BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Florida Public Utilities Company.	)))	Docket No. 070304-EI
Review of 2007 Electric Infrastructure Storm Hardening Plan filed pursuant to Rule 25-6.0342, F.A.C., submitted by Florida Public Utilities Company.	)))))	Docket No. 070300-EI Filed: December 27, 2007

DIRECT TESTIMONY

OF

PATRICIA W. MERCHANT, CPA

On Behalf of the Citizens of the State of Florida

Respectfully submitted,
J.R. Kelly
Public Counsel

Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street
Room 812
Tallahassee, FL 32399-1400

(850) 488-9330

Attorney for the citizens
Of the State of Florida

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<u>Introduction</u>

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Patricia W. Merchant. My business address is Room 812, 111 West Madison Street, Tallahassee Florida, 32399-1400.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

A. I am a Certified Public Accountant licensed in the State of Florida and employed as a Senior Legislative Analyst with the Office of Public Counsel (OPC). I began my employment with OPC in March, 2005.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. In 1981, I received a Bachelor of Science degree with a major in accounting from Florida State University. In that same year, I was employed by the

Florida Public Service Commission (PSC) as an auditor in the Division of Auditing and Financial Analysis. In 1983, I joined the PSC's Division of Water and Sewer as an analyst in the Bureau of Accounting. From May, 1989 to February, 2005 I was a regulatory supervisor in the Division of Water and Wastewater which evolved into the Division of Economic Regulation.

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

A. Yes, I have testified numerous times before the PSC. I have also testified before the Division of Administrative Hearings as an expert witness.

Q. **ARE YOU SPONSORING ANY EXHIBITS IN THIS CASE?**

A. Yes. I am sponsoring Exhibit PWM-1, a summary of my regulatory experience and qualifications, which is attached to my testimony. I also have attached Exhibits PWM-2 and PWM-3, which support calculations for some of my recommended adjustments.

Q. **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. The purpose of my testimony is to address accounting issues and adjustments in this docket that the Office of Public Counsel believes are necessary in order to establish base rates for Florida Public Utilities Company, Inc. (FPU) on a going forward basis. I am also providing testimony on several of the storm hardening initiatives that FPU has proposed that have rate case impacts.

Q. **ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF**

THE FLORIDA OFFICE OF PUBLIC COUNSEL IN THIS CASE?

A. Yes. Hugh Larkin, Jr. of Larkin & Associates, and J. Randall Woolridge are also presenting testimony.

<u>Recommended Adjustments</u>

Q. WOULD YOU PLEASE DISCUSS EACH OF THE ADJUSTMENTS TO FPU'S FILING YOU ARE SPONSORING?

A. Yes, I will address each adjustment I am sponsoring below.

<u>Capital Additions for Storm Hardening Plan</u>

Q. WHAT ISSUES ARE YOU ADDRESSING FOR CAPITAL IMPROVEMENTS RELATED TO FPU'S STORM HARDENING PLAN?

A. I am addressing the Company's request to replace its existing 190 wood poles on its 69 KV transmission system in it Northeast division with concrete poles. Related to this issue, is the Company's request to receive advanced recovery of the total cost of replacing the 190 poles through a pro forma amortization expense for the 2008 test year. The last issue in this section that I will address is the Company proposed 2007 and 2008 capital improvements related to extreme wind loading for distribution facilities.

<u>Replacement of Wood Transmission Poles with Concrete</u>

Q. PLEASE EXPLAIN THE COMPANY'S STORM HARDENING REQUEST FOR REPLACEMENT OF THE EXISTING WOOD POLES

IN ITS 69 KV TRANSMISSION SYSTEM WITH CONCRETE.

A. In Section 2.4 of the Company's Storm Hardening Plan dated June 2007, the initial plan included a fifteen-year replacement for these structures. However, in Docket No. 070304-EI, the Company proposed to extend this to a twenty-year schedule. In Order No. PSC-06-0781-PAA-EI, issued September 19, 2006, in Docket No. 060198-EI, the Commission addressed the storm preparedness plans for each of the electric investor-owned utilities (IOUs). Under Initiative 4, on page 10, the Commission required each electric IOU to provide a plan, a timeline for implementation, costs, and rate impacts to implement a plan to upgrade and replace existing transmission structures. Specific flexibility for each utility was provided. Further, "the plan shall include the scope of activity, any limiting factors, and the criteria used for selecting transmission upgrades and replacements."

Addressing the specifics for FPU, the Commission acknowledged that FPU plans to replace its wooden transmission plies with concrete poles as necessary and economically practicable. The Order also stated that FPU's timeline for completing the pole change-outs was not yet established because the poles are currently sound, and transmission line upgrades that may require stronger poles at that time had not been scheduled.

Q. DID ORDER NO. PSC-06-0781-PAA-EI REQUIRE FPU TO REPLACE ITS POLES OVER A 20-YEAR PERIOD?

A. No it did not. The Order only required FPU to develop a plan that was necessary and economically practicable. The Order also required the utilities to provide the criteria used for selecting transmission upgrades and replacements. In response to OPC's Interrogatory No. 1 in Docket No. 070300-EI, FPU stated that there is no technical basis or requirement on which the Company is relying to hasten the replacement of the wood poles. In response to Interrogatory No. 8, (Docket No. 070300-EI) FPU stated that the 69 KV wood poles would be in compliance with the storm hardening standards if the poles were replaced as needed for construction requirements or integrity concerns and not hastened in the replacement with concrete. Regarding bracing or guying, the Company stated that these options were available but that purchasing easements might present an obstacle. However, the Company did not investigate the cost of bracing or guying options. (Response to OPC Interrogatory No. 8, Docket No. 070300-EI). Finally, the Company was asked if the poles were replaced when needed as opposed to the stepped-up policy requested in FPU's storm plan, how many poles would be replaced each year. The Company replied that only 10 wood poles in the next ten years would need to be replaced. Only seven of the 69 KV poles have been replaced with concrete poles since 1998. (Response to OPC Interrogatory No. 9, Docket No. 070300-EI)

Q. **BASED ON THE COMPANY'S RESPONSE TO DISCOVERY IN DOCKET NO. 070300-EI, WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S TRANSMISSION WOOD POLE REPLACMENT PROGRAM?**

A. I believe that the Company's storm hardening proposal regarding an accelerated pole replacement program is unreasonable and uneconomical.

Accelerated pole replacement is not necessary to comply with the Commission's rule or orders. Furthermore, 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. While I believe that it is certainly prudent to repair or replace a pole that has integrity concerns, I believe that the Company has not made a showing that repairing or guying a line, rather than full replacement, is cost-effective. Further, the Company's past practice has been that it has needed to replace 1 pole a year. Thus, I believe that 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.

Q. WHAT IS THE DOLLAR AMOUNT THAT YOU RECOMMEND FOR POLE REPLACEMENT TO BE ALLOWED FOR RATEMAKING PURPOSES?

A. I believe that one pole can be assumed to be replaced in 2008. However, I do not believe that the Company has sufficiently documented what the total cost of replacing a wood pole with concrete would be in 2008. In Exhibit 27.1 submitted in response to OPC POD No. 27, the Company included an estimated cost of $21,500 to purchase and install a spun concrete pole. This exhibit reflects 3 components for the materials and 2 components for labor.

OPC has requested but not received any invoices, bids or contracts to support these estimated amounts. Since none have been provided, I am left to assume that no such documents exist. The verbal answer that I have received from the Company has been that the estimates are prepared by employees in the Northeast and Northwest division offices, these employees know about such replacement costs, and the Company relied upon these employees' estimates. On Exhibit 27.1 there is a footnote that the installation labor was based on a conversation with Robert Jones, Southeast Power.

Q. WHAT IS THE DOLLAR AMOUNT THAT YOU BELIEVE SHOULD BE USED FOR THE REPLACEMENT OF ONE POLE FOR 2008?

A. I believe that a conservative adjustment would be to allow the Company to add the cost of its unsupported estimate at 75%, or $16,125. I acknowledge that there is a cost for replacing a pole; however, the Company failed to obtain reasonable bids or provide other sufficient supporting documentation for such costs. As such, I believe that a 25% reduction in the estimated cost is appropriate. I recommend that this pole replacement should be added in June, 2008, which would reflect an $8,683 addition to plant on a thirteen-month average basis. I am recommending that a 40-year life is appropriate for a concrete pole (per Mr. Cutshaw in his deposition page 75). Even though the Company, in Late-filed Deposition Exhibit 4 (Cutshaw/Myers panel deposition), responded that it used a remaining life depreciation rate of 26.3 years or 3.8% for account 1010.355 for transmission poles, I am using the full depreciable life for this new pole based on the expected useful life as stated by Mr. Cutshaw in his deposition. Based on the above, the increase to depreciation expense would be $235 (7 months) and the 13-month average increase to accumulated depreciation would be $126.

