses	-	-2.40%	-	-
14	9136	Other Advertising	-	-2.40%	-	-
15	916	Misc. Sales Expense	13,249	-2.40%	(318)	12,938
16	9252	General Liability	331,330	-2.40%	(7,952)	(135,137)
17	9301	Institutional Goodwill	-	-2.40%	-	-
18	9302	Misc. General Expense	76,622	-2.40%	(1,839)	1,787
19	93022	Industry Association	4,390	-2.40%	(105)	(2,708)
20	93023	Economic Development	5,000	-2.40%	(120)	9,043
21	570	Maintenance of Station Equipment	99,062	-2.40%	(2,377)	19,881
22	571	Maintenance of Overhead Lines	77,953	-2.40%	(1,871)	48,400
23	591	Maintenance of Structures	10,069	-2.40%	(242)	(1,276)
24	592	Maintenance of Station Equipment	72,974	-2.40%	(1,751)	46,028
25	5931	Maintenance of Poles/Towers	44,530	-2.40%	(1,069)	26,899
26	5932	Maintenance of Overhead Co	947,135	-2.40%	(22,731)	133,019
27	5933	Maintenance of Services	133,225	-2.40%	(3,197)	13,170
28	598	Maintenance of Misc. Distribution	71,496	-2.40%	(1,716)	(2,157)
29	935	Maintenance of General Plant	159,702	-2.40%	(3,833)	66,301
30	Subtotal		2,728,803		(65,491)	139,570
31	Reduction To Replace Inflation x Customer Growth with Inflation Only (Page 1)				(65,491)	
32	Reduction To Replace Payroll x Customer Growth with Payroll Only (Page 2)				(36,691)	
33	Adjustment to Expense for Projection Factors				(102,182)	
34	Adjustment to FICA to Replace Payroll x Customer Growth with Payroll Only		241,758	-2.40%	(5,802)	

Notes/Source:

Column (A): MFR Sch. C-7 (2006)

Column (B): MFR C Schedules, p. 95Company requested projection factor of 107% less inflation only factor of 104.6%.

Column (C): Column A x Column B

Column (D): This column is provided for informational purposes. It shows a comparison of the Company's projected 2007 amounts, which used projection factors, with the September 2007 actual amounts (as recorded) annualized. As is evident from above, the projected amounts included in the MFRs, for the most part, exceed the actual year to date annualized amounts for each of these accounts. See Page 3 for calculations.

FLORIDA PUBLIC UTILITIES
Projected Test Year Ending December 31, 2008

Revision to Company Projection Factors

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule C-3

Line No	Description		Company Adj. 2006 Amount	Reduction to Proj. Factor	Adjustment to 2008 Expense	Comparison of FPU '07 Proj. w/Actual Thru Sept. Annualized
			(A)	(B)	(C)	(D)
	Accounts Projected Using Payroll X Customer Growth					
1	5831	Operation of Overhead	51,417	-2.80%	(1,440)	(29,356)
2	5832	Removing & Resetting	61,388	-2.80%	(1,719)	16,075
3	585	Street Light & Signal System Expenses	11,957	-2.80%	(335)	(1,290)
4	586	Meter Expenses	255,670	-2.80%	(7,159)	13,500
5	5871	Area Light Expenses	52,046	-2.80%	(1,457)	1,973
6	5872	Other Customer Installation	41,208	-2.80%	(1,154)	2,526
7	5881	Distribution Maps &	99,182	-2.80%	(2,777)	(8,139)
8	5882	Other Distribution Office Supplies	98,065	-2.80%	(2,746)	34,545
9	5883	Misc. Distribution of	10,420	-2.80%	(292)	4,526
10	902	Meter Reading Expense	276,881	-2.80%	(7,753)	14,585
11	9264	401(K) Expense Company	5,765	-2.80%	(161)	(11,384)
12	5941	Maintenance of Underground Lines	7,461	-2.80%	(209)	(14,089)
13	5942	Maintenance of Underground Lines	128,550	-2.80%	(3,599)	(78,922)
14	5951	Maintenance of Line Transformers	64,507	-2.80%	(1,806)	13,209
15	5952	Maintenance of Line Transformers	6,977	-2.80%	(195)	(17,373)
16	5953	Maintenance of Line Transformers	54,557	-2.80%	(1,528)	8,802
17	596	Maintenance of Street Lighting/Signal Sys.	49,099	-2.80%	(1,375)	8,633
18	597	Maintenance of Meters	35,250	-2.80%	(987)	(4,341)
			1,310,400		(36,691)	(46,522)

Notes/Source:
Column (A): MFR Sch. C-7 (2006)
Column (B): MFR C Schedules, p. 95, Company requested projection factor of 114.1% less payroll only factor of 111.3%.
Column (C): Column A x Column B
Column (D): This column is provided for informational purposes. It shows a comparison of the Company's projected 2007 amounts, which used projection factors, with the September 2007 actual amounts (as recorded) annualized. As is evident from above, the projected amounts included in the MFRs, for the most part, exceed the actual year to date annualized amounts for each of these accounts. See Page 3 for calculations.

