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August 15, 2014

BY E-PORTAL FILING

Ms. Carlotta Stauffer
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 140025-EI -Application for rate increase by Florida Public Utilities Company.

Dear Ms. Stauffer:

Attached for electronic filing on behalf of Florida Public Utilities Company/Electric Division (FPU) in the above-referenced docket, please find the attached Prehearing Statement.

Please do not hesitate to contact me if you have any questions whatsoever regarding this filing.

Sincerely,

Beth Keating

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Cc:/Service List (Docket 140025-EI)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: **Application for rate increase by Florida Public Utilities Company.**	DOCKET NO. 140025-EI DATED: August 15, 2014

FLORIDA PUBLIC UTILITIES COMPANY'S PREHEARING STATEMENT

In accordance with the Order Establishing Procedure for this Docket, Order No. PSC-14-0194-PCO-EI, issued May 1, 2014, Florida Public Utilities Company ("FPUC" or "Company") hereby files its Prehearing Statement.

a. Appearances: BETH KEATING, Esquire, LILA JABER, Esquire, and CHARLES GUYTON, Esquire, Gunster Law Firm, 215 S. Monroe St., Suite 601, Tallahassee, FL 32301-1804 On behalf of Florida Public Utilities Company

b. All Known Witnesses

DIRECT

Witness	**Subject**	**Issue**
Jeffry M. Householder	Quality of Service, Net Operating Income, Revenue Requirements	Issues 6, 28, 37, 38, 39, 48, 51, 52, 65
Cheryl M. Martin	Test Period, Quality of Service, Rate Base, Cost of Capital, Net Operating Income, Revenue	Issues 1, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 22, 23, 24, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40,

Witness	**Subject**	**Issue**
	Requirements, Cost of Service and Rate Design	41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 74, 79
P. Mark Cutshaw and Drane "Buddy" Shelley (panel)	Quality of Service (Reliability), Rate Base, Net Operating Income, Cost of Service and Rate Design	Issues 2, 3, 4, 5, 6, 9, 57, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78
Matthew M. Kim	Rate Base, Net Operating Income	Issues 18, 19, 21, 24, 27, 37, 38, 40, 41, 42, 51, 52
Aleida Socarras	Net Operating Income, Rate Design	Issues 43, 48, 78
Mariana Perea	Quality of Service	Issue 6
Robert R. Camfield	Forecasting	Issues 2, 3, 4, and 14
Paul Moul	Cost of Capital	Issues 25, 26, 27, 28 and 29

REBUTTAL

Witness	**Subject**	**Issue**
Jeffry M. Householder	Cost of Capital (Risk, ROE), Net Operating Income,	Issues 6, 28, 37, 38, 39, 53, 65

Witness	**Subject**	**Issue**
	Revenue Requirements	
Cheryl M. Martin	Rate Base, Net Operating Income, Revenue Requirements, Staff Audit	Issues 8, 9, 10, 17, 18, 19, 20,21 22, 23, 30, 35, 36, 39, 41, 56, 60, 65
Jim Moss	Net Operating Income	Issues 37, 38 and 39
Matthew M. Kim	Rate Base, Net Operating Income	Issues 21, 37, 38, 41, 51, 52, and 58
P. Mark Cutshaw	Net Operating Income	Issue 57
Aleida Socarras	Net Operating Income, Rate Design	Issues 43, 48, 53,78
Paul Moul	Cost of Capital (Short Term Debt, Capital Structure, Cost of Equity)	Issues 25, 27, 28 and 29

c. All Known Exhibits[1]

Witness	**Exhibit**	**Title**
Jeffrey M. Householder	JMH-1 (Direct)	Year-by-Year Comparison of Electric Residential Bill
Cheryl M. Martin	CMM-1 (Direct)	MFRs sponsored by Cheryl Martin (A – 1 through 5; B-1 through 25; C-1 through 44;

[1] FPU reserves the right to utilize additional exhibits for purposes of cross-examination.

Witness	**Exhibit**	**Title**
		D-1(a) through 9; F-5 through 9; G-1 through 19(b))
Cheryl M. Martin	CMM-2 (Direct)	Amortization-Regulatory Asset – Pension and Other Post Retirement Benefits
Cheryl M. Martin	CMM-3 (Direct)	Regulatory Asset – Litigation/Gulf Refund
Cheryl M. Martin	CMM-4 (Direct)	Regulatory Asset –South Georgia Method
Cheryl M. Martin	CMM-5 (Direct)	Regulatory Liability – Tax Gain
Cheryl M. Martin	CMM-6 (Direct)	Regulatory Liability – Post Retirement Benefit
Cheryl M. Martin	CMM-7 (Direct)	General Liability
Cheryl M. Martin	CMM-8 (Direct)	PTO Policy
Cheryl M. Martin	Revised CMM-9 (Rebuttal)[2]	June 30, 2014 Surveillance Report
Cheryl M. Martin	CMM-10 (Confidential)(Rebuttal)	Severance Analysis/ Severance Pay/Vacancy Related Payroll
Cheryl M. Martin	CMM-11 (Rebuttal)	PTO Vacation Pay Liability
Cheryl M. Martin	CMM-12 (Rebuttal)	Summary of Revised Revenue Requirement
P. Mark Cutshaw and Drane "Buddy" Shelley	MC/DS-1 (Direct)	MFRs sponsored by Mark Cutshaw (A-2 through 5; C-34; E- 1, 2, 5, 6 through 19(c); F-5 through 9; G-20 through 23)

