Ruth Nettles

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Subject: e-filing (Dkt. Nos. 070300-EI & 070304-EI)
Attachments: Prehearing Statement 070304 070300.sversion.doc

Electronic Filing

a. Person responsible for this electronic filing:

Patricia A. Christensen, Associate Public Counsel
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b. Docket Nos. 070300-EI & 070304-EI

In re: Petition for rate increase by Florida Public Utilities Company and 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.

c. Document being filed on behalf of Office of Public Counsel

d. There are a total of 43 pages.

e. The document attached for electronic filing is the Prehearing Statement of the Office of Public Counsel

(See attached file:Prehearing Statement. 070304 070300.sversion.doc)

Thank you for your attention and cooperation to this request.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Rate Increase by Florida Public Utilities Company	Docket No. 070304-EI
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: February 1, 2008

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PREHEARING STATEMENT OF THE OFFICE OF PUBLIC COUNSEL

The Citizens of the State of Florida, through the Office of Public Counsel, pursuant to the Order Establishing Procedure in this docket, Order No. PSC-07-0804-PCO-EI, issued October 3, 2007, submit this Prehearing Statement.

APPEARANCES:

PATRICIA A. CHRISTENSEN, Esquire
Associate Public Counsel
Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street, Room 812
Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida.

A. WITNESSES:

The Citizens intend to call the following witnesses, who will address the issues indicated:

NAME	ISSUES
Hugh Larkin, Jr.	Working Capital, Other Operating Revenues, Operating and Maintenance Expense, Storm Hardening Expenses, Taxes

Dr. J. Randall Woolridge	Cost of Capital, Capital Costs in Today's Markets, Comparison Group Selection, Capital Structure Ratios and Debt Cost Rates, Cost of Common Equity Capital, Critique of FPU's Rate of Return Testimony
Patricia W. Merchant	Capital Additions for Storm, Hardening Plan, Other Plant Adjustments, Accumulated Depreciation, Construction Work in Progress, Salaries/Payroll Operations, New Positions Operations, Storm Handling Contracts, New Positions Customer Relations, Corporate Accounting & Information Technology, Expenses for Executive Salaries and Salary Survey Adjustments

B. EXHIBITS:

Through Mr. Larkin, the Citizens intend to introduce the following schedules, which can be identified on a composite basis:

Appendix 1	Qualifications
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

Through Dr. Woolridge, the Citizens intend to introduce the following schedules, which can be identified on a composite basis:

Appendix A	Educational Background, Research, and Related Business Experience
JRW-1	Recommended Rate of Return – Weighted Average Cost of Capital
JRW-2	Interest Rates and Yield Spreads
JRW-3	Summary Financial and Risk Statistics for Proxy Groups
JRW-4	Capital Structure Ratios
JRW-5	The Relationship Between Estimated ROE and Market-to-Book Ratios
JRW-6	Public Utility Capital Cost Indicators – Indicators of Public Utility Capital Cost Rates
JRW-7	Industry Average Betas
JRW-8	Three-Stage DCF Model
JRW-9	DCF Study – DCF Results
JRW-10	CAPM Study- CAPM Results
JRW-11	Summary of FPU's Equity Cost Rate Approaches and Results
JRW-12	Historic Equity Risk Premium Evaluation
JRW-13	FPU's DCF Results
JRW-14	FPU's CAPM Results
JRW-15	FPU's RP Results
JRW-16	FPU's RMR Results

Through Mrs. Merchant, the Citizens intend of introduce the following schedules, which can be identified on a composite basis:

PWM-1 Résumé

PWM-2	Transformer Plant Adjustment
PWM-3	OPC POD Exhibit 72.2 Osmoses Estimate

C. STATEMENT OF BASIC POSITION

FPU has overstated its need for a base rate increase by at least $3.3 million dollars. While FPU claims that it requires $5.2 million increase in rates to earn a fair rate of return and cover expenses, close scrutiny of FPU's MFRs shows that only approximately $1.9 million is needed for FPU to earn a fair rate of return on rate base, cover storm hardening, and to meet operation and maintenance expenses.

FPU's requested return on equity of 11.5% is extremely inflated and unsupported by current market conditions. Under today's market conditions a 9.15% return on equity is reasonable and supported for this size and type of company. Utilizing the 9.15% ROE, the reasonable and supported overall fair rate of return is 7.09%.

In addition to the cost of capital, numerous adjustments to the Company's request for increases for storm hardening, projected test year rate base and operating expense are warranted. FPU has taken the kitchen sink approach where it asks for recovery for items that it has not even implemented. Moreover, FPU has significantly overstated certain amounts which if left uncorrected would result in customers paying rates in excess of rates that would be reasonable and necessary to provide safe and reliable service. FPU has also failed to provide documentation sufficient to support the amounts of its requests or the need for the requested items, or both.

Due to these failings and other problems explained under the various issues, Citizens has identified numerous adjustments to FPU's proposed test year. For storm hardening, Citizens have at least nine adjustments to FPU's proposed requests. Citizens also have identified 18 adjustments to FPU's proposed test year rate base. For net operating expenses, Citizens have no less than 21 adjustments to FPU's requested test year expenses and two adjustments to FPU's proposed tax treatment. Overall Citizens have identified at least 50 adjustments which are necessary and which reduces FPU's proposed rate increase.

One of the most egregious examples which require adjustment is FPU's creative approach to cost recovery for its 69kv wood pole replacement program. FPU has proposed an atypical recovery methodology to allow it to pre-collect through amortization expense $352,600 annually for the wood pole replacement. Normally, plant costs are recovered through base rates once the company has expended the money and plant is placed in service for the uses ratepayers. FPU proposed methodology would allow it to collect the money to replace nine poles a year irrespective of whether the company ultimately replaces only one or nine poles in a year. If the nine poles are not replaced each year, the Commission could be stopped by the prohibition against retroactive ratemaking from returning the monies not used for pole replacement to customers without a specific refund provision. Any refund provision would place the Commission in the position of micromanaging the Company for the next twenty years to ensure the moneys are spent on pole replacement. At most, FPU's proposed amortization methodology would result in extreme intergenerational inequities requiring current ratepayers to fund in advance the nine poles requested to be replaced each year over the next twenty years. Each new concrete pole has an expected life of forty years and would normally be recovered over this same period by the next generation of ratepayers. Given these inherent problems with FPU's proposed methodology, FPU has offered no reason why it should be allowed to deviate from the normal plant recovery methodology.

Based on the adjustments to rate base, cost of capital, and operation and maintenance expense discussed below an overall reduction to FPU's request of $3.3 million is warranted. Citizen's adjustments are discussed in detail below.

D. STATEMENT OF FACTUAL ISSUES AND POSITIONS

STORM HARDENING – RULE 25-6.0342

Issue 1: Does the Company's Plan address the extent to which, at a minimum, the Plan complies with the National Electric Safety Code (ANSI C-2) [NESC] that is applicable pursuant to subsection 25-6.0345(2), F.A.C.? [Rule 25-6.0342(3)(a)]

OPC: No position at this time.

Issue 2: Does the Company's Plan address the extent to which the extreme wind loading standards specified by Figure 250-2(d) of the 2007 edition of the NESC are adopted for new distribution facility construction? [Rule 25-6.0342(3)(b)l]

OPC: No position at this time.

Issue 3: Does the Company's Plan address the extent to which the extreme wind loading standards specified by Figure 250-2(d) of the 2007 edition of the NESC are adopted for major planned work on the distribution system, including expansion, rebuild, or relocation of existing facilities, assigned on or after the effective date of this rule distribution facility construction? [Rule 25-6.0342(3)(b)2]

OPC: No position at this time.