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2008

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule C-3
Pages 3 of 3

Revision to Company Projection Factors
- Comparison of 2007 Actuals to Filing

Line No.	Account	Description	Marianna 2007 Actual Thru Sept. (A)	Fernadina 2007 Actual Thru Sept. (B)	Total (C)	2007 Annualized Total (D)	Projected 2007 in MFR's (E)	Difference Over (Under) Actual (F)
		OPERATION EXPENSES						
1	562	Station Expenses (transmission)		13,033	13,033	17,377	42,501	25,124
2	566	Misc. Transmisson Expenses		4,756	4,756	6,341	12,116	5,775
3	580	Operation Supervision & Eng	98,455	119,760	218,215	290,953	380,422	89,469
4	582	Station Expenses (distribution)	8,818	36,581	45,399	60,532	94,672	34,140
5	5831	Operation of Overhead	39,118	24,084	63,202	84,269	54,913	(29,356)
6	5832	Removing & Resetting	27,502	9,613	37,115	49,487	65,562	16,075
7	5841	Underground Line Expenses	446	8,853	9,299	12,399	3,723	(8,676)
8	5842	Underground Line Expenses		22,821	22,821	30,428	27,504	(2,924)
9	585	Street Light/Signal	8,989	1,556	10,545	14,060	12,770	(1,290)
10	586	Meter Expenses	121,401	73,266	194,667	259,556	273,056	13,500
11	5871	Area Light Expense	33,686	6,523	40,209	53,612	55,585	1,973
12	5872	Other Customer Installation	6,761	24,352	31,113	41,484	44,010	2,526
13	5881	Distribution Maps &	48,757	36,792	85,549	114,065	105,926	(8,139)
14	5882	Other Distribution Office Supplies	23,191	67,550	90,741	120,988	155,533	34,545
15	5883	Misc. Distribution of	1,937	3,015	4,952	6,603	11,129	4,526
16	589	Rents	784	-	784	1,045	1,053	8
17	901	Supervision	23,942	36,282	60,224	80,299	73,765	(6,534)
18	9011	Supervision - A&G	14,189	16,197	30,386	40,515	49,056	8,541
19	902	Meter Reading Expenses	109,682	101,161	210,843	281,124	295,709	14,585
20	903	Customer Records/Collection Expenses	194,643	221,881	416,524	555,365	524,917	(30,448)
21	9031	Customer Records/Collection Expenses	89,511	102,227	191,738	255,651	275,807	20,156
22	904	Uncollectible Accounts	17,038	15,277	32,315	43,087	87,590	44,503
23	905	Misc. Customer Accounts	31,979	17,418	49,397	65,863	80,765	14,902
24	9051	Misc. Customer Accounts	5,644	6,445	12,089	16,119	16,804	685
25	9061	Underrecovery conservation						
26	907	Supervision			73,941	98,588	76,455	(22,133)
27	908	Customer Assistance			200,295	267,060	207,105	(59,955)
28	909	Informational & Instructional			159,139	212,185	164,550	(47,635)
29	910	Misc. Customer Service			22,786	30,381	23,561	(6,820)
30	912	Demonstrating & Selling Expenses			-	-	-	-
31	9131	Promotional Advertising Expenses	300		300	400	-	(400)
32	9132	Conservation Advertising Expenses	3,620	-	3,620	4,827	1,589	(3,238)
33	9133	Safety Advertising Expenses	2,657	2,552	5,209	6,945	8,504	1,559
34	9134	Other Info/Instr/Con	50,307	50,169	100,476	133,968	154,148	20,180
35	9135	Community Affairs Advertising Expenses			-	-	-	-
36	9136	Other Advertising			-	-	-	-
37	916	Misc. Sales Expense		571	571	761	13,699	12,938
38	920	Administrative & General - Salaries	321,766	435,331	757,097	1,009,463	1,071,369	61,906
39	9211	Office Supplies and Expense	4,248	4,280	8,528	11,371	10,867	(504)
40	9212	Office Supplies & Mai	2,382	2,404	4,786	6,381	7,111	730
41	9213	Office Computer Supplies & Expense	3,377	3,388	6,765	9,020	8,113	(907)