Advanced Recovery of 20 years of Pole Replacements

Q. PLEASE EXPLAIN THE COMPANY'S REQUEST FOR ADVANCED RECOVERY OF THE TRANSMISSION POLE REPLACEMENT PLAN.

A. In its MFRs, the Company requested that it receive advanced recovery of the total cost of $7,092,000 of replacing the 190 wood poles with concrete for the 69 KV transmission system. To get the annual expense amortization of $354,600, the Company divided the total cost by 20 years. In his direct testimony, Mr. Mesite stated that the Company included this special recovery amortization because "it directly benefits the customers through increased reliability, and delays the need for future rate increases that would typically result from these capital expenditures." (Mesite direct testimony, page 11)

Q. CAN YOU EXPLAIN HOW THE COMPANY DERRIVED ITS TOTAL COST OF REPLACING THE WOOD POLES?

A. Yes, to some degree. The Company prepared an estimate of what it believed was the cost to replace one wood pole with concrete, as I have discussed above as detailed in Exhibit 27.1 attached to the Company's response to OPC Production of document No. 27. The materials and labor for one pole totaled $21,500 and the Company proposed that it would replace 9 to 10 poles each year over the 20-year replacement period. It multiplied the 9.5 poles per year times the 2007 cost per pole estimate times an annual escalation factor of 5%. Thus, for 2008, the pole replacement cost was projected to be $214,463 (9.5 poles x $21,500 x 1.05 escalation factor). For each succeeding year, the calculation was similar except that the escalation factor was applied exponentially. The Company then added up each of the years and rounded out the total escalated cost to be $7,092,000.

Q. DO YOU AGREE WITH THIS RECOVERY MECHANISM?

A. Certainly not. Essentially what the Company is suggesting is that the rate payers pre-pay for the full cost of the new poles before the Company even purchases or has the poles installed. A transmission pole is a capital asset that is recorded in plant in service and depreciated over the life of the asset for which it provides service. The utility is required to invest in utility plant, however, in turn, it is allowed to earn a reasonable rate of return on its investment and recover its prudent operating expenses such as depreciation expense, maintenance, and taxes. The Company states that this methodology benefits ratepayers, but I disagree completely with that theory. This is similar to going to a car dealer and stating that you want to buy a car in 5 years but you want to pay them in advance a pro rata share on an annual basis of what you predict the car might cost five years from today. No reasonably minded person would do this but this is exactly what FPU wants its customers to do in this case. The Company's request, as outlandish as it is, flies in the face of traditional ratemaking in that the Company wants full recovery of the total cost even before it has spent any money. Full cost recovery received in advance is not fair, just or reasonable and should be denied outright.

Q. DO YOU HAVE VERIFICATION CONCERNS WITH THE COMPANY'S PROPOSAL?

A. Yes, I do. Other problems that exist with this request are that, upon conclusion of the rate case, the Commission would lose the means to be assured that the plant items that the customers are fully funding for a twenty-year period have actually been spent. Additionally, under the storm hardening requirements, the companies are allowed to revise the plans as needs arise, and technology or operational changes could substantially impact the cost or need to continue with its pole replacement policy. As evidenced in this case, it is difficult to project costs out 1 to 2 years, let alone projecting costs for a 20-year period.

Q. WHAT OTHER CONCERNS DO YOU HAVE WITH THE COMPANY'S REQUESTED RECOVERY MECHANISM FOR ITS TRANSMISSION POLE REPLACEMENT POLICY?

A. FPU's request creates intergenerational inequities that I believe are unfair to the current generation of ratepayers. This recovery scheme would require the current generation of customers to pay the full cost of this long-term asset in advance that will provide benefits to customers for forty years. This is an extreme example of intergenerational inequity that the Commission should deny outright.

Q. WHAT ADJUSTMENT TO THE COMPANY'S FILING IS APPROPRIATE FOR YOUR POSITION ON THE ADVANCED AMORTIZATION FOR THE POLE REPLACEMENT POLICY?

A. I believe that the Company's requested annual amortization of $354,000 should be removed from test year expenses. The Company states that this amount was removed from rate base through the reserve accounts for depreciation on Schedule B-9 of the MFRs; however, I was unable to verify that the Company actually made this adjustment. Until such time as the Company can reflect the calculation showing that it did credit the reserve, I am not recommending any further adjustment to rate base.

Extreme Wind Loading Improvements to Critical Infrastructure

Q. WHAT HAS THE COMPANY INCLUDED IN ITS RATE CASE FILING RELATED TO COSTS ASSOCIATED WITH EXTREME WIND LOADING?

A. The Company did not include any capital improvements in its minimum filing requirements (MFRs) related to these proposed projects. In its Storm Hardening Plan, the Company included proposed projects for 2007 through 2009 related to extreme wind loading distribution facilities. The plan stated that in 2007, the Company would rebuild the 0.5 mile main feeder providing service to the Northwest Prison/H.S. Shelter at a cost of $62,500. For 2008, the plan proposed that the Company would rebuild the feeders to the Northwest Sewer Treatment (1.1 miles) at a cost of $141,600 and the Northeast Hospital (1.2 miles) at $154,500. In its response to OPC's Interrogatory No. 95 (Exhibit 95.1), the Company stated that it had included $296,000 of capital improvements for extreme wind loading in its Storm Hardening Plan but included zero in the rate case MFRs. The "Updated" column of this exhibit reflected that the Company had revised its capital improvements for this category down to $142,000. This exhibit also had a footnote included for this line item that stated the Company had inadvertently omitted the costs from the rate case and had revised its budget amount for 2008. This amount corresponds to the feeder for the Northwest Sewer Treatment Plant.

Q. DID THE COMPANY STATE WHEN THE REVISED BUDGET AMOUNT FOR 2008 WOULD BE PLACED IN SERVICE?

A. Yes, in the joint panel deposition (page 74-75), Mr. Myers stated that the Company would not begin construction on the feeder to the sewer treatment plant until the third quarter of 2008, with completion in the last quarter.

Q. SINCE THE COMPANY HAS NOT INCLUDED ANY OF THESE AMOUNTS IN THE MFRS FOR THIS CASE, WHY ARE YOU ADDRESSING THIS ISSUE?

A. In responses to discovery, the Company has revised its estimates on many of its projected costs and it appears that this would be another area where the Company would like to add costs to the rate case that were not originally included. Based on the number of times that these plant improvements have changed, it appears to me the Company still is unsure whether these projects will be completed in 2008. Regardless, the Company has not submitted any documentation to support these rough estimates. Based on the above, I believe that it is improper to include these estimates for rate recovery at this time; therefore, no adjustment is necessary to the Company's rate base or operating income.

13-Month Average of 2008 Transformer Addition

Q. PLEASE DESCRIBE YOUR ADJUSTMENT RELATED TO THE TRANSFORMER PLANT ADDITION.

A. In its filing, the Company requested that it be allowed to recover the full cost of a transformer addition that would be added in 2008 as if the transformer had been placed in service in December, 2007. This has the effect of considering the plant on a year-end basis as opposed to a required 13-month average basis consistent with its test year. Witness Mesite on page 11 (lines 4-11) of the accounting panel direct testimony stated that circumstances outside of the Company's control contributed to this item not being placed in service until after December 2007. He stated that it is appropriate to include the transformer in rate base for a full year because this item is significant to operations and delays if any will be beyond the Company's control. Further, he stated, if full recovery is not allowed, the Company's need for a future rate case would be accelerated, thus increasing the overall cost to customers for an additional rate case.

Q. DO YOU AGREE WITH WITNESS MESITE'S ARGUMENT THAT THIS PLANT ITEM SHOULD RECEIVE FULL RECOVERY EVEN THOUGH IT WILL NOT BE IN SERVICE FOR THE WHOLE TEST YEAR?

A. No, I do not. While I agree that the transformer is necessary, I do not believe that the Company has justified why this one particular item should be given full recovery. The statement that a future case might be necessitated if full recovery is not allowed is a veiled threat. 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 problem with allowing this one item to be brought into rate base without other matching items that might reduce the revenue requirement calculation violates the test year concept.

The Company is projecting that the plant will be placed in service in February 2008, with an estimated cost of $790,000. The full year of depreciation expense and accumulated depreciation requested are $23,700 and $11,850, respectively. The 13-month average plant and accumulated depreciation are $668,462 and $8,356, respectively, and the depreciation expense would be $19,750. (See Exhibit 97.1 submitted in response to OPC Interrogatory No. 97). My recommended adjustments to plant and accumulated depreciation are decreases of $121,538 and $3,494, respectively, and a corresponding decrease to depreciation expense of $3,950. The calculations of my adjustments are shown on Schedule No. A-1, in my attached Exhibit PWM-2.

In Exhibit 97.1, the Company also stated that it would no longer incur the cost of a temporary rental of a transformer at a monthly cost of $2,140 for the AIP substation. In their panel deposition, witnesses Myers and Cutshaw (page 80-81) stated that the rental cost began in 2005 and will continue through 2008 until the transformer is placed in service. Further, Mr. Cutshaw stated that the Company did not make any adjustment to remove the annual rental expense that would go away when the new transformer is placed in service. Accordingly, I recommend that it is appropriate to remove $25,680 plus the Company's projected escalation factor of 1.1130 for 2007 and 2008 for a total expense decrease of $28,582 for the test year. In the event the Commission disagrees with my recommendation that the 13-month basis should be used, an expense reduction of $24,302 is appropriate to recognize that only two months of the rental expense at a cost of $2,140 per month (or $4,280 total for the year) should be allowed in the 2008 test year. The calculations are also reflected on Exhibit PWM-2, entitled Transformer Plant Adjustment.

Missing Invoices (Staff Audit Finding 1)

Q. WHAT ADJUSTMENTS ARE YOU RECOMMENDING BASED ON THE STAFF AUDIT FINDING NO. 1?

A. As discussed in the staff audit report dated December 13, 2007, the utility was unable to provide invoices and supporting documentation for numerous plant additions recorded in 2003 through 2005. Because the utility was unable to support these items, the auditors recommended that these plant additions should be removed from rate base. The Company could not support allocated plant additions to the electric system of $100,186.39 for 2003, $780,730.58 for 2004, and $19,622.40 for 2005. This resulted in a total amount of unsupported plant of $900,539.37 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 following adjustments should be made: plant in service should be decreased by $900,539.34, accumulated depreciation should be decreased by $125,449.15, depreciation expense should be decreased by $43,391.26, and retained earnings should be decreased by

$818,481.48. The impact on the rate case filing is as follows: the 13-month average balance of plant and accumulated deprecation should be reduced by $900,539.37 and $125,449.15, respectively. Depreciation expense should also be reduced by $43,391.26. I agree with the staff auditors that these amounts should be removed as unsupported plant additions. 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.