Issue 4: Does the Company's Plan reasonably address the extent to which the extreme wind loading standards specified by Figure 250-2(d) of the 2007 edition of the NESC are adopted for distribution facilities serving critical infrastructure facilities and along major thoroughfares taking into account political and geographical boundaries and other applicable operational considerations? [Rule 256.0342(3)(b)3]

OPC: No position at this time.

Issue 5: Does the Company's Plan address the extent to which its distribution facilities are designed to mitigate damage to underground and supporting overhead transmission and distribution facilities due to flooding and storm surges? [Rule 25-6.0342(3)(c)]

OPC: No position at this time.

Issue 6: Does the Company's Plan address the extent to which the placement of new and replacement distribution facilities facilitate safe and efficient access for installation and maintenance pursuant to Rule 25- 6.0341, F.A.C? [Rule 25-6.0342(3)(d)]

OPC: No position at this time.

Issue 7: Does the Company's Plan provide a detailed description of its deployment strategy including a description of the facilities affected; including technical design specifications, construction standards, and construction methodologies employed? [Rule 25-6.0342(4)(a)]

OPC: No position at this time.

Issue 8: Does the Company's Plan provide a detailed description of the communities and areas within the utility's service area where the electric infrastructure improvements, including facilities identified by the utility as critical infrastructure and along major thoroughfares pursuant to subparagraph (3)(b)3. are to be made? [Rule 25-6.0342(4)(b)]

OPC: No position at this time.

Issue 9: Does the Company's Plan provide a detailed description of the extent to which the electric infrastructure improvements involve joint use facilities on which third-party attachments exist? [Rule 25-6.0342(4)(c)]

OPC: No position at this time.

Issue 10: Does the Company's Plan provide a reasonable estimate of the costs and benefits to the utility of making the electric infrastructure improvements, including the effect on reducing storm restoration costs and customer outages? [Rule 25-6.0342(4)(d)]

OPC: No position at this time.

Issue 11: Does the Company's Plan provide an estimate of the costs and benefits, obtained pursuant to subsection (6) below, to third-party attachers affected by the electric infrastructure improvements, including the effect on reducing storm restoration costs and customer outages realized by the third-party attachers? [Rule 25-6.0342(4)(e)]

OPC: No position at this time.

Issue 12: Does the Company's Plan include written Attachment Standards and Procedures addressing safety, reliability, pole loading capacity, and engineering standards and procedures for attachments by others to the utility's electric transmission and distribution poles that meet or exceed the edition of the National Electrical Safety Code (ANSI C-2) that is applicable pursuant to Rule 25-6.034, F.A.C.? [Rule 25-6.0342(5)]

OPC: No position at this time.

Issue 13: Based on the resolution of the preceding issues, should the Commission find that the Company's Plan meets the desired objectives of enhancing reliability and reducing restoration costs and outage times in a prudent, practical, and cost-effective manner to the affected parties? [Rule 25-6.0342(1) and (2)]

OPC: No. Adjustments to FPU's storm hardening plan with respect to the 10 point initiatives and storm hardening consistent with Citizens proposed adjustments are reasonable and necessary.

10 POINT INITIATIVES

Issue 14: Should the Commission approve FPU's request to implement a 3/6 tree trimming cycle instead of a 3/3 cycle?

OPC: No position at this time.

Issue 15: Has FPUC complied with the Commission's 10 point initiatives?

OPC: No position at this time.

COSTS FOR STORM HARDENING AND 10 POINT INITIATIVES

Issue 16: Is the company's projected plan to accelerate the replacement of the existing wood 69 kv transmission system with concrete poles reasonable and cost-effective and if not, what adjustments are necessary to the company's projected test year rate base?

OPC: No. The Company's storm hardening proposal regarding an accelerated pole replacement program is unreasonable, uneconomical and not necessary to comply with the Commission's rule or orders. Accelerated pole replacement denies the rate payer the benefit of using the existing poles that have no integrity concerns or other construction requirements to be retired prior to the expiration of the useful lives. The Company's existing policy should be maintained of replacing the wood transmission poles when needed (approximately one per year), and not on an accelerated basis.

Because of its request to recover amortization expense, the company did not include any plant in service for its wood pole replacement plan. To recognize the inclusion of the replacement of 1 pole per year, a conservative cost of $16,125 per pole should be allowed. This reflects a 25% reduction to the company's unsupported estimate because the Company failed to obtain reasonable bids or provide other sufficient supporting documentation for such costs. Further, the pole replacement should be added in June, 2008, which would reflect an $8,683 addition to plant on a thirteen-month average basis. Using a 40-year depreciable life depreciation expense should be increased by $235 (7 months) and accumulated depreciation on a 13-month average basis should be increased by $126.

Issue 17: Should the Commission approve FPUC's proposed recovery methodology to pre-collect plant costs through an annual amortization expense of $354,000 to replace its wood transmission poles with concrete poles?

OPC: No. The Company's request for ratepayers to pre-collect for the full cost of the new poles before the Company even purchases or has the poles installed should be denied. A transmission pole is a capital asset that is recorded in plant and depreciated over the life of the asset for which it provides service. For this required investment, the Company is allowed to earn a reasonable rate of return and recover its prudent operating expenses. Full cost recovery received in advance is not fair, just or reasonable. This recovery scheme also creates intergenerational inequities that would require the current generation of customers to pre-pay the full cost of these long-term assets that will provide benefits to customers for forty years. Accordingly, this proposal should be denied and the plant replacements should be recovered just as all other assets are recovered in the normal course for regulated electric companies. The Company's requested annual amortization of $354,000 should be removed from test year expenses.

Issue 18: Is the company's request for contractor expense of $18,540 in Account 566, for inspection of the transmission system reasonable and supported, and if not, what adjustments should be made?

OPC: No, the Company has not adequately justified the level of the annual expense it would incur for the contractor expenses. The Company only went to one vendor and submitted a very rough estimate of what the inspection costs would be over the next five years. Because FPU only submitted one rough non-binding, estimate, the Commission should disallow 25% of the requested cost for lack of support. An expense level of $4,635 should be disallowed and the allowed test year expense should be $13,905.

Issue 19: Should FPUC' request to increase Account 593, Maintenance of Overhead Lines, by $352,260 for three additional tree trimming crews for the Northwest Florida division be approved?

OPC: No. Based on the Company's response to OPC discovery, the Company admitted that it overstated its projected expense by 1 crew per year or $117,420. Additionally, in 2006, the Company contracted 3 tree trimming crews which averaged 47.13 miles per crew. According to the Company's own analysis, the existing 3 crews satisfactorily cover the mileage necessary to meet the needs of storm hardening. The requested 35 miles used in the Company's projection understates the level historically incurred and a more reasonable estimate is 40 miles per crew (the middle option provided by the Company). The Company has also failed to justify the need for an additional crew just to handle danger trees and spot trimming above what was used in 2006. Thus, the Company's over/above adjustment of $353,260 is not necessary and should be removed from 2008 expenses.

Issue 20: Should FPUC's request to increase Account 593, Maintenance of Overhead Lines, by $141,367 per year in distribution pole inspections from an outside contractor be approved?

OPC: No. The requested distribution inspection cost includes $8.46 per pole directly related to joint use pole attachments and it is unreasonable to charge the ratepayers 100% for this expense since it benefits other users and these costs do not relate to the cost of providing electric service to electric customers. Deducting this cost reflects a rounded cost per pole inspection of $38, or a reduction of $25,467. In addition, the Company has not decided what inspection parameters that it wants to pursue. It submitted only one rough estimate of what the cost might be and has not initiated the competitive bid process. FPU stated that there are contractors, other than the one it received an estimate from, that the Company could contract with for inspections. Because this is an item that the Commission has required as part of the storm initiative, it is important for the Company to comply with the Commission's directives. However, the Company has not fully supported its requested expense. On a conservative basis, the Commission should disallow 25% of the Company's projected expense resulting in an additional reduction of $28,975. This results in a per-pole inspection cost of $28.50, with an incremental distribution pole expense of $86,925, ($141,367 less $25,467 less $28,975) allocated 100% to electric operations.