42	9214	Office Utility Expense	27,347	24,363	51,710	68,947	34,425	(34,522)
43	9215	Misc. Office Expense	40,259	40,579	80,838	107,784	93,308	(14,476)
44	9216	Company Training Expense	1,088	2,690	3,778	5,037	6,913	1,876
45	9231	Outside Services - Operation	4,215	7,049	11,264	15,019	18,306	3,287
46	9232	Legal Fees & Expense	8,323	8,839	17,162	22,883	40,283	17,400
47	9233	Outside Audit & Accounting Expense	74,022	78,440	152,462	203,283	226,660	23,377
48	924	Property Insurance	87,462	33,430	120,892	161,189	181,238	20,049
49	9251	Injuries and Damages Expense	43,976	51,421	95,397	127,196	114,957	(12,239)
50	9252	General Liability	230,170	227,879	458,049	610,732	475,595	(135,137)
51	9261	Employee Pensions	146,372	151,861	298,233	397,644	365,497	(32,147)
52	9262	Employee Benefits-O	164,069	171,618	335,687	447,583	488,303	40,720
53	9263	Retiree Benefits - Pos	19,503	20,997	40,500	54,000	54,000	-
54	9264	401(K) Expense Company	6,463	6,693	13,156	17,541	6,157	(11,384)
55	928	Regulatory Commission Expense	56,323	60,226	116,549	155,399	133,967	(21,432)
56	9301	Institutional Goodwill			-	-	-	-
57	9302	Misc. General Expense	29,746	28,334	58,080	77,440	79,227	1,787
58	93022	Industry Association	3,189	2,246	5,435	7,247	4,539	(2,708)
59	93023	Economic Development	5,000		5,000	6,667	15,710	9,043
60	931	Rents	4,299	4,333	8,632	11,509	8,490	(3,019)
61		**Total Operating Expenses less Fuel**	2,246,956	2,389,136	4,636,092	6,181,456	6,839,534	658,078
		MAINTENANCE EXPENSES						
62	554	Maintenance of Misc. Power			-	-	-	-
63	570	Maintenance of Station Equipment		61,912	61,912	82,549	102,430	19,881
64	571	Maintenance of Overhead Lines		24,152	24,152	32,203	80,603	48,400
65	573	Maintenance of Misc Transmission		-	-	-	461	461
66	590	Maintenance Supervision & Engineering	26,242	69,337	95,579	127,439	146,674	19,235
67	591	Maintenance of Structures	6,803	1,962	8,765	11,687	10,411	(1,276)
68	592	Maintenance of Station Equipment		22,070	22,070	29,427	75,455	46,028
69	5931	Maintenance of Poles/Towers	2,153	12,206	14,359	19,145	46,044	26,899
70	5932	Maintenance of Overhead Co	449,993	224,682	674,675	899,567	1,032,586	133,019
71	5933	Maintenance of Services	73,662	19,777	93,439	124,585	137,755	13,170
72	5941	Maintenance of Underground Lines	10,051	6,492	16,543	22,057	7,968	(14,089)
73	5942	Maintenance of Underground Lines	248	166,223	166,471	221,961	143,039	(78,922)
74	5951	Maintenance of Line Transformers	33,720	8,043	41,763	55,684	68,893	13,209
75	5952	Maintenance of Line Transformers	7,949	10,669	18,618	24,824	7,451	(17,373)
76	5953	Maintenance of Line Transformers		37,099	37,099	49,465	58,267	8,802
77	596	Maintenance of Street Lighting/Signal Sy:	8,113	24,741	32,854	43,805	52,438	8,633
78	597	Maintenance of Meters	14,305	17,186	31,491	41,988	37,647	(4,341)
79	598	Maintenance of Misc. Distribution Plant	34,525	22,538	57,063	76,084	73,927	(2,157)
80	935	Maintenance of General Plant	31,710	44,513	76,223	101,631	167,932	66,301
81		**Total Maintenance Expenses**	699,474	773,602	1,473,076	1,964,101	2,249,981	285,880
82		**Total Operating & Maintenance Exp.**	2,946,430	3,162,738	6,109,168	8,145,557	9,089,515	943,958

Source: Col. (A) and Col. (B) from Company trial balance (POD Exhibti 11) through Septemb er 2007. Col. (E) from MFR. Sch. C-7 (2007)
Col. (D) calculated as Col.(C) / 9 x 12.