Accumulated Depreciation

Q. WHAT ADJUSTMENTS DO YOU HAVE REGARDING ACCUMULATED DEPRECIATION?

A. I am recommending that the adjustments that are approved in the Company's current depreciation study in Docket No. 070382-EI should be made to the rate case. The staff's report on the Company's depreciation study was filed on December 18, 2007, and the proposed agency action recommendation is due to be filed on January 16, 2008, with the Commission vote scheduled for January 29, 2008. I would like to reserve the right to file rebuttal testimony on any rate case impact, if we find that a protest of the Commission's decision in the depreciation study docket is necessary.

Construction Work In Progress

Q. SHOULD THE COMMISSION ALLOW ANY CONSTRUCTION WORK IN PROGRESS (CWIP) IN RATE BASE?

A. No, it should not. CWIP, as the titles designates, is not plant that is completed and providing service to ratepayers. It is neither used nor useful in generating, transmitting, or delivering current service to ratepayers. The ratemaking process is predicated on an examination of the operations of a utility to ensure that the assets upon which ratepayers are required to provide the utility with a rate of return are, in fact, reasonably priced and are both used and useful in providing services on a current basis to ratepayers. Facilities in the process of being constructed cannot be used or useful. Their total cost and the basis on which they were constructed cannot be examined in the context of providing service to ratepayers. The ratemaking process, therefore, excludes, in most instances all CWIP from earning a current rate of return or being included in rate base until such time as projects are completed and providing services to ratepayers.

To allow CWIP in rate base is to predetermine that costs are reasonable and that the project will be used and useful in providing service to ratepayers. As a general ratemaking principle, CWIP should be excluded from rate base and excluded from the ratemaking process until such time that it is actually providing service to ratepayers.

Q. HAS THE FLORIDA PUBLIC SERVICE COMMISSION INCLUDED CWIP IN RATE BASE IN SOME INSTANCES?

A. Yes, it has. However, in those instances of which I am aware, the particular utility was in the midst of a large construction program, and there was a likelihood that the interest coverage ratio would decline below the coverage ratios required by bond indenture covenants. In Florida Power and Light's

(FPL) last litigated rate case, Docket No. 830465-EI, the Florida Public Service Commission stated the following:

> As announced repeatedly in our more recent electric rate cases, our decision to include CWIP in rate base has been founded on our overriding concern of providing the particular utility with an opportunity to achieve and maintain adequate financial integrity.
>
> In this case, we have determined that even without the inclusion of any CWIP in rate base, FPL should be able to maintain its financial integrity in 1984 and 1985. Accordingly, we find that it is not necessary to include any CWIP or Nuclear Fuel in Process (NFP) in rate base in either 1984 or 1985 in order to maintain FPL's financial integrity.
>
> (Docket No. 830465-EI, p. 14. Decision Nos. 13537 and 13948).

Q. DID FPU ACCRUE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) ON ITS CWIP?

A. Based on its MFRs, it did not. On its 2008 rate base, Schedule B-1, the Company included $75,000 in CWIP for the jurisdictional electric division for which no AFUDC is included. MFR Schedule B-13 also lists the various projects that make up the $75,000 in CWIP included in rate base. These amounts are unsupported estimates to which the Company has not provided any invoices, bids or contracts. The Company as of December 11, 2007, had not completed its 2008 construction or operating budget and this document was provided to OPC on December 20, 2007, a week before our testimony was due.

Q. DO YOU KNOW WHY THE COMPANY DOES NOT ACCRUE AFUDC ON ITS CWIP?

A. No. However, but based on my review of the projects listed on MFR Schedule B-14, it appears that the projects listed are short-term in nature and would not qualify to accrue AFUDC.

Q. DOES THE COMMISSION RULE 25-6.0141, FLORIDA ADMINISTRATIVE CODE, ON THE AFUDC DETERMINE WHETHER PROJECTS ARE INCLUDED IN RATE BASE OR NOT?

A. No, it does not. The rule determines that long-term projects of a certain magnitude will accrue AFUDC and that shorter term projects will not. In my opinion, the rule recognizes the fact that projects, which are completed over a shorter period of time (i.e., less than one year) will provide the Company a return by either increasing sales or decreasing operating costs and, therefore, do not require an AFUDC return. Other more long-term projects may require the accrual of AFUDC because of the length it takes to complete these projects, but that is not the case for FPU in this rate case. Regardless, that does not dictate that these projects should be considered for inclusion in rate base. For the above reasons, I have excluded the Company's requested $75,000 in non-AFUDC CWIP from the rate base.

Vacant Position NW Operations Manager

Q. PLEASE EXPLAIN YOUR ADJUSTMENT AS IT RELATES TO THE VACANT POSITION FOR THE NW OPERATIONS MANAGER.

A. In the Over/Above Expenses Schedule under the section entitled "Expenses for Northwest Florida," the Company added an additional expense to the 2007 and 2008 expense levels for the NW division's Operation Manager position that was vacant for most of 2006 and filled on December 11, 2006. According to the Company's response to OPC Interrogatory No. 44, the position was vacated by the former manager, who was promoted to division manager in January 2006. The Company has increased the 2007 expenses by $53,552 and the 2008 projected test year by $56,497, with 100% of this expense allocated to electric operations.

Q. HAS THE COMPANY SUBMITTED INFORMATION THAT REFLECTS THE ORIGINAL OVER/ABOVE EXPENSE ADUSTMENT WAS OVERSTATED?

A. Yes, it did. In late-filed Deposition Exhibit 12 (Martin, Khojasteh, and Mesite Panel), the Company provided a calculation of the adjustment made for this position that was partially vacant during the 2006 base year. The calculation reconciled the amount paid to the person that formerly held the position with the salary included for the new employee including benefits. This exhibit 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. This amount is allocated 100% to electric operations.

Training and New Positions Requested for Operations and Storm Handling

Q. PLEASE EXPLAIN YOUR ADJUSTMENTS RELATED TO THE COMPANIES REQUESTED OVER/ABOVE INCREASES FOR TRAINING AND NEW POSITIONS FOR OPERATIONS AND STORM HARDENING.

A. I have grouped together the adjustments related to the Company's proposed training program for the Northeast (NE) and Northwest (NW) divisions and the Company's requested new positions for a full time trainer, a benefits upgrade for the NE safety coordinator, a new position to handle joint use audits and pole inspections, and a new clerical position for maintaining compliance.

Training for Apprentices NE and NW Divisions

Q. PLEASE ADDRESS THE COMPANY'S OVER AND ABOVE ADJUSTMENT RELATED TO TRAINING FOR THE LINEMEN APPRENTICES.

A. In the Over/Above Expenses Schedule under the section entitled "Expenses for Northwest Florida" the Company added an additional expense to the 2007 and 2008 expense levels to train 8 apprentice linemen in both the NE and NW divisions (a total of 16 positions to be trained per year). For 2007, the Company added $25,400 and $25,127 for each division for 2007 and 2008, respectively. Thus, the total impact for the 2008 test year for incremental training costs in the MFRs was $50,254. In response to OPC Interrogatory No. 45, the Company stated that the amounts projected were based on 8 apprentices trained at each division; the estimate included 3 weeks of training ($850/week) at the Tampa Electric Company (TECO) training facility along with an additional $10,000 to cover costs associated with the State Lineman Training Program. After reviewing this response, I was unable to determine how the adjustment to training expense as originally proposed by the Company was calculated. However, in a subsequent data response (unlabeled), the Company indicated 8 employees would travel for 3 weeks per year at a cost of $850/week for a total cost of $20,400 and $5,000 was added for incidental training aides. This totals the amount of the over/above expense adjustment; however, this is not consistent with the Company's response to Interrogatory No. 45.

Q. DID THE COMPANY CHANGE ITS REQUESTED EXPENSE FOR TRAINING IN THIS INTERROGATORY RESPONSE?

Yes. In its response to Interrogatory No. 45, after briefly addressing the calculation made in the filing, the Company stated that the TECO training facility could not be used for training needs and that the Company decided to implement its own in-house training program. This program would be in addition to the Company's existing training which consists of the State Lineman Training Program, a home-study program coupled with a required number of on-the-job training hours. Through this response to Interrogatory No. 45, the Company states that it wants to now add a full-time employee as a trainer with the following annual costs:

Additional Trainer Salary and Benefits	$87,750
Travel Expense for Trainer	$9,600
Training Supplies (non-capital)	$5,150
Preparation of Training materials	$2,325
Actual materials used for Training	$11,310
State Lineman Program Materials	$11,000
Total	$127,135

Q. WHAT TYPE OF TRAINING PROGRAM DOES THE COMPANY UTILIZE CURRENTLY?

A. The Company uses the State Lineman Program, which is a home book study program. In conjunction with that program, the apprentices work under a qualified journeyman for on-the-job training hours. After an employee receives 8,000 training hours and passes all the tests, they became a journeyman lineman. In deposition, witness Cutshaw stated that most other companies are doing more formalized training. FPU wants to have a more formalized training program where the criteria and classroom are established, with more documentation and attestation that training goals are met. (Cutshaw/Myers panel deposition page 17-18).