Issue 21: Should FPUC's request to increase Account 593, Maintenance of Overhead Lines and Account 588, Distribution Maps, by a combined total of $99,375 for an additional employee and his related travel expenses to handle joint use audits and pole inspections be approved?

OPC: No. The additional position should be approved with a salary of $58,930, with benefits of $15,321 (overhead rate of 26%, not 38%) for a combined annual expense of $74,251. This results in a decrease of $2,358 to the requested amount, which is 100% allocated to electric. This position should also be considered a Northwest division position responsible for joint use audits, administering the pole inspection program and the safety coordinator. Because the position will be located in the Northwest division no incremental travel expense is necessary. The Company's requested expense increase of $22,838 for travel should also be removed.

Issue 22: Should FPUC's request to increase Account 593, Maintenance of Overhead Lines, by $27,000 for the development and implementation for Post Storm Data Collection and Forensic Review be approved?

OPC: No. The Company's request includes $17,000 for development of the overall program methodology and $10,000 for post storm data collection. From the Company's explanation, it appears that this work will only take place after a hurricane and the development of the overall program methodology is a one-time cost, directly related to storm costs. Such costs should be charged to the storm reserve when and if such costs are incurred. Because these costs are non-recurring, they are not appropriate for inclusion in annual test year expenses. Thus, the entire $27,000 should be removed from the 2008 test year expenses.

Issue 23: Is the company's request for recovery of an additional expense to provide personnel for the two county emergency operating centers reasonable, supported and annually recurring, and if not, what adjustment should be made?

OPC: No. This type of expense is certainly non-recurring as the historical number of storms impacting this Company have been minimal, especially compared to the other utilities in the state. Also, to the extent that FPU does have to incur incremental costs to locate employees at a county EOC, the prudently incurred costs that are above those included in base rates would be properly recoverable through the storm reserve. Thus, the requested over/above increase of $19,991 should be removed from the test year 2008 expenses.

Issue 24: Is the company's request for an additional expense for maintenance of the automated mapping/facilities mapping (AM/FM) systems software reasonable and supported, and if not, what adjustment should be made?

OPC: No position at this time.

Issue 25: Is the company's request for increased travel and PURC costs in the utility collaborative research projects reasonable and supported, and if not, what adjustment should be made?

OPC: In its filing, FPU requested $25,750 for travel and PURC costs in the utility collaborative research projects. In a data response the Company initially revised the cost down to, $5,170 and at deposition, further reduced it to $832. Test year expenses should be reduced by $24,918 to reflect the actual amount that will be incurred by the Company.

Issue 26: What adjustments, if any, should be made to rate base associated with the storm hardening Rule 25-6.0342 and 10 point initiatives requirements?

OPC: See OPC's position on Issue 16.

Issue 27: What adjustments, if any, should be made to operating expenses associated with the storm hardening Rule 25-6.0342 and 10 point initiatives requirements?

OPC: See OPC's positions on Issues 17-25.

TEST PERIOD

Issue 28: Are the historical test year ended December 31, 2006, and the projected test year ending December 31, 2008, the appropriate test years to be utilized in this docket?

OPC: No position at this time.

Issue 29: Are FPUC's forecasts of Customers, KWH and KW by Rate Class for the projected 2008 test year appropriate?

OPC: No position at this time.

QUALITY OF SERVICE

Issue 30: Is the quality of electric service provided by FPUC adequate?

OPC: No position at this time.

RATE BASE

Issue 31: Has the Company removed all non-utility activities from rate base?

OPC: No position at this time.

Issue 32: Should the company's request to receive a full 13-month average recovery for a transformer that is not projected to be placed in service until the 2008 test year be approved?

OPC: No. The Company has not justified why this one particular item should be given a full year of recovery when it is projected to be placed in service in February 2008. The Company has ample opportunity to recover all items that it projects will be in service for the test year and has not justified why such an exception should be made for this one item. The statement that a future rate case might be necessitated if full recovery is not allowed is a hollow threat. The problem is that allowing this one item to be brought into rate base violates the test year matching concept. Plant and accumulated depreciation should be decreased by $121,538 and $3,494, respectively, with a corresponding decrease to depreciation expense of $3,950. Further, 2008 test year expenses should be reduced by $28,582 to remove the cost of a temporary rental of a transformer that will no longer be incurred as a result of this plant replacement.

Issue 33: Has the company provided sufficient evidence to support its projected plant additions for the 2008 test year?

OPC: In Audit Finding 1, the staff auditors reported that the utility was unable to provide invoices and supporting documentation for numerous plant additions recorded in 2003 through 2005 and recommended that these plant additions should be removed from rate base. The total amount of unsupported plant was $900,539 for the electric system. The auditors recommended that the utility's electric system general ledger be corrected to reflect the removal of these plant items and corresponding adjustments. The 13-month average balance of plant and accumulated deprecation should be reduced by $900,539 and $125,449, respectively. Depreciation expense should also be reduced by $43,391. Recovery should not be allowed unless and until the Company can provide sufficient documentary support, such as invoices and/or contracts showing that these amounts were properly recorded.

Issue 34: Is FPUC's requested level of Plant in Service in the amount of $79,641,581 for the December 2008 projected test year appropriate?

OPC: No. Adjusted Plant in Service should be reduced by $1,010,809, to reflect a 13-month average balance of $78,630,772. Since this is a fall-out issue, it is subject to further revision based on the resolution of other issues.

Issue 35: Is the FPUC's requested level of Common Plant Allocated in the amount of $1,853,396 for the December 2008 projected test year appropriate?

OPC: No position at this time.

Issue 36: Should an adjustment be made for Plant Retirements for the projected test year?

OPC: No position at this time.

Issue 37: What adjustments, if any, should be made to accumulated depreciation to reflect the Commission's decision in Docket No. 070382-EI?

OPC: The adjustments that are approved in the Company's current depreciation study in Docket No. 070382-EI should be made to the rate case.

Issue 38: Is FPUC's requested level of accumulated depreciation for Plant in Service in the amount of $35,667,257 for the December 2008 projected test year appropriate?

OPC: No. Accumulated depreciation should be reduced by $128,791 to reflect a 13-month average balance of $35,538,466. Since this is a fall-out issue, it is subject to further revision based on the resolution of other issues.

Issue 39: Is FPUC's requested level of accumulated depreciation for Common Plant Allocated in the amount of $660,224 for the December 2008 projected test year appropriate?

OPC: No position at this time.

Issue 40: Is FPUC's requested level of Construction Work in Progress in the amount of $75,000 for December 2008 projected test year appropriate?

OPC: No. CWIP is not plant that is completed or used and useful in generating, transmitting, or delivering current service to ratepayers. Facilities in the process of being constructed cannot be used or useful and should be excluded from the ratemaking process until such time that it is actually providing service to ratepayers. The company does not accrue allowance for funds used during construction (AFUDC) on construction, nor has it showed that its financial integrity will suffer if CWIP is not included in rate base. Thus, the Company's requested $75,000 CWIP should be removed from the rate base.

Issue 41: Is FPUC's requested level of Other Property and Investments/Other Special Funds in the amount of $3,100 for the projected test year appropriate?

OPC: No. The $3,100 represents an allocation of non-regulated assets, which is an investment upon which ratepayers should not 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.

Issue 42: What is the appropriate projection methodology and balance of cash to be included in the 2008 working capital requirement?