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2008

Uncollectible Expense

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule C-4
Page 1 of 1

Line No.	Year	Write-offs (Retail)	Recoveries [1]	Net Write-offs Col. (C)-(D)	Adjusted Gross Revenues	Bad Debt Factor
(A)	(B)	(C)	(D)	(E)	(F)	(G)
1	2002	75,649	(38,495)	37,154	41,335,703	
2	2003	77,141	(30,512)	46,629	39,478,461	
3	2004	76,668	(27,905)	48,763	40,424,735	
4	2005	87,665	(29,153)	58,512	47,686,561	
5	2006	87,415	(29,188)	58,227	47,452,526	
6	Total	404,538		249,285	216,377,986	0.1152% [2]

Notes/Source:
Columns, C, E & F: MFR Schedule C-11, p. 31
[1] See Response to Interrogatory No. 116
[2] Column D/Column E

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2008

Interest Synchronization Adjustment

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule C-5

Line No.	Description	Amount	
1	Rate Base, per OPC	38,913,742	Schedule B-1
2	Weighted Cost of Debt (debt plus customer deposits)	3.42%	Sch. D-1
3	Interest Deduction	1,329,521	
4	Interest Deduction in filing	1,489,405	MFR Sch. C-23, p. 62, Sch. D-1a, p. 3
5	Difference	(159,884)	
6	Consolidated Tax Rate	37.630%	
7	Increase (Decrease) to Income Tax Expense	60,164	

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2008

Income Tax Expense

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule C-6
Page 1 of 1

Line No.	Description	Amount	
1	Adjustments to Operating Income	2,294,256	[1]
2	Composite Income Tax Rate	37.63%	[2]
3	Adjustment to Income Tax Expense	863,328	

Source:
[1] Schedule C-1, p. 2
[2] Composite of State Tax Rate of 5.50% and Federal Tax Rate of 34%.

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2008

Overall Cost of Capital, per OPC

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin Exhibit__(HL-1)
Schedule D-1

Line No.	Description	Capital Structure	Ratio	Cost Rate	Weighted Cost Rate
1	Short-term debt	1,723,362	4.43%	5.81%	0.26%
2	Long-term debt	13,326,934	34.25%	7.96%	2.73%
3	Preferred Stock	160,638	0.41%	4.75%	0.02%
4	Common Equity	15,463,027	39.74%	9.15%	3.64%
5	Customer Deposits	2,667,242	6.85%	6.32%	0.43%
6	Deferred Taxes	5,498,400	14.13%	0.00%	0.00%
7	ITC @ Zero Cost	-	0.00%	0.00%	0.00%
8	ITC @ Overall Cost	74,140	0.19%	8.42%	0.02%
9	Total Capital Structure	38,913,742	100.00%		7.09%

Source/Reference:
The above cost rate amounts are sponsored by Citizens' witness Dr. J. Randall Woolridge and are provided h for ease of reference.

Docket No. 070304-EI
Docket No. 070300-EI
H. Larkin, Jr.
Exhibit__(HL-2)
Cover Page

OPC Interrogatory No. 1
Exhibit 50.1

NE Division – Substation Maintenance
2008 to 2012

Exhibit 50.1
OPC Interrogatory 1
Docket 070304-EI

NE Division - Substation Maintenance

Equipment	*2008*	*2009*	*2010*	*2011*	*2012*
Transformers	$77,000	$27,000	$27,000	$41,000	$76,000
Circuit Breakers (oil & SF6)	$8,000	$54,000	$30,000	$0	$0
Circuit Switchers	$9,000	$0	$0	$9,000	$0
Potential Transformers	$4,000	$1,000	$4,000	$1,000	$4,000
Relays	$10,000	$1,000	$10,000	$1,000	$10,000
Switches	$5,000	$5,000	$5,000	$5,000	$5,000
Infrared (all stations)	$3,000	$3,000	$3,000	$3,000	$3,000
Washing Insulators (Stepdown Only)	$10,000	$10,000	$10,000	$10,000	$10,000
Totals	$126,000	$101,000	$89,000	$70,000	$108,000

Assumptions & Notes:

- New CBs and Tx at SD & JLT require less maintenance in early years.
- Time-based maintenance schedule based on 2005 NETA's (National Electrical Testing Association) guidelines and manufacturer's recommendations
- SF6 CBs at AIP are replaced in 2009
- Above figures to change contingent upon equipment failures and repairs