[2] Revised August 8, 2014

Witness	**Exhibit**	**Title**
P. Mark Cutshaw and Drane "Buddy" Shelley	MC/DS-2 (Direct)	Capital Projects Related to Reliability
P. Mark Cutshaw and Drane "Buddy" Shelley	MC/DS-3 (Direct)	2013 Storm Hardening and Reliability Report
P. Mark Cutshaw and Drane "Buddy" Shelley	MC/DS-4 (Direct)	Metrics for FPU System Reliability
P. Mark Cutshaw and Drane "Buddy" Shelley	MC/DS-5 (Direct)	Ongoing and Projected Capital Projects
P. Mark Cutshaw and Drane "Buddy" Shelley	MC/DS-6 (Direct)	Safety Statistics
P. Mark Cutshaw and Drane "Buddy" Shelley	MC/DS-7 (Direct)	Proposed Lighting Rates
P. Mark Cutshaw and Drane "Buddy" Shelley	MC/DS-8 (Direct)	Purchase Power Adjustments Related to Lighting Class Consolidation
P. Mark Cutshaw and Drane "Buddy" Shelley	MC/DS-9 (Direct)	Purchased Power Benefits Associated with Generation Project (Confidential)
Matthew M. Kim	MK-1 (Direct)	MFRs sponsored by Matthew Kim (B-22 through 23; C-22, 25, 26, 27 and 28; D-1(a) through 9; G-16 and 19(a))
Matthew M. Kim	MK-2 (Rebuttal)	Presentation by Cook & Company/Executive

Witness	**Exhibit**	**Title**
		Compensation (Confidential)
Matthew M. Kim	MK-3 (Rebuttal)	Pension Expense Projection
Matthew M. Kim	MK-4 (Rebuttal)	Corporate Department Variance Reports
Matthew M. Kim	MK-5 (Rebuttal)	Summary of Corporate Allocation included in AG
Aleida Socarras	AS-1 (Direct)	Economic Development Plan
Aleida Socarras	AS-2 (Direct)	Economic Development Rider Tariff Sheets
Robert J. Camfield	RJC-1 (Direct)	Summary of Historical Energy Sales
Robert J. Camfield	RJC-2 (Direct)	Summary Statistics of Estimated Forecast Equations
Robert J. Camfield	RJC-3 (Direct)	Predicted vs. Actuals (Rate Class Customers and Usage)
Robert J. Camfield	RJC-4 (Direct)	Changes in Population of Rural Counties – US and Florida
Robert J. Camfield	RJC-5 (Direct)	Global Factors Affecting Residential Energy Use
Robert J. Camfield	RJC-6 (Direct)	Projections of Test Year Revenues
Robert J. Camfield	RJC-7 (Direct)	Inflation Expectations
Paul R. Moul	PRM-1 (Direct)	Proposed Rate of Return/Projected Test Year, 2015
Paul R. Moul	PRM-2 (Rebuttal)	Recommended Cost of Capital Analysis

d. FPUC's Statement of Basic Position

FPUC: The Commission should approve the Company's request for a rate increase in the amount of $5,806,219, which is a revised amount from the Company's initial request for an increase of $5,852,171. The Commission should base its decision upon a projected test year ending September 30, 2015.

The Company's current rates and charges are no longer adequate to provide FPUC with opportunity to earn a fair and reasonable rate of return and will, if not increased, have an adverse effect on the Company's ability to continue to provide reliable service to its customers. The Company's last reported Average Rate of Return was 3.56%. The Company accepts certain adjustments suggested by the Commission Staff's witness Small, as well as certain adjustments suggested by OPC's witnesses in this case, and as a result, the Company's jurisdictional 13-month average rate base for the test year period is projected to be $60,378,219. The adjusted jurisdictional net operating income for the Company in the same period is projected to be $780,691. The projected rate of return is, consequently, projected to be 1.29 percent, while the return on common equity is projected to be negative 1.44 percent in the test year.

The Company's current rates were established by the Commission in 2008. While its base rates have remained the same for these past 6 years, the Company has endured rising costs in multiple areas and a slow-to-recovery economy. The Company has made significant efforts to control and reduce such costs in an effort to delay having to seek rate relief from the Commission. FPU employs best management and accounting practices in order to track and evaluate costs and expenditures. FPU also utilizes an O&M budget review process that enables it to maintain expenses at a reasonable level, as well as a planning process that ensures capital expenditures are implemented in an efficient and cost-effective manner.

Also, since its acquisition by Chesapeake Utilities Corporation (Chesapeake), the new parent company has directed the implementation of numerous cost savings measures, including modifications to benefits plans for employees and retirees and consolidation of some functions, reducing the number of operational employees. The acquisition by Chesapeake has also proven advantageous in that the Company has been able to take advantage of the stronger financial posture of Chesapeake in order to refinance debt at lower interest rates, as well as to obtain less expensive capital. Chesapeake's management and oversight have also produced efficiency and effectiveness gains in the Company and have enabled FPU to make necessary improvements in its electric system to enhance reliability, which reduced maintenance expenses.