OPC: Since FPU has not shown that the substantial balances it is requesting are necessary for the day-to-day operations of its electric divisions, the amount of cash included in the working capital requirement should be $10,000. This reduces working capital by $60,678.

Issue 43: What is the appropriate balance of Special Deposits-Electric to be included in the 2008 working capital requirement?

OPC: The appropriate balance is zero. These funds should be removed from the working capital requirement because they accrue interest and it is not appropriate for the Company to earn a rate of return on these deposits through working capital when the Company will be paid interest on the deposit. Additionally, the JEA deposit of $189,530 will be refunded to the Company with interest in January 2008. These deposits totaling $317,836 should be removed from working capital.

Issue 44: What is the appropriate balance of accounts receivable to be included in working capital?

OPC: The appropriate balance of accounts receivable is $4,011,791. Accounts receivable related to jobbing, third-party damages owed to the Company, and other activities, including employee receivables, are below the line and unrelated to the provision of electric service. 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. Accordingly, accounts receivable should be reduced by $302,140. Additionally, the Company projected Customer Accounts Receivable for the year 2008 by escalating the 2006 balance by approximately 46.4%, inconsistent with how it projected sales growth. A more appropriate method of projection would be to recognize the historical relationship of accounts receivables to revenues. The 12-months ended August 2007 percentage of accounts receivable to revenue of 6.42% should be used to project the accounts receivable balance in 2008, requiring a decrease to the 13-month average balance by $728,527. The total reduction in accounts receivable should be $1,030,667 ($302,140 for other accounts receivable and the over projection of $728,527).

Issue 45: Has the Company estimated an appropriate balance in its accumulated provision for uncollectible accounts?

OPC: No. Applying the average percentage 1.12% of uncollectibles to accounts receivable for the years 2006 and 13-months ended September 2007 to estimate the provision of the year 2008 results in an accumulated provision for uncollectibles of $44,731 ($4,011,791 x 1.12% = $44,731).

The balance of the accumulated provision for uncollectibles in Account 1440 should be increased by $7,986.

Issue 46: Should an adjustment be made to prepaid pension expense in the calculation of working capital?

OPC: See position in Issue 47.

Issue 47: What is the appropriate balance of regulatory assets-retirement plan to be included in working capital?

OPC: The appropriate balance of regulatory assets-retirement plan is $340,996. First, an adjustment is necessary to allocate the pension assets and liabilities consistently between the regulated and unregulated operations. The Company allocated 34% of pension assets to electric and only 25% of pension liability to electric, resulting in an overstatement of working capital. 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. Secondly, pursuant to FAS 71, the Company was required to seek pre-approval from the Commission to record a regulatory asset that would otherwise have to be expensed in the year incurred. 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. This practice is not consistent with the requirements of FASB 71. Working capital should be reduced by $119,159 to reflect the regulatory asset allocated based on a 25% allocation factor.

Issue 48: What is the appropriate allocation methodology and amount for prepaid insurance to be included in working capital for electric operations?

OPC: The appropriate allocation methodology should be based on payroll instead of gross profit. Allocating the 2008 test year prepaid insurance of $629,658 by the payroll allocation factor of 25% results in electric operations prepaid insurance for Working Capital purposes of $157,415. The electric operations allocation of prepaid insurance included in Working Capital should be reduced by $37,779.

Issue 49: What is the appropriate balance of unbilled revenue to be included in working capital?

OPC: In response to OPC discovery, FPU stated that it increased the historical 13-month average of unbilled revenue by 3.5% to project the 13-month average for 2008, but its projected balance reflects an increase of approximately 23.5%. To correct this apparent calculation error, the 13-month average balance of unbilled revenue should be reduced by $88,808.

Issue 50: What is the appropriate balance of temporary services to be included in working capital?

OPC: The appropriate balance is zero. The Company is not collecting a sufficient amount of money for temporary facilities or services to offset all the costs of providing that service. Ratepayers should not be required to subsidize these services (i.e., provide a return) on services provided at below cost. The temporary service debit balance of $16,961 should be removed from working capital and with a corresponding increase to test year miscellaneous service revenues of $27,150 to reflect the amount written off since ratepayers would be subsidizing this service if this adjustment is not made.

Issue 51: Is the Company's working capital treatment of over and under recovery of fuel and conservation costs appropriate?

OPC: No. The Commission has a long-established policy which excludes under-recoveries and includes over-recoveries in the working capital requirement. The Company receives its rate of return on these assets through the fuel adjustment clause and conservation adjustment clause mechanisms, which add interest for any under-recovery to the cost which is subsequently billed to ratepayers. If the receivable is included in working capital when base rates are established, then ratepayers would pay a double return on these under recoveries. FPUC has presented no facts or circumstances have changed that warrant a re-evaluation of this policy, and accordingly, working capital should be reduced by $1,143,377 related to purchased-power under-recoveries.

Issue 52: Should Accounts Payable be increased to correct a posting error?

OPC: No position at this time.

Issue 53: What is the appropriate balance of deferred debit rate case expense to be included in working capital?

OPC: The appropriate balance of deferred rate case expense to include in working capital is $303,400, which reflects a reduction of $304,836 from the Company's requested balance of $608,236. Adjustments are appropriate to reflect OPC's recommended balance of rate case expense and to allow one-half of the total rate case expense as a working capital allowance, consistent with the treatment afforded in the last FPUC rate case.

Issue 54: Has the Company properly estimated its materials and supplies expense?

OPC: No position at this time.

Issue 55: Has the Company properly estimated its injuries and damage reserve?

OPC: No position at this time.

Issue 56: Is FPUC's projected 2008 balance for its storm damage reserve appropriate?

OPC: No, the appropriate balance for the storm damage reserve should be $1,818,548, reflecting an increase in the 13-month average credit balance of $8,871. This adjustment is the result of two errors. 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. Second, the Company started the test year calculation with the wrong balance at December 31, 2007.

Issue 57: Is FPUC's balance of Accrued Interest on Customer Deposits appropriate?

OPC: No. The Company's projection methodology results in an understated balance of interest accrued on customer deposits. Using the actual 13-month average balance at September 30, 2007, the account should be increased by 8.6% to arrive at the December 31, 2008 balance of $77,133.

Issue 58: Should Taxes Accrued - Gross Receipts Tax be reduced to remove the portion related to non-electric operations?

OPC: No position at this time.

Issue 59: Is FPUC's requested level of Working Capital in the amount of a negative $1,310,654 for the December 2008 projected test year appropriate?

OPC: No. The appropriate balance of working capital should be ($4,460,890). The company's requested balance should be reduced by $3,150,236

Issue 60: What is the test year balance of working capital?

OPC: The appropriate balance of working capital should be ($4,460,890). The company's requested balance should be reduced by $3,150,236

Issue 61: Is FPUC's requested rate base in the amount of $43,020,996 for the December 2008 projected test year appropriate?

OPC: No. The appropriate 13-month average balance of rate base should be $38,913,742, or a decrease of $4,107,255. This is a fall-out issue, subject to the resolution of other issues.

COST OF CAPITAL

Issue 62: What is the appropriate return on common equity for the projected test year?

OPC: The appropriate return on common equity for the projected test year is 9.15%. Applying the Discounted Cash Flow Model (DCF) and the Capital Asset Pricing Model (CAPM) to the two groups of publicly-held utility companies identified by FPU results in 9.15% ROE. The DCF model provides the best indication of equity cost rates for public utilities and more weight should be given to DCF results than the other methodologies results. FPU's equal weighting of the results of the four approaches it used, DCF, CAPM, Risk Premia (RP), Realized Market Returns (RMR), has resulted in an inflated ROE of 11.5%. The primary reason is that Mr. Camfield's CAPM, RP, and RMR approaches are all based on risk premiums derived from historical stock and bond returns. Using historical stock and bond returns as measures of expected returns is subject to a myriad of empirical errors which serve to inflate the equity risk premium. As such, Mr. Camfield's expected stock returns and equity risk premiums are not consistent with the equity risk premiums (1) advanced in recent academic studies by leading finance scholars, (2) employed by leading investment banks and management consulting firms, and (3) developed in surveys of financial forecasters and corporate CFOs. Furthermore, FPU has also inflated its ROE recommendation by including inappropriate flotation cost and size adjustments.

