

**REBUTTAL TESTIMONY
OF
DOREEN COX**

IN

**FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 070304-EI**

**IN RE: PETITION OF
FLORIDA PUBLIC UTILITIES COMPANY
FOR AN ELECTRIC RATE INCREASE**

1 **Q. Please state your name and business address.**

2 A. My name is Doreen Cox, and my business address is 401 South Dixie, West Palm Beach,
3 Florida 33401

4

5 **Q. Have you prepared and prefiled direct testimony in this Docket?**

6 A. Yes, that is correct.

7

8 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

9 A. This testimony is to provide additional testimony in support of our rate proceeding, in part,
10 in response to the testimony provided by the Office of Public Counsel witness Dr. J.
11 Randall Woolridge.

12

13 **Q. Please summarize Dr. Woolridge's recommendation as it pertains to cost of equity.**

14 A. Dr. Woolridge, in his testimony, recommended an equity cost rate range of 8.41% – 9.15%,
15 based on his application of the DCF and CAPM models. Based on the riskiness of FPU
16 relative to the group, Dr. Woolridge recommended a 9.15% equity cost rate for FPU.

17

18 **Q. How does this compare with the cost rate as filed by FPU?**

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1 A. FPU has requested a return on equity of 11.50%, based on the DCF, CAPM, RP and RMR
2 models used by our consultant, Mr. Robert Camfield in his analyses.

3

4 **Q. Why is there such a wide discrepancy between the two recommendations?**

5 A. Cost of Capital analyses and theory are a function of the assumptions, methodologies,
6 sample size and sample group applied. Each methodology often provides a wide range of
7 results due to the assumptions and methodologies used in estimating the required return of
8 the company's shareholders. As stated by Dr. Woolridge in his testimony "the cost of
9 common equity capital, however, cannot be determined precisely and must instead be
10 estimated from market data and informed judgment. This return to the stockholder should
11 be commensurate with returns on investments in other enterprises having comparable risks"
12 (Dr. Woolridge's Testimony Page 18 Lines 16 – 20).

13

14 **Q. Are there means to gauge the reasonableness of a Company's estimated cost of equity
15 capital, or required return to shareholders, given the wide spectrum of results
16 obtained through the application of cost of capital models?**

17 A. Yes, although the cost of equity surely differs among utility companies given their capital
18 structure, financial stability etc., return on equity levels for other utility companies provide
19 relevant information for the Florida Commission to gauge the reasonableness of the
20 Company's cost of equity analyses, as advanced by Mr. Camfield. Specifically, the
21 requested return on equity by the applicants and intervening parties, and the resulting
22 allowed return on equity by regulatory authorities recently are useful benchmarks.

23

24 **Q. How does the cost of equity estimates developed by Mr. Camfield on behalf of FPU
25 compare to the return on equity levels, as requested by other utility companies in
26 their applications for changes in retail electric rates?**

27 A. A survey of six recent utility rate filings show an average requested return on equity of
28 11.67%. Two of these of those companies being granted an average of 11.13%. In

1 December 2007, Georgia Power was granted an allowed return on equity of 11.25% by the
2 Georgia Public Service Commission. Please reference Exhibit DC-1.

3
4 **Q. How does the allowed return on equity to other electric utilities, as recently granted**
5 **by regulatory authorities, compare to FPU's requested return on equity?**

6 A. FPU is a much smaller company than the other utilities. Because the cost of capital is a
7 function of risk and because capital risk decreases in larger size entities, other factors
8 constant, these survey results may systematically understate the appropriate or allowed
9 returns for FPU.

10
11 **Q. In your view, is the cost of equity requested by FPU reasonable when compared to**
12 **recent filings within the utility sector?**

13 A. Yes. The Public Service Commissioners in Ohio and Georgia recently approved equity
14 returns of 11.00% and 11.25% for Duke Energy Carolinas and Georgia Power respectively.
15 Given FPU's smaller size, the requested cost of equity of 11.50% is justified when we look
16 at approved return on equities recently granted by other Public Service Commissions and is
17 appropriate for use in our current rate proceeding and cost of capital structure.