In addition to efforts to address rising costs and improve efficiency, the Company has also taken an aggressive approach to improving the infrastructure in its operating areas, and has significantly improved the reliability of service in those areas. With the support of its new corporate parent, FPUC has approached safety and reliability with a renewed focus.

FPU is also seeking approval for two measures related to general liability. The first component is to establish a reserve for future general liability claims. The second component is to establish a new regulatory asset for amortization of a 2013/2014 general liability claim. Specifically, the proposed new regulatory asset would be accounted for in General Liability and would address issues related to self-insurance and future claims. The first component will address the Company's need to establish a self-insurance reserve. While the Company's Natural Gas Division has an established reserve for self-insurance, the Electric Division does not. In recent years, however, the Company has noted an uptick in claims directed towards the Electric Division and believes it is now important, if not imperative that the Company take a proactive approach by establishing a self insurance reserve for claims under the purchased insurance deductible cap. Therefore, the Company seeks approval to establish a reserve component consisting of an annualized amount of $50,000 for large claims and $20,000 for smaller claims for a total annualized amount of $70,000.

As for the second component, the Company finds it necessary to address a recent large claim that was paid out by the Company in 2013 and 2014. This is a significant claim of $250,000, which the Company would like to defer and amortize over a 5-year period in order to lessen the impact on the Company, particularly since the Company does not yet have a reserve to address this sort of issue. The annualized amount would be $50,000 associated with this component of the new regulatory asset; thus, the total impact of these two measures related to general liability, the annual accrual for future claims, and the amortization of the regulatory asset on an annual basis would be $120,000.

The Company also seeks approval to establish a second regulatory asset to address the tax rate change that occurred when FPU was acquired by Chesapeake. FPU has been subject to a 34% federal tax rate, which increased to 35% upon its acquisition by Chesapeake. FPU was therefore required to adjust its deferred taxes to reflect the increase in its effective income tax rate to 38.575 percent to comply with the tax normalization rules. FPU had a net deferred tax liability associated with its plant assets at the time of the merger; therefore, this adjustment resulted in a deficiency in the deferred tax reserve. The total deficiency, including the appropriate gross-up for income taxes, is $353,307. FPU asks, therefore, that this amount to be amortized over 26 years, which is the average remaining life of the plant assets for the electric operation. The annual amortization would be $13,589, which is required to comply with the tax normalization rules.

The Company is also seeking approval of a step increase for the Residential rate class (RS). Specifically, when calculating the new rates for the RS class, the Company included a step rate in the energy charge. The proposed new RS rate therefore consists of a $16.00 per month customer charge with an energy charge of $0.02170 per kWh for usage less than or equal to 1,000 kWh per month and an energy charge of $0.03420 per kWh for usage above 1,000 kWh per month. The benefits, generally, of such an approach are to lessen impact of the increase and to further encourage conservation.

The Company asks that the Commission approve recovery of $50,000 on an annual basis for the Company's new Economic Development Plan. The new Plan is more robust and contemplates a greater level of involvement by the Company in economic development activities in its service territories. A component of that Plan, for which the Company also seeks approval, is an Economic Development Rider, which will be used to incent businesses to establish or locate new facilities and expand business facilities in the areas in which FPUC operates.

The Company also asks that the Commission approve a 5-year amortization period for the Company's rate case expense. Use of the 5-year amortization period will allow the Company to spread the rate case expense over a slightly longer period of time, which will therefore reduce the impact on customers' bills. The Commission has allowed the Company to use a 5-year amortization period in the past. Specifically, in Order No. 22224, issued in Docket No. 881056-EI, on November 27, 1989, the Commission authorized the Company to use a 5-year amortization period for rate case expense. It is likewise reasonable to use a 5-year amortization period in this proceeding as well, in view of the fact that the time span between the Company's most recent prior rate case proceeding and this filing extends more than 6 years.

In addition, the Company seeks approval to modify its rate structure to collapse all existing Lighting services into one rate class. In conjunction with that structural modification, the Company asks that the applicable fuel cost recovery factors for the Lighting class be modified in accordance with the new, collapsed structure.

As such, FPU asks that the Commission allow the Company an overall rate of return of 7.18 percent, including an 11.25 percent rate of return on common equity. The resulting revenue deficiency is $5,806,219, which is the amount of the revenue increase requested by FPU in this proceeding.

e. <u>FPUC's Position on the Issues</u>

<u>Test Period and Forecasting</u>

<u>ISSUE 1</u>: Is FPUC's projected test period of the 12 months ending September 30, 2015 appropriate?

<u>FPUC</u>: Yes. The 12-month period ending September 30, 2015, provides the most appropriate, accurate period of time that properly reflects the Company's future operations, including investments, maintenance, and Storm Hardening, as well as revenues. (Martin)

ISSUE 2: Are FPUC's forecasts of Customers, kWh, and kW by rate class, for the projected test year appropriate? If not, what adjustments should be made?

FPUC: Yes. FPUC's forecasts of Customers, kWh, and kW by rate class for the projected test year are accurate and based upon methods accepted by the Commission in past proceedings. (Camfield, Cutshaw)

ISSUE 3: Are FPUC's forecasts of billing determinants by rate schedule for the projected test year appropriate? If not, what adjustments should be made?