Issue 63: Has the company supported its requested deviation from using a matching thirteen-month average test year cost of capital and rate base with its use of a year-end capital structure reconciled to a 13-month average rate base?

OPC: No. The Company has not supported its requested deviation from using a matching thirteen-month average test year cost of capital and rate base with its use of a year-end capital structure reconciled to a 13-month average rate base.

Issue 64: What is the appropriate interest coverage ratio to be used in calculating the cost of long-term debt for the test year?

OPC: No position at this time.

Issue 65: What is the appropriate projected cost rate for long-term debt?

OPC: The appropriate projected cost rate for long-term debt is 7.96%.

Issue 66: What is the appropriate projected cost rate for short-term debt?

OPC: The appropriate projected cost rate for short-term debt is 5.81%. The Company's projected short-term debt cost rate of 6.81% was based on a Federal Funds rate 5.25%. Since the time that the Company filed its testimony based of the Federal Funds rate, the Federal Funds rate was reduced to 4.25% (as of Intervenor testimony filing date). Using the most recent Federal Funds rate results in the lower the short-term debt rate.

Issue 67: Should the company's request to change the amortization methodology for deferred income taxes from the average rate assumption method (ARAM) to the straight-line method be approved?

OPC: No. The Company has failed to support that a change to the amortization methodology for deferred income taxes from the average rate assumption method (ARAM) to the straight-line method is warranted.

Issue 68: What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

OPC: No position at this time.

Issue 69: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure?

OPC: No position at this time.

Issue 70: Does the Company's 2008 projected capital structure reflect deferred taxes resulting from common plant?

OPC: No position at this time.

Issue 71: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ending December 31, 2008?

OPC: The appropriate capital structure for FPU is as follows: Short-Term Debt is 5.62% capitalization amount and 5.81% cost rate; Long-Term Debt is 43.45% capitalization amount and 7.96% cost rate; Preferred Stock is 0.52% capitalization amount and 4.75% cost rate; and Common Equity is 50.41% capitalization amount. The appropriate ROE for FPU is 9.15%. The overall fair rate of return is 7.09% for FPU.

NET OPERATING INCOME

Issue 72: Should an adjustment be made to remove Franchise Fees from operating revenues and taxes other than income?

OPC: No position at this time.

Issue 73: Should an adjustment be made to remove the gross receipts tax from operating revenues and taxes other than income?

OPC: No position at this time.

Issue 74: Has the Company properly estimated an appropriate amount of forfeited discounts in calculating the revenues for 2008?

OPC: No it has not. Other Operating Revenues should be increased by $48,919 to reflect an understated projection of revenues associated with late payment charges. There are at least three factors which will cause the Company's late payment fees to increase. The first is the Company's requested decrease in 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.

Issue 75: Has FPUC made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Adjustment Clause?

OPC: No position at this time.

Issue 76: Has FPUC made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Conservation Cost Recovery Clause?

OPC: No position at this time.

Issue 77: What is the appropriate projected test year miscellaneous service revenue?

OPC: Miscellaneous service revenues should be increased by $27,150 to reflect the removal of the debit balance of temporary service from working capital. This increase is appropriate so that ratepayers do not subsidize any of these services, in which revenues collected should fully offset the costs of providing that service.

Issue 78: Is FPUC's projected level of Total Operating Revenues in the amount of $17,186,965 for the December 2008 projected test year appropriate?

OPC: No. The appropriate balance of Total Operating Revenues should be $17,263,034, which reflects an increase of $76,069 from the Company's requested amount of $17,186,965.

Issue 79: What are the appropriate escalation factors and trend rates for use in forecasting the test year budget?

OPC: See position for Issue 81.

Issue 80: Are the trend rates used by FPUC to calculate projected O&M expenses appropriate?

OPC: No. FPU applied inappropriate trend rates in several areas. First, FPU trended accounts that included both payroll and non-payroll costs using a payroll basis. The non-payroll components are overstated because payroll costs exceed the growth in inflation. OPC does not have the information necessary to separate the various expense accounts between payroll and non-payroll costs in order to apply separate trend factors. Second, the Company used a combined payroll/customer growth factor on 20 accounts, including FICA payroll taxes. This method overstates expenses because payroll increases do not directly correlate with customer growth. To use a trending factor that includes payroll and customer growth, in addition to making specific adjustments for incremental positions, results in double-counting payroll costs. O&M expenses should be reduced by $36,691 to remove the customer growth component of the 14.1% factor applied and use a payroll only factor of 11.3%.

Third, a combined inflation/customer growth trend overstates expenses because customer growth has negligible impact on the 33 accounts to which the Company applied the combined factor. The Company provided insufficient evidence to justify the application of the combined factor. Numerous accounts were specifically increased through over/above adjustments to both 2007 an 2008, which results in a double-counting of cost increases associated partially with customer growth. Further, the Company has not demonstrated that productivity increases and cost savings resulting from improved technologies would not offset the increase associated with customer growth and the growing industry trend of decreasing employee/customer ratios. O&M expenses should be reduced by $65,491 to reduce the combined inflation/customer growth factor applied 7.0% to use the inflation only factor of 4.6%.

Lastly, in further support of these adjustments to the trend rates is Mr. Larkin's analysis that shows actual O&M expenses annualized as of September 2007 are considerably less than the projected 2007 amounts contained in the filing. Based on the above, projected 2008 operation and maintenance expense should be reduced by $102,182 and taxes other than income should be reduced by $5,802.

Issue 81: Is the company's request for recovery of additional expense to inspect and test substation equipment costs reasonable and supported, and if not, what adjustments are necessary?

OPC: No. FPU has not provided documentation that supports an addition increase in the level of expense for inspection and testing of transmission substations (Account 154) of 154% from the 2006 amount of $17,124 to a projected 2008 amount of $43,478. The one generic document provided did not pertain to FPU's specific needs; nor did FPU identify what it would implement as a necessary component of its own inspection and testing program. This generic increase above the current inspection needs should be denied as unsupported and the 2008 projected test year amount should be reduced by $25,155 and to $18,323 ($17,124 escalated by compound inflation rate for 2007 and 2008).

FPU has provided no documentation to support its requested increase of 112% increase related to substations in the distribution system and this increase should be disallowed. In response to discovery, FPU only stated that the testing of this type of substation equipment may not be adequate but did not provide further documentation to support this weak assertion. The 2008 projected test year amount for Account 582 – Station Expense Inspection and Testing should be reduced by $49,600, the Company's projected expense of $99,878 less the adjusted test year amount of $50,378 ($47,082 escalated by compound inflation rate for 2007 and 2008).

Issue 82: Are any adjustments necessary to Account 935, Maintenance of General Plant, related to office renovation costs?

OPC: Yes, an adjustment is necessary 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. Thus, 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.

Issue 83: Is the company's requested additional cost for the audit of inventory, cash and other processes for corporate accounting reasonable and supported, and if not, what adjustment is necessary?

OPC: No, while OPC recognizes that the additional position is needed, the requested expense in total should not be approved. First, only half of the proposed salary for the new internal audit/accounting position should be allowed to recognize that the position will not be filled until the middle of the year. Second, the estimated benefits for the position should be reduced to remove the excess 12% vacation/leave component. Thus, 50% of the $60,000 salary would be $30,000 with a 26% benefits overhear factor added equals a recommended 2008 salary level of $37,800. Using the 40% allocation factor, the electric system share is $15,120, which results in a decrease to electric account number 920 of $17,760.

