

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 070304-EI  
ORDER NO. PSC-07-0897-PCO-EI  
ISSUED: November 5, 2007

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman  
MATTHEW M. CARTER II  
KATRINA J. McMURRIAN  
NANCY ARGENZIANO  
NATHAN A. SKOP

ORDER SUSPENDING PROPOSED PERMANENT RATES  
AND APPROVING INTERIM RATES

BY THE COMMISSION:

BACKGROUND

On August 30, 2007, Florida Public Utilities Company (FPUC or company) filed a petition for a permanent rate increase. FPUC requested an increase in its retail rates and charges to generate \$5,249,895 in additional gross annual revenues. This increase would allow the company to earn an overall rate of return of 8.07 percent or a 11.50 percent return on equity (range 10.50 percent to 12.50 percent). The company based its request on a projected test year ending December 31, 2008. FPUC stated in its petition that this test year is the appropriate period to use because it represents the conditions to be faced by the company, and is representative of the actual revenues, expenses and investments to be realized under the new rates.

FPUC has also requested an interim rate increase in its retail rates and charges to generate \$790,784 in additional gross annual revenues. This increase would allow the company to earn an overall rate of return of 7.80 percent or a 10.50 percent return on equity. 10.50 percent is the minimum of the currently authorized return on equity range of 10.50 percent to 12.50 percent. The company based its interim request on a historical test year ended December 31, 2006.

We last granted FPUC a \$1,820,373 rate increase by Order No. PSC-04-0369-AS-EI.<sup>1</sup> In that order, we found that the company's jurisdictional rate base was \$36,379,034 for the projected test year ended December 31, 2004. We found that the allowed rate of return was 7.86 percent for the test year using an 11.50 percent return on equity. In addition, the Northeast

<sup>1</sup> Order No. PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030438-EI, In re: Petition for rate increase by Florida Public Utilities Company.

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FPSC-COMMISSION CLERK

(Fernandina Beach) and Northwest (Marianna) Electric Divisions were consolidated into a single Electric Division for ratemaking purposes.

This Order addresses the suspension of the requested permanent rate increase and our consideration of the requested interim rate increase. We have jurisdiction pursuant to Sections 366.06(2) and (4), and 366.071, Florida Statutes.

### DECISION

#### Suspension

The company has requested a total permanent base rate increase of \$5,249,895 based on a projected test year ending December 31, 2008. Historically, especially when a projected test year has been involved, we have suspended the requested permanent rate schedules in order to adequately and thoroughly examine the basis for the new rates. The suspension of the rate increase is authorized by Section 366.06(3), Florida Statutes, which provides:

Pending a final order by the commission in any rate proceeding under this section, the commission may withhold consent to the operation of all or any portion of the new rate schedules, delivering to the utility requesting such increase, within 60 days, a reason or written statement of good cause for withholding its consent.

Because FPUC's requested permanent rate relief is based on a projected test year, we find it necessary and appropriate to suspend the requested permanent rate schedules to allow sufficient time to adequately investigate and review the request. This is good cause for withholding our consent to the increase.

#### Interim Rates

##### Rate Base

FPUC's proposed interim test year rate base of \$38,057,000 is the thirteen month average amount for the period ended December 31, 2006. We have reviewed the rate base adjustments made in the current interim filing for consistency with the findings made in the company's last rate case order. Based on that preliminary review, we find that FPUC has made the applicable and appropriate adjustments that are consistent with the previous rate case. Therefore, we also find that \$38,057,241 is the appropriate amount of rate base for the 2006 interim test year. The calculation is shown on Attachment A to this Order, which is incorporated by reference herein.

We note that 2006 is also the historical base year that was utilized to develop the 2008 projected test year for the requested permanent base rate increase. The 2006 historical test year data is currently being audited as part of the normal ratemaking review process in this docket.