FPUC: Yes. FPUC's forecasts of billing determinants by rate schedule for the September 2015 test year are accurate and based upon the billing components that are necessary to develop an accurate base revenue forecast. (Camfield, Cutshaw)

ISSUE 4: Are FPUC's estimated revenues from sales of electricity by rate class at present rates for the projected test year appropriate? If not, what adjustments should be made?

FPUC: Yes. FPU properly applied its present rates to the forecast billing determinants to calculate estimated revenues for the projected test year September 2015. (Camfield, Cutshaw)

ISSUE 5: What are the appropriate inflation, customer growth, and other trend factors for use in forecasting the 2015 projected test year for FPUC?

FPUC: The assumptions reflected on MFRs F-6 and F-8 produce a reasonable and appropriate forecast of the projected test year budget and should be accepted by the Commission. (Martin, Cutshaw)

Quality of Service

ISSUE 6: Is the quality and reliability of electric service provided by FPUC adequate?

FPUC: Yes. FPU's quality of service and reliability are adequate. (Householder, Martin, Cutshaw/Shelley, Perea)

Rate Base

ISSUE 7: Is FPUC's requested level of Plant in Service in the amount of $108,023,717 for the projected test year appropriate? If not, what is the appropriate amount?

FPUC: The appropriate adjusted jurisdictional amount for Plant in Service is $108,032,770, which was adjusted from the original MFR filing for the PSC Audit finding of $9,053. (Martin)

ISSUE 8: Is FPUC's requested level of Accumulated Depreciation in the amount of $54,267,086 for the projected test year appropriate? If not, what is the appropriate amount?

FPUC: With additional adjustments applied, the appropriate Accumulated Depreciation amount is $54,494,089. (Martin)

ISSUE 9: Is FPUC's requested level of Construction Work in Progress in the amount of $4,625,996 for the projected test year appropriate? If not, what is the appropriate amount?

FPUC: Yes. As reflected on MFR B-13, the appropriate CWIP amount in the projected test year September 2015 is $4,625,996. (Martin, Cutshaw)

ISSUE 10: What is the appropriate projection methodology and balance of cash to be included in the 2015 working capital?

FPUC: The appropriate projection methodology for Cash in Working Capital employs a combination of trend factor and direct estimate. Because Account 1310 is materially impacted by accounts receivables and fuel related purchases, the customer growth factor is properly applied to the historic test year September 2013 13-month average balance of Depository Cash to produce projected amount for September 2015. Each month should then be trended based on monthly fluctuations of the historic test year. Based upon this methodology, the appropriate balance of Cash in Working Capital is $504,312. (Martin)

ISSUE 11: What is the appropriate balance of accounts receivable to be included in the 2015 working capital?

FPUC: As reflected on MFR B-3, the appropriate amount for the projected test year is $6,993,897. (Martin)

ISSUE 12: Has FPUC estimated an appropriate balance in its accumulated provision for uncollectible accounts?

FPUC: Yes. The Company has estimated an appropriate balance in Account 1440 of $136,769 for the projected test year. (Martin)

ISSUE 13: What is the appropriate allocation methodology and amount for prepaid insurance to be included in working capital for electric operations?

FPUC: Prepaid Expenses were broken out between Corporate and Electric on two separate line items within B-3. Prepaid insurance is a component of each of those accounts. The Corporate amount was allocated based on the appropriate factor of base revenue of 31%, and the amount of Prepaid insurance allocated to electric in working capital is $676. The amount of Prepaid insurance included in Electric is $84,099. The remaining portion of Prepaid expenses included in working capital is prepaid maintenance, and other types of prepaid expenses outside of insurance. The appropriate amount to be included in Working Capital is $84,775. (Martin)

ISSUE 14: What is the appropriate balance of unbilled revenue to be included in working capital?

FPUC: The appropriate amount of unbilled revenues to be included in Working Capital is $2,914,951. (Camfield, Martin)

ISSUE 15: What is the appropriate balance of temporary services to be included in working capital?

FPUC: The appropriate amount to be included in Working Capital is $11,114.

(Martin)

ISSUE 16: Is FPUC's balance of Accrued Interest on Customer Deposits appropriate?

FPUC: Yes. The appropriate Accrued Interest on Customer Deposits (Account 2350) is $3,386,840. (Martin)

ISSUE 17: What is the appropriate balance of deferred debit rate case expense to be included in working capital?

FPUC: The appropriate amount of deferred rate case expense that should be included is $346,028, which represents one-half of the unamortized deferred rate case costs.

(Martin)

<u>ISSUE 18</u>: Is FPUC's request for a Self Insurance Reserve appropriate? If not, what adjustment should be made?

<u>FPUC</u>: Yes. The request to establish a Self Insurance Reserve is the most prudent approach for addressing both large and small general liability claims. Moreover, establishing a reserve will provide greater visibility regarding accruals and disbursements and thus, a better mechanism for determining, in future rate cases, if adjustments to the accruals should be made. Therefore, the Company should be allowed to establish the Reserve and to accrue to the Reserve $50,000 per year to cover large claims and $20,000 per year to cover smaller claims. (Martin, Kim)

<u>ISSUE 19:</u> Is FPUC's request to establish a regulatory asset for the general liability claim of $250,000 appropriate?