Issue 84: Is the company's request for an additional new position for internal control and the Sarbanes Oxley compliance costs for customer relations reasonable and supported, and if so, what are the appropriate test year expenses?

OPC: The Company has failed to adequately justify the need for this position. First, its response to OPC's discovery questions regarding this position, FPU addressed another requested incremental position and it never provided any support to demonstrate that this position was necessary. Second, if the need for this new position was so great, the Company should have filled it, which it has not as of yet. The over/above expense increase of $17,098 should be disallowed.

Issue 85: Is the company's request for recovery of salaries for vacant information technology positions reasonable and supported, and if so, what are the appropriate test year expenses?

OPC: No. The Company has provided very little support for this adjustment and in response to OPC discovery mislabeled it as being required by internal control purposes. This adjustment is simply an adjustment to normalize 2 vacancies in the information technology department that have not been filled since 2006. Because the Company listed this expense as an increase related to internal control requirements, it failed to support the basis for this increase. Without support showing that these two positions have been hired in 2007 at a full time level, the adjustment is improper and should be disallowed. Accordingly, the full allocated share to the electric division of $38,026 for 2008 should be removed.

Issue 86: What is the appropriate amount of test year outside audit fees?

OPC: The appropriate amount of test year audit fees should be the amount incurred in 2006. The Company's over/above increase of $90,675 for the electric portion of outside audit fees should be rejected 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. Moreover, in addition to lack of support, the Company's calculation of the adjustment appears 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, which materially overstated the increase in audit fees. Second, discovery provided to OPC reflects that the Company has some options regarding becoming an accelerated filer for the Sarbanes/Oxley Act internal and external audit requirements, which would impact its outside audit fees. Finally, the Company has failed to provide documentation which shows there is no overlap of services between the internal and external audit functions in its projected 2008 audit fees.

Issue 87: Is the company's requested increase in janitorial, elevator, air conditioning and landscaping expense reasonable and supported, and if not, what adjustment is necessary?

OPC: No. the Company has not provided sufficient support to show the amounts that will be incurred or why these amounts are justified.

Issue 88: Is the company's requested increase in costs supervisory training expenses "to keep managers informed on various issues" reasonable and supported, and if not, what adjustment is necessary?

OPC: No. The Company's requested increase in the costs of supervisory training and expenses "to keep managers informed on various issues" is unreasonable and unsupported. FPU has requested \$21,100 supervisor training expense with \$5,486 allocated to the electric division. The Company stated that it had been conducting supervisory training since 2002, except for 2006. However, in response to discovery, the Company acknowledged that it had spent only \$7,350 through September, 2007, much less than the projected 2007 training expense. Thus, the Company should be allowed to recover the annualized supervisory training expense based on the actual amount spent in 2007 expenses of \$9,800 (\$7,350/9 x 12), with \$2,548 allocated to the electric division. This is a reduction of \$2,938 to FPU's request.

Issue 89: Should an adjustment be made to Other Professional Services for the December 2008 projected test year?

OPC: No position at this time.

Issue 90: Should an adjustment be made to Advertising Expense for the December 2008 projected test year?

OPC: No position at this time. See Issue 92.

Issue 91: Is the company's requested increase in customer information expense reasonable and supported, and if not what adjustments are appropriate?

OPC: No. FPU requested increase in customer information expense to continue to provide the same type of advertising and information as provide in 2006 is unreasonable and not supported. The main increases in expenses for the years 2006 and 2007 were related to the dramatic fuel increases due to the expiration of the low cost purchase power contracts. Prior to the 2006, historic advertising costs were significantly lower. Since customers are already aware of the significant fuel increase, it is not appropriate or reasonable to provide a significant increase in advertising expense from a low of $261 in 2005 to an escalated $159,543 for 2008. The advertising expense should be limited to an average of the actual expenditures over the last five years which is $44,757. This would result in a reduction to the 2008 test year other informational advertising expense of $159,543 by $114,786.

Issue 92: Is an adjustment necessary to test year expenses to Account 916, Miscellaneous Sales Expenses related to a customer survey?

OPC: Yes, an adjustment of $27,397 to test year expenses to Account 916, Miscellaneous Sales Expenses, related to a customer survey is necessary. Even thought the Company had stated that it plans on conducting surveys in the future, the survey will not be as extensive and costly as the 2006 survey. Thus, the 2006 survey costs may be non-recurring costs which should be removed from the test year.

Issue 93: Has FPUC made the appropriate adjustments to remove Lobbying expenses, Other Political Expenses and Charitable expenses from the December 2008 projected test year?

OPC: No position at this time.

Issue 94: Should an adjustment be made to FPUC's requested level of Salaries and Employee Benefits for the December 2008 projected test year related to the salary survey?

OPC: The Company's over/above increase "to bring salaries up to market based on a salary survey" should be denied. The total adjustments related to the salary survey were increases of $49,980 for 2008. Based on the salary survey submitted in response to OPC discovery, it is unclear what adjustments the Company will actually make. At a minimum, the Company admitted that a decrease of $23,205 to 2008 expenses is warranted to reflect the electric portion of the most recent set of salary survey numbers. Even if the Commission considers any adjustments that may be needed, the Company's proposed adjustments are to salary ranges, not immediate pay raises to employees and if granted would be given throughout the year. As such, a full year of salary increase for the salary survey is unwarranted. Lastly, the Company has stated in response to OPC discovery that actual amounts expended would depend upon amounts approved in the rate case, which concludes in May 2008. Based on the above, the Company's over/above salary adjustment for the salary survey should be removed, reflecting a decrease of $43,382 for the electric allocated portion.

Issue 95: Is the company's requested salary adjustment for executives reasonable and supported, and if not, what adjustment is necessary?

OPC: No it is not. The Company included increases in executive salary expense for 2008 of $51,531. When asked to provide copies of all documents to support its requested increase in executive salaries, the Company provided only a calculation of how the adjustment was made with an unsupported statement that the executive salary adjustment was based on the last 3 years to bring the executives' pay more in line with the current market. Based on this lack of support, the 2006 salary levels (including incentives), which were escalated from 2004 to 2006 by 21.5% (over a 2-year period), should be assumed to be sufficient to bring the executives up to current market. Beyond the 2006 actual levels, the executive pay raises should be limited to the 5.5% merit pay raises that the Company gave its other employees and included in the projection factor for this account. Thus, the Company's 2008 over/above adjustment for executive salaries of $51,531 should be removed. The electric allocation of this expense at 40% is a reduction of $41,225.

Issue 96: Should an adjustment be made to Account 920, Administrative and General Salaries, to reflect the appropriate allocation factor?

OPC: No position at this time.

Issue 97: Is the Company's 2008 projection for medical expense appropriate?

OPC: No position at this time.

Issue 98: Should an adjustment be made to Other Post Employment Benefits Expense for the December 2008 projection for medical expense?

OPC: Yes. Pursuant to Staff Audit Finding 16, FPUC allocated several expenses to its clearing accounts via a payroll entry rather than the regular allocation process. Medical expense should be reduced by $120,339.

Issue 99: Should an adjustment be made to Other Post Employment Benefits Expense for the December 2008 projection for 401k benefits expense?

OPC: Yes. Pursuant to Staff Audit Finding 16, FPUC allocated several expenses to its clearing accounts via a payroll entry rather than the regular allocation process. 401k benefits expense should be reduced by $975.

Issue 100: What is the appropriate amount of annual storm expense accrual?