### Return on Equity

We find that FPUC's proposed return on equity of 10.50 percent and overall cost of capital of 7.80 percent are appropriate to determine interim rates. Pursuant to Section 366.071(2)(a), Florida Statutes, the appropriate return on equity (ROE) for purposes of determining an interim rate increase is the minimum of the company's currently authorized ROE range. FPUC's authorized ROE and range is 11.50 percent plus or minus 100 basis points. We set the return and range by Order No. PSC-04-0369-AS-EI. For its interim request, FPUC used an ROE of 10.50 percent. We agree that the resulting overall cost of capital is appropriate for calculating interim rates. Attachment B to this Order, which is incorporated by reference herein, details the calculation of the company's overall cost of capital.

### Net Operating Income

The proposed interim test year net operating income of \$2,476,531 is the twelve month amount for the year ended December 31, 2006. We have reviewed the net operating income adjustments made in the current interim filing for consistency with the findings made in the company's last rate case. Our preliminary review shows that FPUC has not made all of the applicable and appropriate adjustments that are consistent with the previous rate case. We, therefore, find that the following adjustments shall be made.

Adjustment 1: Franchise Fees – Franchise fees are billed as a separate line item on the customers' bills. Franchise fees are not considered a general expense applicable to all of the company's customers. The appropriate franchise fee rate is applied to only the bills of those customers who reside within the franchising entity's boundaries. Therefore, neither the revenues nor the expenses related to franchise fees should be included in the income statement for ratemaking purposes. Both operating revenues and taxes other than income shall be reduced by \$2,012,636. Since these amounts offset each other, there is no effect on the amount of net operating income.

Adjustment 2: Gross Receipts Tax – Although the gross receipts tax is applicable to all of the company's customers, it is billed as a separate line item on the customers' bills. Therefore, neither the revenues nor the expenses related to the gross receipts tax should be included in the income statement for ratemaking purposes. Both operating revenues and taxes other than income shall be reduced by \$1,185,123. Since these amounts offset each other, there is no effect on the amount of net operating income.

Having considered these two adjustments, we find that \$2,476,531 is the appropriate amount of net operating income for the 2006 interim test year. The calculation is shown on Attachment A.

We note again that 2006 is also the historical base year that was used to develop the 2008 projected test year for the requested permanent base rate increase. The 2006 historical test year data is currently being audited as part of the normal ratemaking review process in this docket.

NOI Multiplier

On MFR Schedule G-18, the company calculated a net operating income multiplier of 1.6075, using a 34 percent federal income tax rate and a 5.5 percent state income tax rate. Also, the company applied a .072 percent factor for regulatory assessment fees and a .188 percent bad debt rate. We have reviewed the company's calculation of the net operating income multiplier and we find that it is appropriate. We find that 1.6075 is the appropriate net operating income multiplier. The calculation is shown below.

<u>Line</u>	<u>Description</u>	
1	Revenue Requirement	100.000%
2	Gross Receipts Tax	0.000%
3	Regulatory Assessment Fee	(0.072)%
4	Bad Debt Rate	(0.188)%
5	Net Before Income Taxes	99.740%
6	Combined State/Federal Income Tax @ 37.63%	(37.532)%
7	Revenue Expansion Factor	<u>62.208%</u>
8	Net Operating Income Multiplier (100%/Line 7)	<u>1.6075</u>

Interim Rate Increase and Percentage Increase Factor

As explained above, FPUC requested interim rate relief of \$790,784 for the historical test year ended December 31, 2006. This would allow the company to earn an overall rate of return of 7.80 percent and the minimum of the range on return on equity of 10.50 percent. After a determination of the permanent rate increase has been made, the interim rate increase will be reviewed to determine if any portion should be refunded to the ratepayers.

The calculation of the \$790,784 of interim rate relief and the percentage increase factor is shown below.

Jurisdictional Adjusted Rate Base	\$38,057,241
Overall Rate of Return Requested	x <u>7.80%</u>
Jurisdictional Net Operating Income Requested	\$2,968,465
Jurisdictional Adjusted Net Operating Income	<u>(2,476,531)</u>

Income Deficiency/(Excess)	\$491,934
Net Operating Income Multiplier	x <u>1.6075</u>
Interim Revenue Increase/(Decrease)	\$790,784
Base Rate Revenues	-:- <u>13,505,654</u>
Percentage Increase Factor	<u>5.86%</u>

Rule 25-6.0435, Florida Administrative Code, requires that any percentage increase factor be applied uniformly to all existing base rates and charges to derive interim base rates and charges. Attachment C to this Order, which is incorporated by reference herein, shows the approved interim revenue increase to the various rate classes. In its MFRs, Schedule G-22, FPUC shows present rates and proposed interim rates for all rate classes. Attachment D to this Order contains monthly residential bills that show the impact of the approved interim rates. Attachment E to this Order contains present and approved interim rates for the major rate classes. Both attachments are incorporated by reference herein. FPUC shall file tariff sheets for administrative approval that reflect the interim base rates and charges that we have approved.