<u>FPUC</u>: Yes. The Company should be allowed to establish a regulatory asset to address the $250,000 settlement of a claim against the Electric Division regarding an event that occurred in July 2012 and was subsequently paid in 2013 and 2014. The Commission should also approve the Company's request to amortize the amount over a five-year period. (Martin, Kim)

<u>ISSUE 20:</u> Should an adjustment to projected test year expenses be made to account for the impact of the Paid Time Off (PTO) policy during the historic test year? If yes, what adjustment should be made?

<u>FPUC</u>: No adjustments should be made to the projected test year for PTO expenses. The change in expense associated with PTO expense in the projected September 2015 test year accurately reflects what will be incurred as expense during this period. The historic

year change in policy was a one-time reversal of a liability. At the time of the initial recognition of the liability, the Company made a one-time accrual to reflect the liability, but did not receive recovery for that initial recognition. The initial liability was never established as a regulatory asset or recovered through base rates. (Martin)

ISSUE 21: Is FPUC's requested regulatory asset for the tax rate change appropriate? If not, what adjustment should be made?

FPUC: Yes. The Commission should approve the Company's request to establish a regulatory asset to address the tax differential that occurred when Chesapeake Utilities acquired the Company. Without the requested regulatory asset and amortization thereof, the Company's deferred income taxes ("ADIT") would not be consistent with its current income tax recovery, which would be inconsistent with the normalization requirement set forth in the US Tax Code, IRC § 168. (Kim)

ISSUE 22: Is FPUC's proposed level of working capital for the projected test year of $2,213,542 appropriate? If not, what is the appropriate amount?

FPUC: Yes, as reflected in B-1 of the Company's original MFRs, the appropriate amount of working capital for the project ted test year of $2,213,542 is appropriate. (Martin)

ISSUE 23: Is FPUC's requested rate base of $60,596,196 for the projected test year appropriate? If not, what is the appropriate amount?

FPUC: With additional adjustments applied, the appropriate amount of rate base is $60,378,219. (Martin)

Cost of Capital

ISSUE 24: What is the appropriate cost rate for customer deposits for the projected test year?

FPUC: The appropriate cost rate for customer deposits during the projected test year is 2.42%. (Martin, Kim)

ISSUE 25: What is the appropriate cost rate for short-term debt for the projected test year?

FPUC: The appropriate cost rate for short-term debt for the projected test year is 3.70%.

(Moul)

ISSUE 26: What is the appropriate cost rate for long-term debt for the projected test year?

FPUC: The projected cost rate for long term debt for the projected test year is 12.74% for the portion related to FPUC-only (Legacy) debt, and 4.90% for the remaining Chesapeake debt.

(Moul)

ISSUE 27: What is the appropriate capital structure for the projected test year?

FPUC: The appropriate capital structure for the projected test year is reflected in the original MFRs on schedule D-1a.

(Moul, Kim)

ISSUE 28: What is the appropriate return on equity (ROE) to use in establishing FPUC's revenue requirement?

FPUC: The appropriate return on equity (ROE) to use in establishing FPUC's revenue requirement is 11.25%.

(Moul, Householder)

ISSUE 29: What is the appropriate weighted average cost of capital for FPUC including the proper components, amounts and cost rates associated with the capital structure for the projected test year?

FPUC: Based upon an 11.25% cost of equity, the appropriate overall weighted average cost of capital for FPUC is 7.18%. This takes into account the appropriate capital component amounts, such as accumulated deferred income taxes, appropriate capital structure, cost rate for short-term debt, cost rate for long-term debt, and, as noted, the appropriate return on equity. Adjustments to any of these components would necessarily impact the weighted average cost of capital.

(Moul, Martin)

Net Operating Income

ISSUE 30: Has FPUC properly estimated an appropriate amount of Forfeited Discounts (late payment fees) in calculating the revenues for the projected test year?

FPUC: Yes, the Company has appropriately included the amount of Forfeited Discounts (late payment fees) by using the historical year amount as a basis and applying trend factor to project late fees in the projected test year of $381,931. It would not be appropriate to remove the refunds made to customer in the historic year of $ 55,349 since the historic year also reflected higher late fees in this same period as a result of the mailing error. The net effect of the additional late fees as well as the subsequent refund were both made during the historic year thus the total amount of late fees is not impacted by this extraordinarily event; nor the projected test year amount of late fees.

(Martin)

ISSUE 31: Has FPUC made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Cost Recovery Clause?

FPUC: Yes, the Company has appropriate removed fuel revenues and expenses recoverable though the fuel clause from the projected year as an adjustment. The original MFR Schedule C-2 shows the amount removed from both revenues and expenses related to fuel, the total of which is $62,084,524. (Martin)

ISSUE 32: What is the appropriate projected test year miscellaneous service revenue for FPUC?

FPUC: The appropriate projected test year miscellaneous service revenue is $219,908.

(Martin)

ISSUE 33: Has FPUC made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Energy Conservation Cost Recovery Clause?

FPUC: Yes, the Company has appropriately removed conservation revenues and expenses recoverable through the conservation clause as an adjustment of $624,129. The original MFR Schedule C-2 shows the amount removed from both revenues and expenses related to conservation. (Martin)

ISSUE 34: Is FPUC's projected level of Total Operating Revenues of $17,363,433 for the projected test year appropriate? If not, what is the appropriate amount?