18
19 **Q. What was the allowed rate of return approved in FPU's 2004 electric rate**
20 **proceeding?**

21 A. In 2004 a cost of equity rate of 11.50% was approved by the Public Service Commission.
22 FPU's capital structure, financial strength and riskiness have not changed in any
23 measurable way since the last rate case. I add, however, that the market context of the
24 Company has become somewhat more uncertain in view of events such as natural disasters,
25 the level of regional economic activity, and the Company's input costs.

26
27 **Q. Since the Commission's decision in the Company's 2004 electric rate case proceeding,**
28 **has FPU's realized rate of return been in the allowed range?**

1 A. No. Since our last rate proceeding FPU's rate of return has been consistently less than the
2 allowed range. The 3rd quarter results of 2007 for the Company demonstrate a realized
3 return level of more than 2% points below the allowed range. Exhibits DC 2 – DC 5 shows
4 that our shareholders have not been allowed to earn a reasonable return on their investment
5 since 2004.

6

7 **Q. Does this conclude your written prepared testimony?**

8 A. Yes

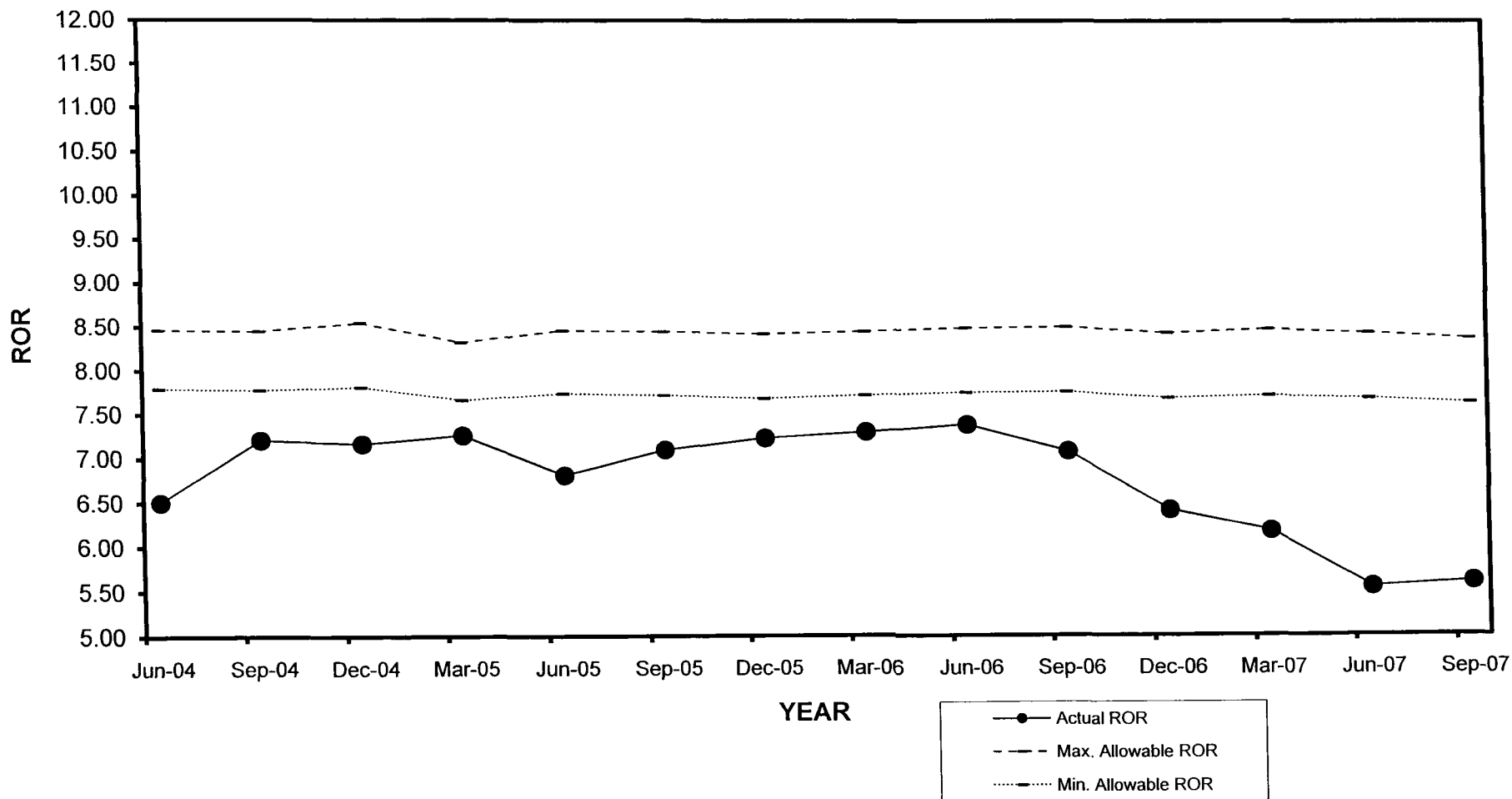
Return on Equity
Comparison of Recently Requested and Approved Return on Equity Rates