Q. WHAT TYPE OF SUPPORT OTHER THAN THE ANSWER PROVIDED IN INTERROGATORY NO. 45 DID THE COMPANY PROVIDE TO SUPPORT THE NEED FOR THIS INCREASED TRAINING PROGRAM?

A. In Exhibit 45.1 (response to OPC Interrogatory No. 45), FPU provided a copy of a portion of a slide presentation (10 of at least 26 pages of this presentation were provided with numerous pages missing) which appears to have been authored by 3 FPU employees. This presentation includes only the benefits of having a full-time dedicated trainer and does not include any other alternatives to hiring a full-time trainer and building a class room for a dedicated training facility. The costs included in this slide presentation are the same costs that were reflected in the response to Interrogatory No. 45 and no documentation (such as written estimates, bids, or invoices) has been provided to support these amounts. As seen throughout this case, these amounts were internally generated with no corroborating evidence.

Q. DID YOU SUBSEQUENTLY RECEIVE A COMPLETE VERSION OF THE SLIDE PRESENTATION?

A. Yes, I received a copy of a numerically numbered document that shows not only the analysis of having a full-time trainer, but other available options such as; a) having a dedicated lineman as a trainer in each division, b) a dedicated lineman as a trainer serving both divisions, c) using supervisors as trainers, and d) using all working foremen as trainers. All of these options cost less than the option reflected by the Company in its limited response in Exhibit 45.1. I would note that the complete slide presentation had a total of 27 pages, 17 more pages than the version the Company submitted in response to Interrogatory No. 45.

Q. HOW MANY APPRENTICE LINEMEN DID THE COMPANY TRAIN IN 2004, 2005 AND 2006?

A. According to the responses of witnesses Cutshaw and Myers (Cutshaw/Myers panel deposition, page 27), the NE division had 2 apprentices and the NW division had 4 training in 2006. As to how many the Company will train in

2008, both witnesses Cutshaw and Myers stated that the Company only had 8 total apprentices to be trained, then Mr. Cutshaw stated that there were 11 then 13 apprentices going through the program in 2008. Whichever number of apprentices is correct is not the 16 that were projected in the MFRs. (Cutshaw/Myers panel deposition pages 27 and 30). Based on the statements of these two witnesses, the Company has overstated its original projection of 16 apprentices that will be trained each year.

Q. DID THE COMPANY'S ADJUSTMENT INCLUDED IN ITS FILING OR ITS RESPONSE TO INTERROGATORY 45 TAKE INTO ACCOUNT THE ACTUAL LEVEL OF TRAINING THAT TOOK PLACE IN 2006 WHICH WAS ESCALATED FOR 2008?

A. No. it did not. Witnesses Cutshaw and Myers admitted that the 2006 test year did include costs associated with the materials purchased for the home study state lineman training course. (Cutshaw/Myers panel deposition, pages 20, 27-28) There is also the discrepancy between the original estimate of incremental materials cost of $5,000 per division ($10,000), which subsequently got updated to $11,000. Also, Mr. Cutshaw agree that the 2008 projected materials cost would have to be adjusted for at least 4 and possibly 12 total apprentice workbooks purchased in 2006 that were escalated into 2008. As a result, the Company's over/above adjustment for $50,800 for 2007 did not occur and the $54,354 for 2008 is overstated because the 2006 expense included some of these training materials. In addition, the TECO training program will not take place.

Q. DO YOU BELIEVE THAT THE COMPANY HAS JUSTIFIED THE NEED FOR AN ADDITIONAL DEDICATED TRAINER FOR THE NORTHWEST DIVISION?

A. No, I do not. Based on the information that I have reviewed, I cannot determine if the Company has finalized what it plans to do regarding its training program. If this training program were so essential to the Company's operations, then it should have implemented this program without waiting to see if it will be approved in the rate case. Also, based on the statements by witnesses Cutshaw and Myers, the employees that need to be trained will be completing the state home-study program and on-the-job training. Whether the number is 8, 11 or 13 apprentices to be trained, a full-time dedicated trainer for this size Company does not appear to be necessary or cost-effective.

Q. WHAT ADJUSTMENT ARE YOU PROPOSING FOR THE COMPANY'S INCREMENTAL TRAINING EXPENSE?

A. I am recommending a combination of adjustments. As I have testified above, I do not believe that the Company has shown that a full-time trainer is justified or supported. The Company does, however, need to continue to train its linemen in a way to allow for promotions and continual upgrades. First, I believe that the Company has initiated planning on how to improve its training program but I am not convinced that the best cost-effective program has been fully addressed and analyzed. I believe that the Company is still in the process of deciding which program best meets its needs and just threw together the facts and the highest program cost to see what type of approval the Commission would give the Company in its rate case. This appears obvious because the Company changed its program in October 2007, which coincided, with the discovery period for this rate proceeding. This type of evolving and "wait and see" process of decision making is inadequate to use as a basis in setting future rates. It forces the Commission and other intervenors, such as OPC, to decipher out these changing costs and benefits without having all of the tools necessary to make a complete and adequate decision, when the responsibility of making its own case for prudence lies solely with the Company.

Further, I do not believe that the Company has justified that the over/above materials for training above the 2006 level has been adjusted out the Company's projection. Based on the above, I recommend that the Company's requested adjustment for incremental training costs be denied. As I discuss further below, I have recommended that one of the other new positions that the Company has requested be used as a part-time training coordinator. Accordingly, I recommend that the Company's expenses be reduced by the 2008 over/above adjustment of $54,354 ($27,127 x 2).

<u>Additional Employee to Handle Joint Use Audits and Administer Pole Inspections</u>

Q. WHAT OTHER NEW POSITIONS HAS THE COMPANY PROPOSED FOR OPERATIONS IN ITS OVER/ABOVE EXPENSE REQUEST?

A. The Company has also requested one new employee that would handle joint use audits and administer pole inspections. The salary and benefits for this position totals $76,609 with an additional travel expense for this position of

$22,838, for a total new position expense of $99,447. The Company allocated this expense between joint use audits (22% or $20,909) and pole inspections (79% or $78,538). In response to Interrogatory No. 57, the Company stated that the new employee will be used to coordinate the audits and inspections, and will be involved with data collection and submitting required reports to the Commission.

In his deposition, Mr. Cutshaw stated that this position had not been filled as of yet. He further stated that this position would ". . . be filled when we feel like we will get adequate recovery in the rate case proceeding." (Cutshaw/Myers Panel deposition page 45). Mr. Cutshaw stated that the position will handle and coordinate all the pole inspection requirements and reporting requirements, as well as other job functions. In responding to why this position was needed, Mr. Cutshaw stated that the contractors will provide the Company with the information on the inspections; however, a position is needed to coordinate and prepare reports for all the information from the wood pole inspection program, the transmission inspections, and the vegetation management program. Reports have to be submitted each year on March 1st to the Commission. (Cutshaw/Myers deposition, pages 45-46)

Q. HAS THE COMPANY DESCRIBED WHAT IMPACT THE REPORTING REQUIREMENTS WILL HAVE ON 2008 FOR THE STORM HARDENING PROGRAMS?

A. Yes, it has. On page 48 of his deposition, witness Cutshaw stated that the reporting requirements for 2008 will be very minimal because the Company has not done a lot of the storm hardening requirements in 2007. The

Company did not do the 3-year vegetation management, and did not do any joint use audits or pole inspections in accordance with the requirements. Because of this, Mr. Cutshaw stated that the 2008 reporting requirements should be fairly easy.

Benefits for Safety Coordinator Upgrade from Contract to Salaried Position

Q. HAS THE COMPANY MADE AN ADJUSTMENT TO REFLECT BENEFITS FOR A SAFETY COORDINATOR POSITION?

A. Yes. The Company also requested incremental expenses of $10,000 in 2008 to change a position from a contractual/no benefits position to a full-time position for the Company safety coordinator. In response to OPC Production of Document Request No. 79, the Company stated that the Company currently employees a retired FPU employee as the electric safety consultant on a contractual basis. The $10,000 represents the incremental benefits associated with this position so that the Company can hire another person on a full-time basis to fill this position.

Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO THE BENEFITS COMPONENTS OF THE COMPANY'S ADJUSTMENT FOR THIS VACANT POSITION?

A. Yes. In all of the proposed over/above salary/payroll adjustments, the Company took the projected salary increase and escalated that amount by an overhead factor using certain percentages for payroll benefits and taxes. As reflected on the Company's response to OPC Production of Document Request No. 78.1 (relating to the NW Division), the Company calculated the overhead factor using two components. The first component was calculated based on days of holiday, vacation and sick leave and resulted in a factor of 12%. The Company then added in 26% for taxes and insurance, for a total direct overhear factor rounded to 38% for the NE division. For the NW division, the overhead factor used was 41% (holiday/leave component 15%) and for South Florida employees the overhead rate was 37% (holiday/leave component 11%).

Q. DO YOU BELIEVE THAT IT IS APPROPRIATE TO USE A COMPONENT FOR HOLIDAYS AND LEAVE HOURS WHEN CALCULATING THE PAYROLL OVERHEAD RATE?

A. No, I do not. In her deposition, witness Martin agreed that while vacation and holiday pay is a normal benefit for all employees, those benefits are included as part of your salaries and it was a mistake to include that component as an additional part of payroll overhead. She stated that the holiday/leave component should be subtracted from the overhead factor. (See Martin/ Khojasteh/Mesite Panel Deposition, page 84-85).