FPUC: Yes, the Company has appropriately projected the level of Total Operating revenues before any rate relief of $ 17,363,433. (Martin)

ISSUE 35: Should an adjustment to projected test year expenses be made for severance payments paid to past employees during the historic test year? If so, what adjustment should be made?

FPUC: An adjustment to projected test year expenses should be made to reduce expenses by $38,264 to account for the difference between severances paid and payroll shortfalls during the historic test year. (Martin)

ISSUE 36: Should an adjustment to projected test year expenses be made for Marianna litigation bonuses paid to past employees? If so, what adjustment should be made?

FPUC: No. While goals associated with any incentive pay may change from year to year, those employees eligible to receive incentive pay have met or exceeded those goals. The bonuses identified in this Issue 36 were appropriate in that they helped the Company achieve one of its annual goals, which in this case, was retention of the Marianna service territory. As with any incentive pay, the purpose is to encourage employees to meet the highest standards of performance. The employees that received bonuses did just that. Ultimately, achieving the Company's goal provided a significant benefit to both Company and its overall body of ratepayers. Had the Company lost the Marianna service area, increased costs would have been spread of a greatly reduced body of customers. All in all, the bonuses are a normal compensation component tied to achieving performance targets that benefit the Company and its ratepayers. As such, no adjustment should be made to projected test year expenses. (Martin)

ISSUE 37: Is FPUC's projected test year payroll expense for stock-based compensation appropriate? If not, what adjustments should be made?

FPUC: Yes, the amount of payroll expense associated with stock-based compensation that was included by the Company in the projected test year is appropriate and should not be adjusted. The adjustments proposed by OPC witness Ramas disregard the fact that such long-term incentives are consistent with industry practice and provide an additional compensation component that is an important part of a competitive compensation package. Moreover, such long-term incentives benefit customers by encouraging employees to achieve and exceed performance targets and goals that ultimately result in improved service for customers. (Kim, Moss, Householder)

ISSUE 38: Is FPUC's projected test year payroll expense for corporate bonuses allocated to FPUC's electric operations appropriate? If not, what adjustments should be made?

FPUC: Yes, the amount of payroll expense associated with corporate bonuses that was included by the Company in the projected test year is appropriate and should not be adjusted. The adjustments proposed by OPC witness Ramas disregard the fact that such bonuses are consistent with industry practice and provide an additional compensation component that is an important part of a competitive compensation package. Moreover, such bonuses benefit customers by encouraging employees to achieve and exceed performance targets and goals that ultimately result in improved service for customers. (Martin, Kim, Moss, Householder)

ISSUE 39: Is FPUC's projected test year payroll expense for the Incentive Performance Plan appropriate? If not, what adjustments should be made?

FPUC: The amount of payroll expense associated with the Incentive Performance Plan is appropriate and should not be adjusted. The adjustments proposed by OPC witness Ramas disregard the fact that incentive plans are consistent with industry practice and provide an additional compensation component that is an important part of a competitive compensation package. Moreover, such plans benefit customers by encouraging employees to achieve and exceed performance targets and goals that ultimately result in improved service for customers. (Kim, Moss, Householder)

ISSUE 40: Is FPUC's proposed Salary Expense for the projected test year appropriate? If not, what adjustment should be made?

FPUC: Yes. The amount of Salary Expense included in the projected test year is appropriate. Salary expense has been based upon compensation studies of comparable industries, and has appropriately taken into account expected increases in rate of pay, as well as number of personnel. As such, no adjustments should be made. (Martin, Kim)

ISSUE 41: Is FPUC's proposed Pension and Benefits Expense for the projected test year appropriate? If not, what adjustment should be made?

FPUC: Yes. The amount of Pension and Benefits Expense is appropriate and reflects an appropriate projection of expenses in the projected test. FPUC's pension expense is based upon a four-year average over a period when there was significant fluctuation in pension expense. This averaging methodology smooths the "ups and downs" and produces a more accurate projection of pension expense for the Company. Using the

2014 actuarial projection, which is a single, set point in time, as suggested by OPC witness Ramas, would ignore the Company's actual experiences with fluctuations in this expense category. Thus, use of the 2014 expense would not be as accurate. Furthermore, the amount also appropriately recognizes deferred, pre-merger post-retirement medical benefit costs associated with the regulatory asset approved in Docket No. 080029-PU. As such, no adjustments should be made. (Martin, Kim)

ISSUE 42: Is FPUC's proposed Other Post Employment Benefits Expense for the projected test year appropriate? If not, what adjustment should be made?

FPUC: The amount proposed by the Company for Other Post Employment Benefits Expense is appropriate and reflects an appropriate projection of expenses in the projected test year. The projected amount is appropriately based upon an average of expenses over the past two years since the plan was last amended, which takes into the significant fluctuations experienced in the discount rate in recent years. It also appropriately recognizes deferred, pre-merger, post-retirement medical benefit costs associated with the regulatory asset approved in Docket No. 080029-PU. As such, no adjustments should be made. (Martin, Kim)

ISSUE 43: Is FPUC's proposed advertising expense for the projected test year appropriate? If not, what adjustment should be made?