OPC: The Company has not justified an increase in the annual storm expense accrual. Based on recent storm expenditures, the accrual should remain at $121,620.

Issue 101: Should an adjustment be made to the accrual for property damage for the December 2008 projected test year?

OPC: See OPC position on Issue 100.

Issue 102: What is the appropriate amount for projected general liability expense?

OPC: Pursuant to Staff Audit Finding 16, FPUC allocated several expenses to its clearing accounts via a payroll entry rather than the regular allocation process. Accordingly, general liability insurance expense should be reduced by $52,628.

Issue 103: Is the Company's 2008 projection for Insurance Costs appropriate?

OPC: No position at this time.

Issue 104: Should an adjustment be made to the accrual for the Injuries & Damages Reserve for the December 2008 projected test year?

OPC: No position at this time.

Issue 105: Should the Company be allowed to charge its customers for the projected economic development donations?

OPC: Only the reasonable, supported, and prudent economic development costs should be shared with customers in accordance with Rule 25-6.0426(4), Florida Administrative Code.

Issue 106: Is the amount projected for 2008 economic development donations reasonable?

OPC: No. FPU is requesting $15,701 for economic development cost. FPU has only spent $5,000 in each of the years 2003 through year-to-date 2007 (except 2004 where it spent nothing), even though it was allowed $22,641 in economic development costs per calendar year. FPU should not be allowed to recover more than what it has historically been spending. FPU should be allowed to recover $5,000 for economic development. A reduction of $10,701 should be made to the Company's proposed 2008 test year amount. Further, Account 920.23, Economic Development, includes membership dues for Opportunity Florida. FPU joined this organization for networking and opportunities with other industries, thus these costs should not be charged to customers and 2008 projected test year need to be reduced by $5,351.

Issue 107: Is the level of overhead cost allocation for the 2008 projected test year appropriate?

OPC: No position at this time.

Issue 108: Should Account 903, Customer Records and Collection Expenses, be increased to reflect an increase in postage expense?

OPC: No. The Company's projected increase of $20,100, with $6,030 allocated to the electric division, for an increase in postage expense should be removed. The requested increase was based on assumptions of future in postage increases based on historical increases, rather than other known 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 for 2008. Thus, the $6,030 allocated to the electric division should be removed.

Issue 109: Are any adjustments necessary to Account 923.1, Outside Services Expense for postage and printing expenses?

OPC: Account 923.1, Outside Services Expense, needs to be reduced by an additional $6,911. FPU included postage and printing costs for a letter pertaining to the increased electric costs due to the fuel contract which was included in 2006 expenses and escalated for inclusion in the 2008 projected expenses. Since the fuel contract will not be up for renewal for 10 years, this is not a recurring cost and it should be removed from 2008 expenses.

Issue 110: Should Account 903, Customer Records and Collection Expenses, be reduced to remove costs related to propane, merchandising and jobbing, and conservation?

OPC: No position at this time.

Issue 111: What is the appropriate total amount, amortization period and test year expense for Rate Case Expense for the December 2008 projected test year?

OPC: The appropriate total amount of rate case expense for the current case is $522,000. The Company's requested total should be reduced by $100,000 which is comprised of several requests that were not appropriately included as rate case expense. First, the Company has a fixed-rate contract with Christensen Associates for $165,000 for rate case preparation. The Company requested an additional $45,000 for extraordinary costs over and above the fix contract amount which should be removed. Those costs are the responsibility of the Company since the rate case analysis was completed and filed timely. Next, the Company's request for $30,000 for work labeled internal audit work must be removed because it is not directly related to the rate case filing. Lastly, the Company's request for $25,000 for "Salaried Overtime Pay for Extraordinary Work Load" for salaried employees needs to be removed. Salaried employees are employed with the understanding that their work would not be limited to 40-hour work week and would be based on the requirements of the job. Unamortized prior rate case expense of $84,811 should be added to the current amount for a total of $606,811. The proper amortization period is four years and results in annual amortization expense of $152,000. This reduces the Company's requested annual amortization by $30,000.

Issue 112: Are any adjustments necessary to Account 928, Regulatory Commission Expense for legal fees?

OPC: Yes, an adjustment is necessary to Account 928, Regulatory Commission Expense to reduce projected 2008 expenses by $35,808. In 2006, the Company expensed $34,250 for legal fees related to obtaining the new fuel contracts and expanding its territory. These costs were escalated for both 2007 and 2008 for a total expense in 2008 of $35,808. The new fuel contracts will not be renewed for another ten years and both of these costs are not recurring and should not be included in the 2008 projected expenses.

Issue 113: What is the appropriate period for the amortization of rate case expense?

OPC: See OPC position on Issue 112. The appropriate period for amortization for rate case expense is four years.

Issue 114: Should an adjustment be made to uncollectible expense in Account 904, Uncollectible Accounts, for the December 2008 projected test year?

OPC: Yes. Account 904, Uncollectible Accounts for the December 2008 projected test year should be reduced by $145,485. The Company has overstated the bad debt expense. The Company calculated its write-off based on projected 2008 revenues exclusive of the rate increase impact of $144,563. The Company included $216,664 for Account 904, Uncollectible Accounts, which is an error. Second, FPU has used a bad debt write-off percentage of 0.2340% for 2008 which has no validity. Applying a proper analysis of historical write-offs net of recoveries as a percentage of total revenues using the last five years yields a bad debt write off percentage of 0.11552%. When this factor is applied to the Company's projected revenues in the year 2008 less the rate increase of $61,786,961, produces a 2008 bad debt expense of $71,179.

Issue 115: Should an adjustment be made to Pension Expense for the December 2008 projected test year?

OPC: Yes. Pursuant to Staff Audit Finding 16, FPUC allocated several expenses to its clearing accounts via a payroll entry rather than the regular allocation process. Pension expense should be reduced by $88,510.

Issue 116: Is an adjustment necessary to the Company's requested increase related to the vacant position for the Northwest Florida Division operations manager?

OPC: Yes. Late-filed Deposition Exhibit 12 (Martin, Khojasteh, and Mesite Panel), reflects that the Company agrees that its original estimate based on the former manager's salary was overstated for 2008 by $5,310. Accordingly, I believe that 2008 test year salaries should be reduced by $5,310, allocated 100% to electric operations.

Issue 117: Is FPUC's requested increase in training expense for apprentice linemen reasonable and supported, and if not, what adjustments are necessary?

OPC: No it is not. In its filing, the Company's originally included an over/above expense increase of expense increase of $54,354 ($27,127 for each division). This request was estimated to provide new linemen training through the Tampa Electric Company lineman training program. Through responses to OPC discovery requests and rebuttal testimony, the Company has modified its training expense because it stated that the TECO training was no longer available. The company is now requesting an expense adjustment of $127,135. FPUC's new request includes salary and benefits for a full-time trainer, travel expenses, training supplies and materials to implement an in-house lineman training program. The revised estimate also included additional costs for the State Lineman Program materials, which is the program that the company currently uses for linemen training. None of these costs were supported by invoices or bids; only by internal company documents. Other than the current state training program, the company has not hired this employee or implemented any new training program and the requested option submitted is the highest cost option considered by the company. The Company has also not shown that its incremental adjustment for state linemen program materials takes into consideration the 2006 material levels. Based on the above, the Company's requested adjustment for incremental training costs should be denied. OPC has recommended that the new position for pole inspections/joint use attachments be used as a part-time training coordinator. Accordingly, the Company's training expenses should only be escalated for inflation from the 2006 levels and no over/above adjustment for 2008 should be allowed. Thus, 2008 expenses should be reduced by $54,354.

Issue 118: Is an adjustment necessary to the Company's requested increase for benefits for the Northeast Florida Division Safety coordinator?