Q. DO YOU HAVE A RECOMMENDED ADJUSTMENT REGARDING THIS POSITION?

A. Yes, I do. Consistent with Ms. Martin's statement regarding the payroll benefits overhead factor, I believe that the overhead adjustment is excessive. For the NE division, the overhead factor applied was 38% of which 12% should be removed for the vacation/leave component 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.

Clerical Position for Maintaining Compliance

Q. HAS THE COMPANY REQUESTED ANOTHER NEW POSITION RELATED TO OPERATIONS?

A. Yes. In addition to the safety consultant, the Company has requested funding for a new position to assist in assuring that the Company stays in 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. In response to OPC Production of Document Request No. 80, the Company responded that this position would be responsible for coordinating training programs, tracking training, assisting in safety and training, and other research. The cost of this position was to be allocated between the gas and electric operations and would be a clerical position. As discussed below, I do not believe that the Company has justified that it needs this additional position; therefore, expenses should be reduced by the electric's allocated share of $9,318.

Q. HAS THE COMPANY FILLED THE FULL-TIME TRAINER, THE JOINT USE AUDIT/INSPECTION POSITION, OR THE CLERICAL SAFETY POSITION?

A. No, none of the positions have been filled and I believe that the evidence is clear that the Company will not fill these positions unless it receives rate recovery from the Commission. If there is such a pressing need for any of these positions, I believe it is imperative for the Company to take action on its own and fill these positions. What assurances do the ratepayers and the Commission have that the Company in fact will in fact fill these positions if they have not even starting the hiring process as of this date? At a minimum, the positions will be filled in June or later given the timing of the rate case.

Q. DO YOU BELIEVE THAT THE COMPANY HAS SHOWN THAT IT HAS A NEED FOR THREE ADDITIONAL POSITIONS FOR STORM HARDENING, SAFETY AND TRAINING PURPOSES?

A. No, I do not. I believe that the Company has supported the need for one additional position which can handle a combination of functions; however, certainly not one position for each function. Moreover, the Company has the existing safety coordinator position that can be combined to offset some of the training and inspection coordination and reporting requirements. As addressed earlier, the Company has stated that the 2008 reporting requirements will be minimal. Thus, I believe that with the additional benefits added for the safety coordinator, that person can handle the training, safety and inspection coordination for the NE division and a new position should be added to handle the training, safety and inspection coordination for the NW division. I do not believe that the Company has justified the need for an additional clerical position.

Q. WHAT IS THE RECOMMENDED SALARY AND BENEFITS THAT YOU BELIEVE SHOULD BE ALLOWED FOR THIS COMBINED POSITION?

A. I believe that the original salary requested for the joint use/pole inspection employee of $58,930, with benefits of $15,321 (overhead rate of 26%) should be allowed, for a combined expense of $74,251. This results in a decrease of $2,358, which is 100% allocated to electric.

Q. WHAT ADJUSTMENT DO YOU RECOMMEND FOR THE INCREMENTAL TRAVEL EXPENSES THAT THE COMPANY ADDED FOR THE NEW POSITION FOR STORM HARDENING?

A. Since I have recommended that each division receive a position for training, storm hardening and safety, I do not believe that the additional travel expense that the Company estimated for the storm hardening (joint use audits/pole inspections) will be required. Each of the service territories is limited in size and certainly an employee located in each division will not incur incremental travel costs on a regular basis as originally projected by the Company. Thus, I recommend that the Company's adjustment of $22,838 for travel be removed.

<u>Storm Handling Contracts</u>

<u>Contractor to Perform Inspection of Transmission System</u>

Q. IN ADDITION TO THE NEW POSITION FOR JOINT USE AUDITS AND POLE INSPECTIONS, HAS THE COMPANY REQUESTED AN ADDITIONAL EXPENSE FOR CONTRACTUAL LABOR RELATED TO TRANSMISSION AND DISTRIBUTION INSPECTION COSTS?

A. Yes it has. The Company included in its over/above expense schedule an adjustment for inspections for the transmission system, the distribution systems and vegetation management. I will discuss each adjustment separately below in my testimony.

Q. WHAT AMOUNT DID THE COMPANY INCLUDE IN ITS OVER/ABOVE EXPENSES RELATED TO TRANSMISSION INSPECTION EXPENSES?

A. In its over/above expense the Company included $18,540 in annual expenses related to hiring a contractor to inspect its transmission system. In response to Interrogatory No. 54, the Company based this increase on an estimated cost of $112,449 to inspect the total transmission system which would be completed in a 6-year cycle, in order to comply with the Commission's storm initiative. To date, the Company has performed only visual inspections of its transmission system and corrected items found during these inspections. However, the proposed transmission inspection program is much more detailed and has not been performed to this level in the past. The Company included 1/6 of this cost as an over/above increase for 2008.

Also, in his deposition (Cutshaw/Myers panel, pages 13-14), witness Cutshaw stated that the Company was not going to spend $18,000 each year. He indicated in some years they might spend $60,000, the next year zero, and the following year $60,000 or $70,000. He stated that the Company put the $18,540 in the test year to normalize the expense over a six-year period. Mr. Cutshaw also stated that the Company had not entered into a contract to perform these inspections and that any contract negotiations will not begin until the Company knows the outcome of the amounts allowed in the rate case.

Q. WHAT KIND OF SUPPORT DID THE COMPANY PROVIDE FOR

THIS COST ESTIMATE?

A. In support of this estimate, the Company included one letter with a written estimate from Pike Electric, Inc. dated November 7, 2006 (Interrogatory Exhibit 54.1). This was the only estimate that the Company submitted in response to OPC's discovery requests. The Company stated that it did not receive any other bids or estimates from other vendors. I would also note that the letter stated that the cost was only an estimate and that the hourly rates reflected were effective until December 31, 2006.

Q. DO YOU BELIEVE THAT THE COMMISION SHOULD SET RATES BASED ON THIS ONE ESTIMATE?

A. No, I do not. While I agree with normalizing the expense over several years, I believe that that the Company has not adequately supported what level of expense will be incurred in 2008. If the Company had solicited bids for this project or had received estimates from more than one vendor, a comparison could be made to determine if the estimate requested is reasonable. Also, the Company cannot definitively state how often the Company will inspect its system as evidenced by Mr. Cutshaw's response to questioning in his deposition. As he stated, these actual amounts to be incurred each year are unknown at this time.

Because this is an item that the Commission has required as part of the storm initiative, I believe that it is important for the Company to comply with the Commission's directives. Because the Company has not adequately justified its requested expense, I am recommending that the Commission disallow 25% of the Company's projected normalized expense for lack of support. I believe that an expense level of $4,635 should be disallowed and that the allowed test year expense should be $13,905.

Contractor for Distribution Pole Inspections

Q. PLEASE EXPLAIN THE ADJUSTMENT THAT THE COMPANY INCLUDED FOR DISTRIBUTION POLE INSPECTIONS.

A. In its Over/Above Expenses Schedule, the Company added an incremental expense of $219,833 labeled contractor and new employee to handle distribution pole inspections. In response to Interrogatory 57, the Company separated the components of the new employee and contractual expense related to joint use audits and pole inspections (discussed earlier in my testimony). Based on that response, the Company stated that it would incur $141,367 per year in distribution pole inspections from an outside contractor ($46.35 per pole time 3,050 poles).

In Document Request No. 72(c), OPC requested all documents to support the basis of the Company's projection of the $219,833 expense adjustment. The only document that the Company provided to support the contract estimate was a document entitled "Osmose Utilities Service, Inc. Acceptance Copy". It is unclear as to the origin of this document and whether this was part of a larger document or any other estimate prepared by Osmose. At the bottom of the document, there is a date of May 17, 2007. The document included a description of items with corresponding prices and appeared to relate to pole inspections. There was a statement at the top that reads: "Approximately 3,000 Distribution Poles" before the list of items and prices. There was no total price or a total of the cost on a per pole basis that could be used to derive the $46.35 per pole estimate used by the Company. This document contained no calculation or even a discussion of how the total inspection cost that the Company used in its filing was developed. I have attached this document as an Exhibit PWM-3, entitled: OPC Production of Documents Exh. 72.2 Osmose Estimate.

Q. HOW DID THE COMPANY DETEMINE THIS $46.35 COST PER POLE?

A. The exact calculation that was used to determine this cost per pole has not been provided. In his deposition, witness Cutshaw was asked how the $46.35 cost per pole was estimated. (Cutshaw/Myers Panel Deposition, pages 55-56). He stated that the following components on Exhibit 72.2 were used; however, he could not explain how the exact dollar amount of the cost was originally estimated. Using the Osmose estimate, Mr. Cutshaw stated that the following dollar components were included: External Treat $29.88, Sound and Bore $7.75, FastGate® Delivery $0.60, LoadCalc™ $7.26, CATV Attachments $0.60, Telephone Attachments $0.60, and GPS Reading: 3-10 Meter $0.98. These seven items total $47.67, not the $46.35 used by the Company in its response to Interrogatory No. 57(d).

Since a portion of the cost of pole inspections is increased due to joint users, any costs directly caused by joint use attachments should not be covered by the ratepayers. 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 the electric customers. I recognize that the current joint use agreements may not include any reimbursement or recognition of any incremental pole or load inspection costs as these are new programs. However, we are not recommending any revenue adjustments. Regardless, the full amount of projected storm hardening expenses for these types of reimbursable costs should not be borne by the electric customers. Accordingly, I believe that the costs of LoadCalc™, CATV and Telephone attachments should be removed from the test year expenses. This totals a reduction in the per pole inspection cost of $8.46 ($7.26 + $0.60 + $0.60) per pole which should not be charged to electric ratepayers. Deducting this cost reflects a rounded cost per pole inspection of $38.