	Utility Type	Service Area	Customers		Docket #	Date Filed or Announced	Requested ROE	Allowed ROE
			Electric	Gas				
Duke Energy Carolinas	Electric	North Carolina	3,900,000	500,000		11/29/2007	12.50%	11.00%
Bangor Hydro	Elec Dist	Maine	192,000		2006-661	1/16/2007	11.25%	
Idaho Power	Electric	Idaho, Oregon	471,779		IPC-E-07-08	6/6/2007	11.50%	
PacifiCorp	Electric	Wyoming			20000-277-ER-7	6/29/2007	10.75%	
Sierra Pacific Power	Electric	Nevada	1,036,771	129,000		12/3/2007	11.50%	
Georgia Power	Electric	Georgia	***	***	25060	12/18/2007	12.50%	11.25%
						Average	11.67%	11.13%
FPU ROE Requested		Florida	31,000	52,000			11.50%	

Source: The C Three Group (Except for FPU & Bangor Hydro customer data and Docket References)

*** Southern Co w subsidiaries (Georgia Power, Alabama Power, Gulf Power, M ississippi Power) 4,200,000 customers.

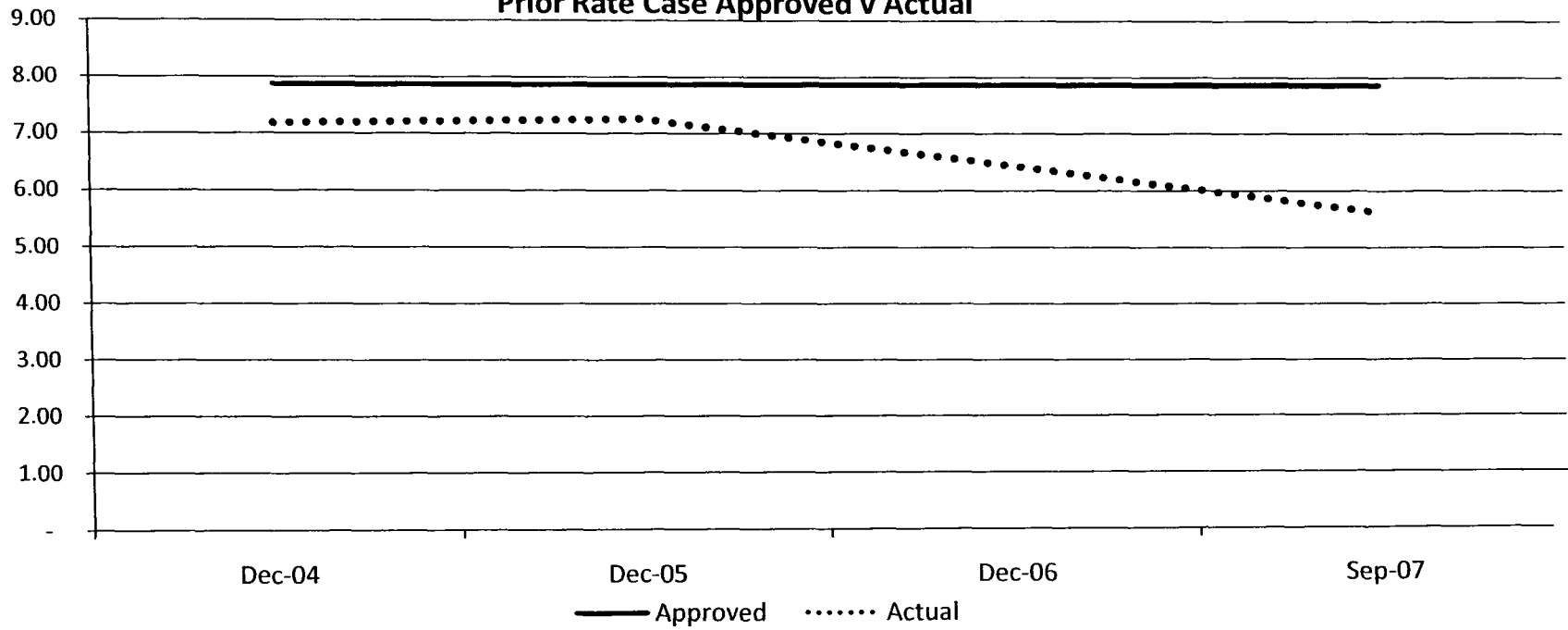
Consolidated Electric - Earnings Surveillance Report