The interim rates shall be effective for all meter readings made on or after thirty days from the date of our vote approving any interim increase. FPUC shall provide appropriate notice to customers commencing with the first bill for service that reflects the approved interim increase that explains the nature, purpose, and effect of the increase. A copy of the notice shall be submitted to our staff for approval prior to its issuance.

#### Interim Rates Subject to Refund

FPUC has requested that all funds collected subject to refund be secured by a corporate undertaking. The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. We reviewed FPUC's financial statements to determine if the company can support a corporate undertaking for the amount of its interim rate increase of \$790,784. We used FPUC's 2004, 2005 and 2006 financial statements to determine the Company's financial condition. Our analysis shows that FPUC has experienced a decline in liquidity that has remained at insufficient levels during the three-year review period. However, FPUC's average equity ratio over the three-year period has been stable at 47 percent, which is sufficient in this instance based on FPUC's overall financial condition. In addition, FPUC has experienced a strong and improving interest coverage ratio. Finally, net income has been on average five times greater than the requested corporate undertaking amount. FPUC's financial performance has demonstrated adequate levels of profitability, interest coverage, and equity capitalization to offset the decline in liquidity.

We believe that FPUC has adequate resources to support a corporate undertaking in the amount requested. We, therefore, find that a corporate undertaking of \$790,784 is acceptable.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Public Utilities Company's requested permanent rate increase is suspended pending further review. It is further

ORDERED that Florida Public Utilities Company's request to charge interim rates is granted, as described in the body of this Order. It is further

ORDERED that the revenues shall be collected subject to refund with interest. It is further

ORDERED that all funds collected subject to refund shall be secured by a corporate undertaking of \$790,784. It is further

ORDERED that Florida Public Utilities Company shall provide notice of the interim rate increase to customers as prescribed in the body of this Order. It is further

ORDERED that this docket shall remain open pending final resolution of Florida Public Utilities Company's requested permanent rate increase.

By ORDER of the Florida Public Service Commission this 5th day of November, 2007.



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ANN COLE  
Commission Clerk

( S E A L )

MCB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

FLORIDA PUBLIC UTILITIES COMPANY, INC.						
ELECTRIC DIVISION						
DOCKET NO. 070304-EI						
INTERIM TEST YEAR						
DECEMBER 31, 2006						
	As Filed		Adjustment 2			Total
	by	Adjustment 1	Gross Receipts	Interest	Total	Adjusted
	Company	Franchise Fees	Tax	Synch	Adjustments	Rate Base
<b><u>RATE BASE</u></b>						
Plant in Service	\$72,309,200				\$0	\$72,309,200
Accumulated Depreciation	(32,166,112)				0	(32,166,112)
Net Plant in Service	40,143,088	0	0	0	0	40,143,088
Property Held for Future Use	0				0	0
Construction Work in Progress	1,454,260				0	1,454,260
Net Utility Plant	41,597,348	0	0	0	0	41,597,348
Working Capital	(3,540,107)				0	(3,540,107)
Total Rate Base	\$38,057,241	\$0	\$0	\$0	\$0	\$38,057,241
<b><u>INCOME STATEMENT</u></b>						
Operating Revenues	\$17,408,307	(2,012,636)	(1,185,123)		(3,197,759)	\$14,210,548
Operating Expenses:						
Operation & Maintenance - Fuel	0				0	0
Operation & Maintenance - Other	7,707,300				0	7,707,300
Depreciation & Amortization	2,711,100				0	2,711,100
Taxes Other Than Income	3,960,093	(2,012,636)	(1,185,123)		(3,197,759)	762,334
Income Taxes - Current	781,393			0	0	781,393
Deferred Income Taxes (Net)	(195,788)				0	(195,788)
Investment Tax Credit (Net)	(32,322)				0	(32,322)
(Gain)/Loss on Disposition	0				0	0
Total Operating Expenses	14,931,776	(2,012,636)	(1,185,123)	0	(3,197,759)	11,734,017
Net Operating Income	\$2,476,531	\$0	\$0	\$0	\$0	\$2,476,531
<b>OVERALL RATE OF</b>	6.51%				0.00%	6.51%
<b>RETURN ON EQUITY</b>	7.00%				0.00%	7.00%