FPUC: Yes. The Company has included the appropriate amount of advertising expense in the projected test year. No adjustments to this amount are necessary or appropriate. The adjustments to advertising expense proposed by OPC's witness Ramas would exclude appropriate means and methods of communicating with the Company's customers. More specifically, the adjustment to remove expenses associated with the Shrimp Festival ignores the two-fold benefit of the Company's participation in the event, which is that the event not only provides a critical opportunity for the Company to communicate with its customers regarding pertinent service information, programs, and related topics, but it also is an important economic development event for the community. (Socarras)

ISSUE 44: Is FPUC's proposed reserve target level and annual storm damage accrual of $121,620 for the projected test year appropriate? If not, what is the appropriate amount?

FPUC: Yes. The appropriate amount to include in the projected test year is $121,620. It appears that this issue is not contested and as such, may be eligible for stipulation. (Martin)

ISSUE 45: Is FPUC's proposed Injuries and Damage Expense for the projected test year appropriate? If not, what adjustment should be made?

FPUC: Yes. The appropriate amount is included in the projected test year. This issue does not appear to be contested and as such, may be eligible for stipulation. (Martin)

ISSUE 46: Is FPUC's proposed rate case expense for the 2015 projected test year appropriate? If not, what adjustment should be made?

FPUC: Yes. At this time the appropriate amount of rate case expense for the projected test year is $154,144; however, if the Company does go to full hearing it may be appropriate to update the amount of rate case expense and adjust based on the latest estimate at the time of hearing. The current projected 13-month average of unamortized rate case expense is $692,056. It is appropriate to include 50% of that amount, or $346,028, in working capital for the projected test year. (Martin)

ISSUE 47: What is the appropriate period for the amortization of rate case expense?

FPUC: Rate case expense should be amortized over 5 years. (Martin)

ISSUE 48: Is FPUC's proposed Economic Development Expense for the projected test year appropriate?

FPUC: Yes. The appropriate amount of Economic Development Expense is included in the projected test year. The amount included reflects the Company's new Economic Development Plan, which establishes a more robust, structured plan for the Company's involvement in economic development activities in its service territories. The plan enhances and extends upon efforts for which the Company has received approved recovery in the past and reflects a more directed approach consistent with efforts and plans of other Florida utilities. As such, the requested annual amount of $50,000 is appropriate and should be included for recovery. (Socarras, Martin)

ISSUE 49: Is FPUC's proposed Bad Debt Expense for the projected test year appropriate? If not, what adjustment should be made?

FPUC: Yes. The appropriate amount of Bad Debt Expense is included in the projected test year. As such, no adjustments are required or appropriate. (Martin)

ISSUE 50: Are the cost allocations from FPUC's Common to FPUC's electric division for shared resources reasonable? If not, what adjustments are appropriate?

FPUC: Yes. The cost allocations from FPUC's Common to the electric division represent a fair and reasonable allocation to the electric division. (Martin)

ISSUE 51: Are the cost allocations made by FPUC's corporate parent, Chesapeake Utilities, to FPUC's electric division for shared resources reasonable? If not, what adjustments are appropriate?

FPUC: Yes. The allocations made by Chesapeake Utilities Corporation to FPUC's electric division are appropriate and reflect the reasonable amount of shared resources. The services for which FPUC receives an allocated cost are services which benefit the operations of the FPUC electric division. The allocation of shared services is an efficient approach to providing the services to the various operating divisions, including FPUC's electric division, and the amount allocated to FPUC represents a fair and reasonable allocation. (Kim)

ISSUE 52: Are the direct charges from FPUC's corporate parent, Chesapeake Utilities, to FPUC's electric division for services and resources reasonable? If not, what adjustments are appropriate?

FPUC: Yes, the direct charges from Chesapeake Utilities to FPUC are appropriate and should not be adjusted. These amounts appropriately reflect services performed for FPUC, which provide a direct benefit to the FPUC electric operations. As such, these services, and the corresponding charges, inure to the benefit of ratepayers and should be allowed. (Martin, Kim)

ISSUE 53: Is FPUC's requested amount for the Winter Event in the projected test year appropriate? If not, what adjustment should be made?

FPUC: The requested amount is appropriate and should not be removed. Expenses associated with this event should be deemed recoverable, as these events serve as an employee benefit, as well as a motivational tool. Employees that are appreciated and motivated to perform at the highest levels ultimately benefit our customers through efficient, responsive, service. The adjustment proposed by OPC witness Ramas should be rejected as it relates to the Winter Events. These events are, in fact, very economical, as the amount spent per employee for this event is only $260. As such, the requested amount in the projected test year should be approved. (Martin)

ISSUE 54: Is FPUC's requested amount of $4,231,486 for distribution O&M Expense for the projected test year appropriate? If not, what is the appropriate amount?

FPUC: Yes. The amount of $4,231,486 for distribution O&M expense is appropriate and should be approved. (Martin)

ISSUE 55: Is FPUC's requested amount of $130,290 for transmission O&M Expense for the projected test year appropriate? If not, what is the appropriate amount?

FPUC: Yes. The amount of $130,290 for transmission O&M expense is appropriate and should be approved. (Martin)

ISSUE 56: Is FPUC's requested tree trimming expense in the projected test year appropriate? If not, what adjustment should be made?