Q. WHAT CONCERNS DO YOU HAVE WITH THE COMPANY'S ADJUSTMENT BASED ON JUST ONE ESTIMATE?

A. I am concerned that this estimate is very preliminary and that the Company has not even decided what inspection parameters that it wants to pursue. As stated by Mr. Cutshaw in his deposition (page7-9), the Company has not done a competitive bid process, which would only take about a month. He stated that there are contractors other than Osmose that they can contract with, or allow them the opportunity to bid on the project. Witness Cutshaw also stated that he did not know the specifications that would be bid, that it might be similar to the Osmose estimate; however, if the Company does not receive the recovery that they feel will allow them to accomplish the estimated tasks, it would amend its storm plan and do a different type of inspection process. Mr. Cutshaw further stated that if they did not get recovery to the extent the Company felt was appropriate, it might refile and continue doing the pole inspections as done in the past, using current employees with a quick inspection and not going to the level of detail required or recommended in the storm hardening plan from the Commission.

Q. DO YOU RECOMMEND ANOTHER ADJUSTMENT TO RECOGNIZE THAT THE COMPANY'S ADJUSTMENT IS PRELIMINARY BASED ON JUST ONE ESTIMATE?

A. Yes, consistent with my adjustment to the distribution inspection costs, I believe that the Company should have solicited bids from more vendors. Further, the Company must determine exactly what level of inspection it intends to have performed which it has not done to date. Because this is an item that the Commission has required as part of the storm initiative, I believe that it is important for the Company to comply with the Commission's directives. Because the Company has not fully supported its requested expense, I am recommending that the Commission disallow 25% of the Company's projected expense after the adjustment is removed for the joint use components. I believe that an additional amount of $28,975 should be disallowed. This results in a per-pole inspection cost of $28.50. Accordingly, I recommended that the Company's incremental distribution pole expense should be $86,925. This is calculated by taking the Company's requested 2008 incremental expense of 141,367 and decreasing that amount by $25,467 for joint pole attachments costs and by $28,975 for unsupported costs. These reductions are allocated 100% to electric operations.

<u>Vegetation Management/Tree Trimming NW FL</u>

Q. WHAT ADJUSTMENTS DID THE COMPANY MAKE TO ITS

FILING REGARDING TREE TRIMMING?

A. The Company made two adjustments for tree trimming. The first adjustment was a normalization adjustment to the NE division to reflect 2 crews for a full year. During two months in 2006, the Company had only had 1 crew working; the rest of the year the Company had two crews trimming trees. The Company increased 2007 by $17,500 and escalated the 2008 amount by 3.5% for an over/above adjustment of $18,113. I have reviewed this adjustment and agree that it is appropriate and do not recommend any adjustment.

Q. **PLEASE EXPLAIN THE SECOND ADJUSTMENT THAT THE COMPANY MADE TO ITS FILING FOR TREE TRIMMING.**

A. The Company added an over/above adjustment of $352,260 to its 2008 expenses to add 3 crews in the NW division. This adjustment would provide for a total of 6 crews in the NW division. In it response to Interrogatory No. 58, the Company addressed the average miles of line trimmed per crew for the NW division to be 36 miles per crew or 108 miles per year for the three crews. The Company performed an analysis of three different mileage amounts per crew (50, 40 and 35 miles), and then took into consideration its total miles of feeders and laterals and the number of years for repeat inspection (3 years for feeders and 6 years for laterals) to calculate the necessary number of crews per year. Using this analysis the Company used the lowest number of miles per crew of 35 to support its need for 4 crews. The Company also added 1 additional tree trimming crew to address danger trees and spot trimming necessary to avoid outages related to tree conflicts. This resulted in a total number of crews for 2008 of 5 crews, not 6 as originally requested in the MFRs. In this Interrogatory, the Company lowered its requested over/above expense adjustment from an increase of $352,260 to an increase of $234,840.

Q. DO YOU AGREE WITH THE COMPANY'S REQUESTED INCREASE IN TREE TRIMMING EXPENSE?

A. No, I do not. In OPC's Production of Document No. 73, the Company was requested to provide the study or analysis which the Company used to determine that an additional three crews were necessary. In its response in Production of Document Exhibit 73.1, the Company provided an analysis of tree trimming per year for 2004 through August 2007. During this time, the Company trimmed a total of 474.38 miles. The average per crew for this 3.67-year timeframe results in 43.09 miles per crew. Looking at just 2006, the average for the 3 crews was 47.13 miles per crew. Based on these numbers provided by the Company, I believe that the requested 35 miles per crew is understated. A more reasonable estimate is 40 miles per crew (the middle option provided by the Company) which supports the number of crews that the Company currently utilizes in its NW division. This mileage estimate supports that the Company's 2006 level of 3 tree trimming crews is sufficient to meet the needs of storm hardening.

Q. DO YOU BELIEVE THAT THE COMPANY HAS JUSTIFIED THE NEED FOR AN ADDITIONAL CREW JUST TO HANDLE DANGER TREES AND SPOT TRIMMING?

A. No, I do not. The Company has not provided any support justifying this additional crew will be needed on a full time basis. We did not receive any information reflecting what amount of spot trimming or danger tree trimming has been used in the past. If the Company had this type of data or other analysis, it should have been provided in response to OPC's Production of Document Request No. 73.

Q. **WHAT ADJUSTMENT DO YOU RECOMMEND FOR TREE TRIMMING FOR THE NW DIVISION?**

A. I recommend that the Company's over/above adjustment should be removed. Accordingly, $353,260 should be removed from the 2008 expenses.

<u>Provide Personnel to Be Located At EOC During Emergency</u>

Q. **PLEASE EXPLAIN THE COMPANY'S ADJUSTMENT TO PROVIDE PERSONNEL TO BE LOCATED AT THE COUNTY EMERGENCY OPERATIONS CENTERS (EOC).**

A. In its Over/Above Expenses Schedule, the Company increased its expenses by $19,991 for costs associated with providing personnel to be located at either of the two county EOCs during storms or other emergencies. In response to Interrogatory No. 60, the Company states that this expense was based on one storm event per year and that based on its limited work force, placing an employee at the EOC during previous hurricanes was not possible. Based on witness Myers statement in his deposition, this cost included a typographical error and the amount of the increase in expense should have only been $9,991. (Cutshaw/Myers panel deposition page 77). Additionally, an assumption behind this amount was that non-electric employees of the Company would be dispatched to the county EOC since the electric employees would be otherwise occupied doing storm planning or restoration work.

Q. IS THIS TYPE OF EXPENSE ONE THAT WOULD BE NORMALLY RECURRING AND PROPERLY INCLUDED IN THE BASE RATE DETERMINATION?

A. 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. Based on the above, I believe that the total $19,991 should be removed from the test year 2008 expenses.

<u>New Positions Customer Relations, Corporate Accounting & Information Technology</u>

<u>SOX 404 IC Requirements-Customer Relations</u>

Q. PLEASE EXPLAIN THE COMPANY'S REQUESTED INCREASE FOR A NEW POSITION TO MEET THE NEW INTERNAL CONTROL REQUIREMENTS.

A. In its Over/Above Expenses Schedule, the Company included an increase in Customer Relations Expenses and labeled it a customer relations analyst/coordinator. The Company explained this position was to meet the SOX/404 internal control requirements. In response to Interrogatory No. 62, the Company stated that it needed to hire a new internal auditing position to comply with the requirements of the Sarbanes-Oxley Act of 2002 and Section

404 Management's Assessment of Internal Controls. This position will assist with the documentation requirement of Section 404, internal control testing and overall internal controls necessary for a Company. Along with the audit requirements, the work load continues to increase within the accounting department on a whole and an increase in staff is required at this time to meet the work load of the department on a whole. The total increase for this new position is $56,992 of which 30% or $17,098 was allocated to electric for 2008.

<u>Special Audits: Inventory, Cash & Other Procedures- Corporate Accounting</u>

Q. WHAT ADJUSTMENT DID THE COMPANY MAKE FOR SPECIAL AUDITS, INCLUDING INVENTORY, CASH AND OTHER PROCESSES?

A. Under the category Expenses for Corporate Accounting in its Over/Above Expense Schedule, the Company has also requested a new position for compliance accounting with an explanation that this position is needed for special audits including inventory, cash and other processes. The total increase for this new position is $82,200 of which 40% or $32,880 was allocated to electric for 2008. In response to Interrogatory 65, the Company similarly discusses the need for an additional accounting position to audit for internal controls, cash and inventories. Based on the responses to both Interrogatories Nos. 62 (labeled as a customer relations position) and 65 (labeled as a corporate accounting position), it appears that the Company responded to Interrogatory 62 incorrectly as that position is related to customer relations not to corporate accounting. Thus, no explanation was provided for the need for a new customer relations position in its response to Interrogatory No. 62.

Q. HAS THE COMPANY FILLED EITHER OF THESE POSITIONS AS OF YET?

A. No. Witness Martin stated in her deposition that the Company would hire both of these positions in January 2008; however, neither position had been advertised. As mentioned several times by witness Cutshaw in his deposition, I believe that the Company will not fill either of these two positions until rate recovery is received.

Q WHAT KIND OF DOCUMENTATION HAS THE COMPANY PROVIDED TO SUPPORT THE COST AND NEED FOR EACH OF THESE TWO POSITIONS?