Florida Public Utilities										Attachment B
FPSC Adjusted Capital Structure										
Interim Test Year 12/31/06										
Docket No. 070304-EI										
13-Month Average										
<b>CAPITAL STRUCTURE</b>										
<b>COMPANY ADJUSTMENTS</b>					<b>COMMISSION ADJUSTMENTS</b>					
	<b>PER</b>		<b>PRO</b>	<b>ADJUSTED</b>		<b>PRO</b>	<b>COMM.</b>		<b>COST</b>	<b>WEIGHTED</b>
	<b>BOOKS</b>	<b>SPECIFIC</b>	<b>RATA</b>	<b>BOOKS</b>	<b>SPECIFIC</b>	<b>RATA</b>	<b>ADJUSTED</b>	<b>RATIO</b>	<b>RATE</b>	<b>COST</b>
Common Equity	\$14,078,859	\$0	\$0	\$14,078,859	\$0	\$0	\$14,078,859	36.99%	10.50%	3.88%
Long-term Debt	\$15,801,612	0	0	\$15,801,612	0	0	\$15,801,612	41.52%	8.03%	3.33%
Short-term Debt	\$1,036,586	0	0	\$1,036,586	0	0	\$1,036,586	2.72%	7.29%	0.20%
Preferred Stock	\$187,953	0	0	\$187,953	0	0	\$187,953	0.49%	4.75%	0.02%
Customer Deposits	\$2,136,661	0	0	\$2,136,661	0	0	\$2,136,661	5.61%	6.07%	0.34%
Deferred Income Taxes	\$4,674,449			\$4,674,449			\$4,674,449	12.28%	0.00%	0.00%
Tax Credits - Zero Cost	\$0	0	0	\$0	0	0	\$0	0.00%	0.00%	0.00%
Tax Credits - Weighted Cost	\$141,120	0	0	\$141,120	0	0	\$141,120	0.37%	9.10%	0.03%
	\$38,057,240	\$0	\$0	\$38,057,240	\$0	\$0	\$38,057,240	100.00%		7.80%

Attachment C					
FLORIDA PUBLIC UTILITIES COMPANY					
ALLOCATION OF INTERIM RATE INCREASE					
DOCKET NO. 070304-EI					
	(1)	(2)	(3)	(4)	(5)
		TOTAL BASE			TOTAL BASE
		REVENUE	\$		REVENUE
RATE		AT PRESENT	INTERIM	%	AT INTERIM
CODE	RATE SCHEDULE	RATES	INCREASE	INCREASE	RATES
RS	RESIDENTIAL	\$7,593,546	\$444,618	5.86%	\$8,038,164
GS	GENERAL SERVICE	\$1,448,830	\$84,832	5.86%	\$1,533,662
GSD	GENERAL SERVICE DEMAND	\$2,208,265	\$129,298	5.86%	\$2,337,564
GSLD	GENERAL SERVICE LARGE DEMAND	\$643,312	\$37,667	5.86%	\$680,979
GSLD-1	GENERAL SERVICE LARGE DEMAND	\$545,955	\$31,967	5.86%	\$577,922
OL	OUTDOOR LIGHTING	\$853,003	\$49,945	5.86%	\$902,948
SL	STREET LIGHTING	\$212,743	\$12,457	5.86%	\$225,200
	TOTAL	\$13,505,654	\$790,784	5.86%	\$14,296,438