OPC: Yes. Consistent with FPUC witness Martin's statement, the Company's payroll benefits overhead factor adjustment is overstated. For the NE division, the overhead factor applied was 38% of which 12% should be removed for the vacation/leave component which was included by error. Backing out the 12% erroneous factor, leaves a proper overhead adjustment of $6,842 ($10,000/ 38% x 26%). The necessary adjustment is a reduction to expenses of $3,158, which should be allocated 100% to electric. Further, this safety coordinator position should handle the training, safety and inspection coordination for the NE division with a new position added to handle the training, safety and inspection coordination for the NW division.

Issue 119: Is the Company's requested increase for a new clerical position for maintaining compliance reasonable and supported and if not, what adjustment is necessary?

OPC: No, the need for this new position has not shown or supported. In its response to OPC discovery, the Company stated that this position would be responsible for coordinating training programs, tracking training, assisting in safety and training, and other research, not compliance. The cost in the over/above schedule reflected $33,280 being added in 2008 of which 28% or $9,318 was allocated to electric and should be removed from test year expenses. As discussed in Issue 119, the Northeast division safety coordinator position should be sufficient to handle the training, safety and inspection coordination for the NE division with a new position added to handle the training, safety and inspection coordination for the NW division.

Issue 120: Is the Company's requested increase for travel expenses related to the requested new position for compliance accounting reasonable and supported and if not, what adjustment is necessary?

OPC: No. Since no new clerical position is necessary to maintain compliance, it is inappropriate to increase travel expenses for a position which will not be filled. Thus, $5,200 should be removed from Account 921.5.

Issue 121: Is an adjustment necessary to Account 901, Operation Supervision-Administrative and General, related to the test year amount of moving expenses?

OPC: Yes, an adjustment is necessary to Account 901, Operation Supervision-Administrative and General. In 2006, FPU paid $3,734 in moving expenses for a deposit on a rental house and two months rent for the new Northeast Division Manager. These costs were escalated for 2007 and 2008 for a total of $3,835. These costs are nonrecurring, and $3,835 should be removed from test year expenses.

Issue 122: Is an adjustment necessary to Account 588.2, Other Distribution Expense, related travel expenses for an employee's spouse?

OPC: Yes, an adjustment is necessary to reduce Account 588.2, Other Distribution Expense, by $773 for non-utility travel expenses for the safety contractor's wife.

Issue 123: Is an adjustment necessary to Account 595.3, Maintenance of Transformers, to remove the 2008 test year expense related to the escalated cost of a new transformer added in 2006?

OPC: Yes, an adjustment is necessary to Account 595.3, Maintenance of Transformers. FPU removed a pad and set a new transformer at the Ritz Carlton Hotel in August 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.

Issue 124: Is the company's request for recovery of tree replacement costs reasonable and supported, and if not, what adjustments are necessary?

OPC: No. The Company's request to spend $31,050 on an annual basis to dig out and replace trees on private property with low growing trees funded by ratepayers is unreasonable and unsupported. Ratepayers are responsible for planting and keeping trees away from power lines. The Company already has a program for tree trimming and line clearance that is supposed to keep trees away from the power lines. It is not the ratepayers' responsibility to fund the replacement of trees with low growth trees by FPU. Therefore, $31,050 should be removed from expenses.

Issue 125: Is FPUC's requested level of O&M Expense - Other in the amount of $10,081,391 for the December 2008 projected test year appropriate?

OPC: No. FPUC's requested O&M expenses should be decreased by $2,165,357 to reflect a total of $7,916,034. This issue is subject to the resolution of other issues.

Issue 126: What adjustments, if any, should be made to the December 2008 projected test year depreciation expense to reflect the Commission's decisions regarding the depreciation study filed in Docket No. 070382-EI?

OPC: No position at this time.

Issue 127: What is the appropriate amount of Depreciation Expense for the December 2008 projected test year?

OPC: No position at this time.

Issue 128: Should an adjustment be made to Taxes Other Than Income Taxes for the December 2008 projected test year?

OPC: Yes. FICA payroll taxes should be reduced by $5,802 as addressed in Issue 81 related to the 2007 and 2008 projection and trending factors.

Issue 129: Should an adjustment be made to Income Tax expense for the December 2008 projected test year?

OPC: Yes. The company's requested current income tax expense of ($1,360,960) should be increased by $923,492 to reflect an adjusted test year expense of ($437,468). Test year deferred income tax expense should be $581,498 and the investment tax credit-net expense should be ($27,935). This issue is subject to the resolution of other issues.

Issue 130: Is FPUC's projected Net Operating Income in the amount of $206,341 for the December 2008 projected test year appropriate?

OPC: No. The appropriate test year net operating income before a revenue increase should be $1,577,105. This issue is subject to the resolution of other issues.

REVENUE REQUIREMENT

Issue 131: What is the appropriate net operating income multiplier for FPUC?

OPC: The appropriate net operating income multiplier should be 1.6063. The Company's requested multiplier includes a 0.20% uncollectible expense factor. This factor should be reduced to reflect the historical average of 0.1152% for uncollectible accounts.

Issue 132: Is FPUC's requested annual operating ~~income~~ revenue increase of $5,249,895 for the December 2008 projected test year appropriate?

OPC: No. The appropriate annual revenue increase should be $1,898,502. This issue is subject to the resolution of other issues.

COST OF SERVICE AND RATE DESIGN

Issue 133: Are FPUC's estimated revenues from sales of electricity by rate class at present rates for the projected test year appropriate?

OPC: No position.

Issue 134: What is the appropriate cost of service methodology to be used in designing FPUC's rates?

OPC: No position.

Issue 135: If a revenue increase is granted, how should the increase be allocated to rate classes?

OPC: No position.

Issue 136: What are the appropriate customer charges?

OPC: No position.

Issue 137: What are the appropriate demand charges?

OPC: No position.

Issue 138: What are the appropriate energy charges?

OPC: No position.

Issue 139: What are the appropriate service charges?

OPC: No position.

Issue 140: What are the appropriate transformer ownership discounts?

OPC: No position.

Issue 141: What are the appropriate Street and Outdoor Lighting rates?

OPC: No position.

Issue 142: Should FPUC's Transitional Rate of non-profit sports fields be eliminated?

OPC: No position.

Issue 143: What are the appropriate standby rates?

OPC: No position.

Issue 144: What is the appropriate adjustment to account for the increase in unbilled revenues due to the recommended rate increase?

OPC: No position.

Issue 145: What is the appropriate effective date for FPUC's new rates and charges?

OPC: No position.

OTHER ISSUES

Issue 146: Should any of the $790,784 interim rate increase granted by Order No. PSC-07-0897-PCO-EI be refunded to the ratepayers?

OPC: No position at this time.

Issue 147: Should FPUC be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, earnings surveillance reports, and books and records which will be required as a result of the Commission's findings in this docket?

OPC: Yes.

Issue 148: Should this docket be closed?

OPC: No position.

E. STIPULATED ISSUES:

None.

F. PENDING MOTIONS:

None.

G. STATEMENT OF PARTY'S PENDING REQUESTS OR CLAIMS FOR
H. CONFIDENTIALITY:

Citizens have no pending requests for claims for confidentiality.

I. OBJECTIONS TO QUALLIFICATION OF WITNESSESAS AN EXPERT:

Citizens do not expect to challenge the qualification of any witness.

J. STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE:

There are no requirements of the Order Establishing Procedure with which the Office of Public Counsel cannot comply.

Dated this 1st day of February, 2008.

Respectfully submitted,

s/ Patricia A. Christensen
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DOCKET NOS. 070300-EI & 070304-EI
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing Prehearing Statement of the Office of Public Counsel's has been furnished by U.S. Mail and electronic mail to the following parties on this 1st day of February, 2008.

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