A. In response to OPC Production of Document Request No. 78, the Company included Exhibit 78.1 for support of its estimated cost for the new internal audit position. This adjustment was supported by an online recruiting bulletin for an accounting position in the South Florida area. Further, based on my review while at the Company's corporate offices and based on statements made by witness Martin in her deposition, the current accounting staff does work long hours and a new position is needed for the corporate accounting staff. While I agree with the annual salary level, the Company has made no movement toward hiring this position. Even though witness Martin stated that this position would be filled in January 2008, we are only days away from the end of 2007. Based on my experience, the hiring, planning, advertisement, interviewing and decision making takes months to accomplish. I also believe that the Company will not initiate the hiring process until the rate case is completed, which will be the middle of May 2008 when the final order is scheduled to be issued. A conservative guess would be that the position would be filled in July.

Q. WHAT IS YOUR RECOMMENDED ADJUSTMENT TO BOTH OF THESE REQUESTED POSITIONS?

A. First, I believe that only half of the proposed salary for the new internal audit/accounting position should be approved. The Company should not be allowed to annualize an expense in the test year that most likely will not be filled until the middle of the year. The annual salary for this new internal auditor position is $60,000 plus benefits at 38% of $22,200, totaling $82,200 for the full year. I am also recommending that the Vacation/Leave component in the overhead factor be removed of 12%. 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. Based on the above, my recommended adjustment to electric account number 920 is a decrease of $17,760.

Q. WHAT ABOUT THE CUSTOMER RELATIONS POSITION FOR INTERNAL CONTROL?

A. I do not believe that the Company has adequately justified the need for this position. First, the Company did not respond to OPC's discovery questions sufficient to demonstrate that this position was necessary. Second, this position has not been filled as of today. Accordingly, the over/above expense increase of $17,098 should be disallowed.

Information Technology Vacant Positions (Mislabeled SOX 404)

Q. PLEASE EXPLAIN THE COMPANY'S ADJUSTMENT TO INFORMATION TECHNOLOGY 2006 PROGRAM VANCANCIES?

A. In the over/above schedule the Company added a new position in the expense for information technology to fill the 2006 program vacancies. The reason for this incremental expense was this position was needed to meet SOX404 internal control requirements. The Company included a total of $90,110 for the salary and benefits adjustment for 2007 and $95,066 for 2008. The 2007 adjustment was escalated by 5.5% to get the 2008 incremental expense. The adjustment for electric for 2008 allocated at 40% was an increase of $38,026.

Q. DO YOU BELIEVE THAT THIS POSITION WAS NEEDED FOR INTERNAL CONTROL PURPOSES?

A. No I do not. The Company has provided very little support for this adjustment. Basically I believe that because the Company mislabeled it as being required by internal control purposes that it mistakenly got side-tracked in documenting the need for this expense. Upon reviewing documents submitted to us on December 13, 2007, the supporting workpapers for this adjustment were provided. Based on this documentation, I do not believe that this adjustment relates to internal control requirements at all. It is simply an adjustment to normalize the 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 mistakenly 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, I believe that the adjustment is improper and should be disallowed. Accordingly, I recommend that the full allocated share to the electric division of $38,026 for 2008 should be removed.

Expenses for Executive Salaries and the Salary Survey Adjustments

Q. WHAT ADJUSTMENTS DID THE COMPANY MAKE FOR EXECUTIVE SALARIES AND THE SALARY SURVEY?

A. In its Over/Above Expense Schedule, the Company included increases in executive salary expense for 2007 and 2008 of $48,845 and $51,531, respectively. In addition, the Company made several over/above adjustments for what it labeled "to bring salaries up to market based on a salary survey." The total adjustments related to the salary survey were increases of $16,660 for 2007 and $49,980 for 2008.

Executive Salaries

Q. PLEASE EXPLAIN THE COMPANY'S ADJUSTMENT TO EXECUTIVE SALARIES?

A. In response to OPC Production of Document Request No. 82, the Company explained that the executive salary adjustment was based on the last 3 years to bring the executives' pay more in line with the current market. The Company attached Exhibit 82 to support the calculation used for the 2007 and 2008 adjustments.

This exhibit consists of several pages that reflect the calculations of pay increases for the 3 executives for 2004 through 2006. Looking collectively at the pay raises given to the executives for these years resulted in an average pay raise of 11% for 2005 and 2006. The actual pay increases per person range from 7.36% to 14.93% in 2005, and 8.83% to 12.75% in 2006.

Q. DID THE COMPANY SUBMIT ANY ANALYSIS TO SUPPORT THAT THE SALARIES WERE NOT REFLECTIVE OF THE CURRENT MARKET?

A. No, it did not. All the Company submitted was a calculation that applied the 11% average pay increase for all 3 executives across the board and add a 37% payroll overhead factor to this amount. The Company then calculated the difference between the 11% increase and a 5.5% pay increase. To this amount, the Company added the 37% overhead to reach the 2007 expense increase of $48,845.

Q. DO YOU AGREE WITH THE ADJUSTMENT THAT THE COMPANY MADE TO EXECUTIVE SALARIES?

A. No, I do not. First of all, the Company has not provided any documentation to demonstrate that its executive salaries are below market for an organization of this size. Second, the executives are taking the position that its salaries are more important than those of those employees in lower ranks. As a comparison, the Company requested an over/above 2008 salary increase of $51,530 for the executives but requested an over/above increase of $49,980 to bring its corporate and divisional non-union employees up to market. In response to Interrogatory No. 106, the Company indicated its total payroll dollars increased by 4% in 2005 and 2% in 2006. In response to Interrogatory No. 108, the Company stated that the normal merit increases in 2004 and 2005 were 5% and 5.25%, respectively, with increases of 5.5% in 2006 and 2007. The Company also projected merit increases of 5.5% for 2008, plus the adjustments for the salary survey.

This reflects quite a stark difference in what the overall population of employees received compared to the executives. I believe that the executive pay raises should be more in line with those allowed for other employees.

Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING FOR EXECUTIVE SALARIES?

A. I am recommending that the Commission take the 2006 salary levels (including incentives), which were escalated from 2004 to 2006 by 21.5% (over a 2-year period), and assume that those increases were sufficient to bring the executives up to current market. Beyond the 2006 actual levels, I believe that the executive pay raises should be limited to the 5.5% merit pay raises that the Company felt was sufficient for its other employees. Since the Company has already increased administrative salaries by 5.5% per year, the only adjustment necessary is to remove the over/above adjustment that the Company made to 2008. Thus, I recommend that the Company's 2008 over/above adjustment for executive salaries of $51,531 be removed. The electric allocation of this expense at 40% is a reduction of $41,225.

Salary Survey

Q. PLEASE EXPLAIN THE COMPANY'S ADJUSTMENT TO THE SALARY SURVEY?

A. In its MFRs, the Company increased 2007 and 2008 salaries to reflect an adjustment based on an internal salary survey to bring non-executive salaries up to market. The 2007 adjustment reflected an increase of $16,660 and an increase of $49,980 for 2008. In response to OPC Interrogatory No. 105, the Company stated that the salary survey was not expected to be completed until December 2007. The Company also stated that some personnel will require immediate adjustments to bring them up to a reasonable range and that other deficiencies will be corrected over time. Witness Martin stated that the Company made a "high level estimate" of an increase based on the salary survey and deemed that estimate to be $102,000. (Martin/Khojasteh/Mesite panel deposition, page 106). It then allocated $51,531 of the estimate to the executives and the remaining $49,980 to other corporate and division level non-union employees.

Q. HAS THE COMPANY PROVIDED THE EMPLOYEES WITH ANY OF THESE SALARY INCREASES TO DATE?

A. No, it has not. As discussed in her deposition, witness Martin stated that even the 2007 projected salaries were overstated by $34,000. (Martin/Khojasteh/Mesite panel deposition, page 110). In late-filed deposition Exhibit 14 (Martin/Khojasteh/Mesite panel deposition), the Company revised the salary survey adjustment for 2007 and 2008. Instead of the $16,660 adjustment for 2007, this adjustment now totals $34,000. For 2008, the original amount of the 2008 salary survey adjustment was $102,000;

however, that amount was decreased to $64,135 as reflected on page 3 of this same late-filed exhibit. On page 4 of the exhibit, the 2007 electric allocated portion for 2007 remains the same as the amount included in the MFRs schedule for over/above adjustments but the 2008 electric allocated amount decreased by $11,293 (from $43,382 to $32,089). Even though the amount allocated decreased, this 2008 adjustment was based on the original 2008 total Company salary adjustment of $102,000, not the revised 2008 adjustment reflected on page 3 of $64,135. Regardless of all of these inconsistencies, neither the original nor the revised salary adjustment amounts have been given to any employees as of yet.

Q. WHAT COMMENTS DO YOU HAVE REGARDING THE REQUESTED ADJUSTMENTS FOR THE SALARY SURVEY?

A. I believe that it is very unclear what adjustments the Company will make related to its salary survey. We have been provided several documents through the discovery process that were supposed to document how the Company derived its adjustment based on the salary survey. Until late-filed exhibit 14 was provided on December 20, 2007, OPC had asked on numerous occasions for the supporting calculations behind the salary survey adjustments. By looking at this document, which appears to be created on December 17, 2007, the Company did not even know what amount the adjustment would be. I am still unclear as to which adjustment the Company is now proposing.

Q. WHAT OTHER COMMENTS DO YOU HAVE ABOUT THE SALARY

SURVEY SUBMITTED IN LATE-FILED DEPOSITION EXHIBIT 14?