FLORIDA PUBLIC UTILITIES COMPANY  
BILL COMPARISONS - PRESENT VS. APPROVED INTERIM RATES  
DOCKET NO. 070304-EI

RESIDENTIAL SERVICE

**PRESENT RATES**

**INTERIM RATES**

**Customer Charge**  
**\$10.00**

**Customer Charge**  
**\$10.59**

**Energy Charge (c/kWh)**  
**1.373**

**Energy Charge (c/kWh)**  
**1.453**

**Fuel - Marianna (c/kWh)**  
**5.348**

**Fuel - Marianna (c/kWh)**  
**5.348**

**Fuel - Fernandina Beach (c/kWh)**  
**6.355**

**Fuel - Fernandina Beach (c/kWh)**  
**6.355**

**Conservation Factor (c/kWh)**  
**0.06**

**Conservation Factor (c/kWh)**  
**0.06**

**MARIANNA**

**FERNANDINA BEACH**

**Recommended**

**Recommended**

**Present**

**Interim**

**Present**

**Interim**

**Kwh**  
**Usage**

**Monthly**  
**Bill**

**Monthly**  
**Bill**

**Percent**  
**Increase**

**Dollar**  
**Increase**

**Monthly**  
**Bill**

**Monthly**  
**Bill**

**Percent**  
**Increase**

**Dollar**  
**Increase**

800	\$65.90	\$67.16	1.91%	\$1.26	\$74.16	\$75.42	1.70%	\$1.26
900	\$72.85	\$74.19	1.84%	\$1.34	\$82.15	\$83.49	1.63%	\$1.34
<b>1,000</b>	<b>\$79.81</b>	<b>\$81.23</b>	<b>1.79%</b>	<b>\$1.43</b>	<b>\$90.13</b>	<b>\$91.56</b>	<b>1.58%</b>	<b>\$1.43</b>
1,100	\$86.76	\$88.27	1.74%	\$1.51	\$98.12	\$99.63	1.54%	\$1.51
1,200	\$93.71	\$95.30	1.70%	\$1.59	\$106.11	\$107.70	1.50%	\$1.59
1,300	\$100.67	\$102.34	1.66%	\$1.67	\$114.10	\$115.77	1.47%	\$1.67

Bills include Gross Receipts Taxes

**FLORIDA PUBLIC UTILITIES COMPANY  
PRESENT AND APPROVED INTERIM RATES  
DOCKET NO. 070304-EI**

<b>RATE CODE</b>	<b>RATE SCHEDULE</b>	<b>PRESENT RATES</b>	<b>INTERIM INCREASE</b>	<b>APPROVED INTERIM RATES</b>
<b>RS</b>	<b><u>RESIDENTIAL SERVICE</u></b>			
	CUSTOMER CHARGE	<b>\$10.00</b>	<b>\$0.59</b>	<b>\$10.59</b>
	ENERGY CHARGE (cents/kWh)	<b>1.373</b>	<b>\$0.08</b>	<b>1.453</b>
<b>GS</b>	<b><u>GENERAL SERVICE</u></b>			
	CUSTOMER CHARGE	<b>\$14.00</b>	<b>\$0.82</b>	<b>\$14.82</b>
	ENERGY CHARGE (cents/kWh)	<b>1.473</b>	<b>\$0.09</b>	<b>1.559</b>
<b>GSD</b>	<b><u>GENERAL SERVICE DEMAND</u></b>			
	CUSTOMER CHARGE	<b>\$44.00</b>	<b>\$2.58</b>	<b>\$46.58</b>
	ENERGY CHARGE (cents/kWh)	<b>0.232</b>	<b>\$0.01</b>	<b>0.246</b>
	DEMAND CHARGE (\$/kW)	<b>\$2.48</b>	<b>\$0.15</b>	<b>\$2.63</b>
<b>GSLD</b>	<b><u>GENERAL SERVICE LARGE DEMAND</u></b>			
	CUSTOMER CHARGE	<b>\$75.00</b>	<b>\$4.39</b>	<b>\$79.39</b>
	ENERGY CHARGE (cents/kWh)	<b>0.086</b>	<b>\$0.01</b>	<b>0.091</b>
	DEMAND CHARGE (\$/kW)	<b>2.89</b>	<b>\$0.17</b>	<b>3.06</b>