Actual ROR as of September 30, 2007		
Actual ROR		5.61
Allowable ROR - High		8.40
Allowable ROR - Low		7.66

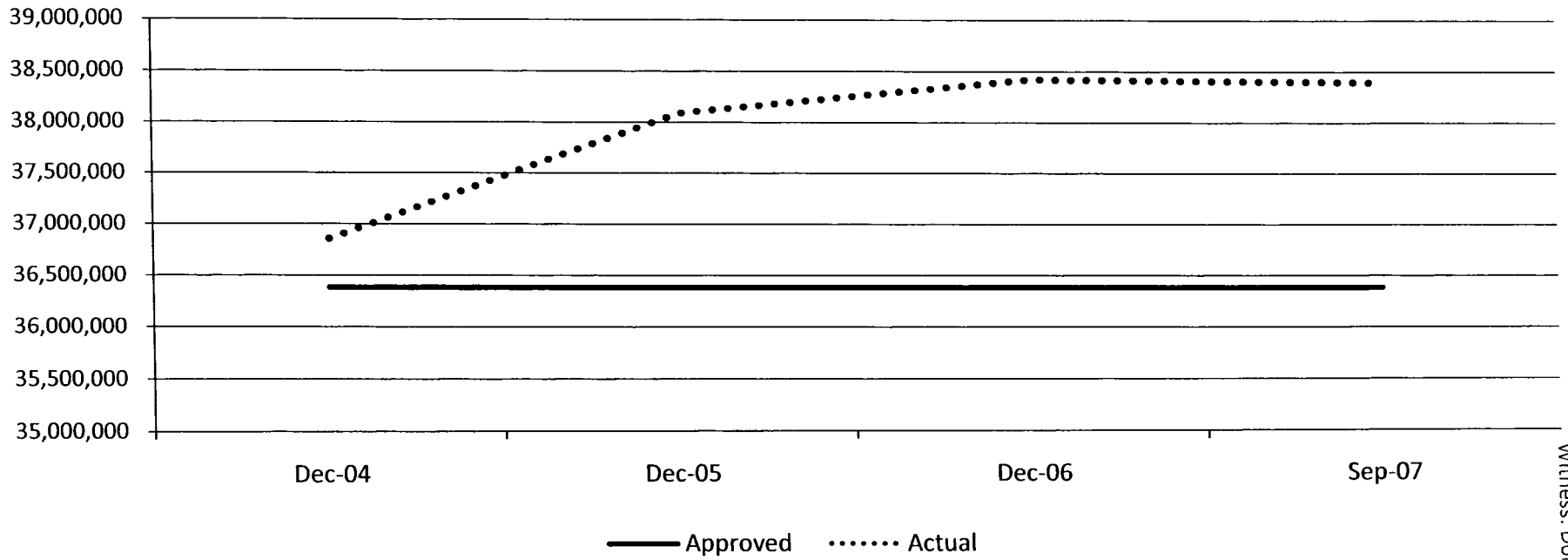
Consolidated Electric Rate of Return

Prior Rate Case Approved v Actual



Consolidated Electric Rate Base

Prior Rate Case Approved v Actual



Consolidated Electric Net Operating Income

Prior Rate Case Approved v Actual