A. Looking at the salary survey, it is unclear what the Company has actually done. It appears that the salary survey adjustment is mainly an adjustment for salary range only, and generally does not reflect many employees below the minimum of the current or proposed ranges. Also, the "adjustment" for the "salary survey schedule" is titled "Difference in Salary Range 2007" and that reflects the differences between the maximum of the old and the new ranges, not the actual salaries to the minimum of the new range. The schedule also has columns for additional merit liability for 2008 and immediate adjustments for 2007. Neither column match with the amounts provided elsewhere in this late-filed exhibit, nor is an explanation provided as to the reason these amounts are included.

Q. **WHAT IS YOU RECOMMENDED ADJUSTMENT FOR THE SALARY SURVEY?**

A. I do not believe that the Company has supported the over/above salary adjustment that it is requesting in this case. First, it is unclear what adjustments would be necessary based on the information that we received in late-filed deposition exhibit 14 to the Martin/Khojasteh/Mesite panel deposition. Second, based on my analysis of this exhibit, at a minimum, a decrease of $23,205 to 2008 expenses is warranted to reflect the electric portion of the most recent set of salary survey numbers. Third, even if the Commission considers any adjustments that may be needed, the Company is proposing adjustments to the salary ranges, not immediate pay raises to employees. The Company has stated that the increases in the salary ranges may not correlate into immediate salary adjustments 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 several over/above adjustments that the actual amounts expended would depend upon amounts approved in the rate case. Therefore, implementation of any salary survey adjustments may also wait until May or June 2008 after the conclusion of the rate case. Based on the above, I recommend that the Company's over/above salary adjustment for the salary survey be removed. Accordingly, a decrease of $43,382 for the electric allocated portion is appropriate.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes, it does.

Resume

PATRICIA W. MERCHANT, CPA

Office of Public Counsel
Room 812, 111 West Madison Street
Tallahassee, Florida 32399-1400

Phone: 850-487-8245
Fax: 850-488-4491
E-mail: merchant.tricia@leg.state.fl.us

Professional Experience:

March, 2005 to Present

Office of Public Counsel – Senior Legislative Analyst

In my current position, I perform financial and accounting analysis and reviews, and provide testimony, as required, involving utility filings before the Florida Public Service Commission on behalf of the Citizens of the State of Florida.

1981 to February, 2005 - Florida Public Service Commission

2000 to February, 2005

Public Utilities Supervisor – File and Suspend Rate Case Section, Bureau of Rate Filings, Division of Economic Regulation

In this capacity I supervised 5 to 8 regulatory professionals. This section performed financial, accounting, engineering and rate review and evaluation of rate proceedings for large water and wastewater utilities, as well as electric and gas utilities regulated by the Commission. The types of cases included file and suspend rate cases, limited proceedings, overearning investigations, annual report reviews, service availability and tariff filings, rulemaking, and customer complaints. The section reviewed utility filings, requested and reviewed Commission staff audits, and generated and analyzed discovery requests. I coordinated and prepared staff recommendations to the Commission for agenda conferences. I reviewed the analyses and written documentation of all analysts in this section for proper regulatory theory, grammar and accuracy. I also made presentations to customer groups at Commission staff customer meetings for the rate proceedings to which I was assigned. We presented recommendations at agenda conferences, providing responses to comments and questions by other parties and Commissioners. I also prepared and presented testimony, and assisted in the preparation of cross-examination questions for depositions and formal hearings. Additionally, I provided training in regulatory theory for new staff and provided training on regulatory and accounting issues for other analysts at the Commission.

1989 – 2000

Regulatory Analyst Supervisor, Accounting Section, Bureau of Economic Regulation, Division of Water and Wastewater

I supervised 5-7 regulatory accounting analysts. This section performed the same job activities as above specifically for the larger Commission regulated Class A and B water and wastewater companies.

1983 – 1989
Regulatory Analyst – Accounting Bureau, Division of Water and Wastewater

As an accounting analyst, I performed the same job activities as described above for water and wastewater companies in a non-supervisory role.

1981 – 1983

Public Utilities Auditor, Division of Auditing and Financial Analysis

As an auditor in the Tallahassee district of the Commission, I performed financial and accounting audits of electric, gas, telephone, water and wastewater utilities under the Commission's jurisdiction.

Education and Professional Licenses

1981 Bachelor of Science with a major in accounting from Florida State University

1983 Received a Certified Public Accountant license in Florida

List of Cases in which Testimony was Submitted

Dockets Before the Florida Public Service Commission:

070052-EI - Petition by Progress Energy Florida, Inc. to recover costs of Crystal River Unit 3 Uprate through fuel clause (testified at hearing)

060162-EI – Petition by Progress Energy Florida, Inc. to recover modular cooling tower costs through the Environmental Cost recovery clause. (filed testimony stipulated into record)

050958-EI – Petition for approval of new environmental program for cost recovery through Environmental Cost Recovery Clause by Tampa Electric Company. (testified at hearing)

060658-EI - Petition on Behalf of Citizens of the State of Florida to require Progress Energy Florida, Inc. to Refund Customers $143 million. (filed testimony stipulated into record)

060362-EI - Petition to Recover Natural Gas Storage Project Costs through Fuel Cost Recovery Clause, by Florida Power & Light Company. (testified at hearing)

050045-EI - Petition for Rate Increase by Florida Power & Light Company. (filed testimony, deposed, case settled prior to hearing)

991643-SU - Application for Increase in Wastewater Rates in Seven Springs System in Pasco County by Aloha Utilities, Inc. (testified at hearing)

971663-WS - Application of Florida Cities Water Company, Inc. for a limited proceeding to recover environmental litigation costs. (all testimony and exhibits stipulated into record without hearing)

940847-WS - Application of Ortega Utility Company for increased water and wastewater rates. (testified at hearing)

911082-WS - Water and Wastewater Rule Revisions to Chapter 25-30, Florida Administrative Code. (testified at hearing)

881030-WU - Investigation of Sunshine Utilities of Central Florida rates for possible over earnings. (testified at hearing)

850151-WS - Application of Marco Island Utilities, Inc. for increased water and wastewater rates. (testified at hearing)

850031-WS - Application of Orange/Osceola Utilities, Inc. for increased water and wastewater rates in Osceola County (testified at hearing)

840047-WS - Application of Poinciana Utilities, Inc. for increased water and wastewater rates (testified at hearing)

Cases Before the Division of Administrative Hearings:

97-2485RU - Aloha Utilities, Inc., and Florida Waterworks Association, Inc., Petitioners, vs. Public Service Commission, Respondents, and Citizens of the State of Florida, Office of Public Counsel, Intervenors (deposed and testified at hearing)

Florida Public Utilities Company
Projected Test Year Ended December 31, 2008

Dockets Nos. 070304-EI & 070300-EI
P. Merchant Exhibit No. ___(PWM-2)
Tranformer Plant Adjustment
Page 1 of 1

13-Month Average of 2008 Transformer Addition

	Request Per FPU Year-end	13-Month Average	OPC Recommended Adjustments
Plant in Service	$790,000	$668,462	($121,538)
Accumulated Depreciation	$11,850	$8,356	($3,494)
Depreciation Expense	$23,700	$19,750	($3,950)

Rental of transformer was included for 12 months of expense for 2006 and escalated by inflation and customer growth for 2007 and 2008

Adjustment to Rental Expense	
Monthly Rental Expense	$2,140
Number of Months	12
Expense in test year prior to inflation	$25,680
Escalation Factor for 2007-2008	1.113
Escalated Expense left in 2008	$28,582
Expense for 13-month average (1)	$4,280
Adjustment to rental-13 month average	($24,302)
Expense to allow if using full YE	$0
Adjustment to rental-full YE	($28,582)

(1) No escalation needed; used actual 2008 cost.

Osmose Utilities Services, Inc. Acceptance Copy

GENERAL AGREEMENT

Exhibit 72.2
OPC Production of Documents 1
Docket 070304-EI

(SCHEDULE 1)
(Approximately 3,000 Distribution Poles)

ITEM	PRICE	
External Treat	$ 29.88	*
Excavated Reject	$ 27.89	
Reject w/External Treat	$ 31.15	
Visual Report	$ 6.00	
Sound and Bore	$ 7.75	*
Internal Treat: Hollow Heart CF	$ 13.66	
WoodFume®	$ 15.81	
Private Property	$ 3.95	
FastGate® Delivery	$ 0.60	*
LoadCalc™	$ 7.26	*
CATV Attachments	$ 0.60	*
Telephone Attachments	$ 0.60	*
*GPS Reading: 3-10 Meter	$ 0.98	*
**Hourly Rate: Foreman	$ 72.50	
**Hourly Rate: Crewmember	$ 39.00	

*Amounts included in FPUC estimated inspection cost per pole.(Cutshaw/Myers panel deposition pages 55-56.

$47.67

* GPS Data will be collected per pole. The GPS data (per structure) includes a GPS point with an accuracy level of three to ten meters (3-10 meters). One attempt will be made to collect the GPS point. Osmose will not charge for any unattainable data collection. If requested however, Osmose can return to any pole location, for an hourly rate, to recollect data.

** Osmose is submitting prices for hourly rates for your convenience. These prices would apply for any work that Florida Public Utilities Company would request outside the scope of this proposal. These rates will not be utilized without prior approval from Florida Public Utilities Company. Submitting these prices in our proposal at this time will avoid future administrative delays and allow our crews to respond to your special requests in a more efficient and timely manner.