FPUC: Yes. The amount reflected appropriately reflects that costs anticipated based upon reasonable projections. These costs must be incurred in order for the Company to remain in compliance with Commission storm hardening requirements, and therefore, should be allowed. (Martin)

ISSUE 57: Is FPUC's requested joint audit expense in the projected test year appropriate? If not, what adjustment should be made?

FPUC: Yes. The amount reflected is appropriate and should not be adjusted. The expense indicated reflects amounts identified by the outside firm with whom the Company intends to contract for purposes of conducting the joint use audit. The Company anticipates that it will have to absorb the entire costs of the audit, as current contracts with entities that use the Company's poles do not specifically provide for sharing of costs for such audits. (Cutshaw, Martin)

ISSUE 58: Is FPUC's requested level of O&M Expense in the amount of $12,160,672 for the projected test year appropriate? If not, what is the appropriate amount?

FPUC: Yes. The amount of $12,160,672 properly reflects the O&M expense that would be incurred in the projected test year. (Martin)

ISSUE 59: What is the appropriate amount of depreciation expense for the projected test year?

FPUC: The appropriate amount is 3,722,867 as adjusted based on the FPSC staff's audit findings. This appears to be an issue that could be stipulated. (Martin)

ISSUE 60: Is FPUC's requested level of Taxes Other Than Income of $992,182 for the projected test year appropriate? If not, what adjustment should be made?

FPUC: Yes. The appropriate level of Taxes Other Than Income is $992,182. (Martin)

ISSUE 61: Should an adjustment be made to Income Tax expense for the projected test year?

FPUC: Yes, an adjustment should be made for the impact of the adjustments to depreciation and O&M expenses, income taxes should be increased by $7,898 for a total Income Tax expense of $253,932. (Martin)

ISSUE 62: Is FPUC's requested level of Total Operating Expenses in the amount of $16,595,318 for the projected test year appropriate? If not, what is the appropriate amount?

FPUC: No. The amount of $16,582,742 in Total Operating Expenses is the appropriate amount for the projected test year September 2015. This includes the adjustments to depreciation expense, OM& expenses and income taxes for a total of $12,576. (Martin)

ISSUE 63: Is FPUC's projected Net Operating Income in the amount of $768,115 for the projected test year appropriate? If not, what is the appropriate amount?

FPUC: No. As reflected on CMM-12 in the rebuttal testimony, the appropriate amount for the projected test year is $780,691. (Martin)

Revenue Requirements

ISSUE 64: What is the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for FPUC?

FPUC: The appropriate revenue expansion factor is 1.6335. (Martin)

ISSUE 65: Is FPUC's requested annual operating revenue increase of $5,852,171 for the projected test year appropriate? If not, what is the appropriate amount?

FPUC: No. As reflected on CMM-12, the appropriate operating revenue increase is $5,775,257. (Martin, Householder)

Cost of Service and Rate Design

ISSUE 66: What is the appropriate cost of service methodology to be used in designing FPUC's rates?

FPUC: The appropriate cost of service methodology is set forth in the attachment to MFR E-1. This is the same cost of service methodology approved by the Commission in the Company's last rate case. (Cutshaw/Shelley)

ISSUE 67: If a revenue increase is granted, how should the increase be allocated to rate classes?

FPUC: The base rate increase should be allocated, to the extent possible, based upon the cost of serving each customer and customer class, as shown on MFR E-8. (Cutshaw/Shelley)

ISSUE 68: What are the appropriate customer charges?

FPUC: The appropriate customer charges that should be approved for implementation are:

	----------------Customer Charge(s) ------------------------------
Residential (RS)	$16.00
General Service (GS)	$24.00
General Service Demand (GSD)	$65.00
General Service Large Demand (GSLD)	$150.00
General Service Large Demand (GSLD1)	$900.00
Standby (SB) <500 kw	$190.00
Standby (SB) ≥ 500 kw	$940.00

(Cutshaw/Shelley)

ISSUE 69: What are the appropriate demand charges?

FPUC: The appropriate demand charges that should be approved for implementation are:

	Demand Charge $/kw
Residential (RS)	$ 0.00
General Service (GS)	$ 0.00
General Service Demand (GSD)	$ 4.20
General Service Large Demand (GSLD)	$ 6.00
General Service Large Demand (GSLD1)	$ 1.68
General Service Large Demand (GSLD1)	$ 0.36 kVAR
Standby (SB) <500 kw	$ 3.00
Standby (SB) ≥500 kw	$ 0.80
Outdoor/Street Lighting	15.9%

(Cutshaw/Shelley)

ISSUE 70: What are the appropriate energy charges?

FPUC: The appropriate energy charges are:

	Energy Charge $/kwh	
Residential (RS)	≤1,000 -	$.02170
	>1,000 -	$.03420
General Service (GS)	$.02582	
General Service Demand (GSD)	$.00571	
General Service Large Demand (GSLD)	$.00218	
General Service Large Demand (GSLD1)	$.00000	
Standby (SB) <500 kw	$.00000	
Standby (SB) ≥500 kw	$.00000	

(Cutshaw/Shelley)

ISSUE 71: What are the appropriate standby rates?

FPUC: The appropriate standby rates, which should be approved by the Commission, are:

Monthly Rate

Customer Facilities Charge:

(a) For those customers who have contracted for standby service capacity of less than 500 KW – the GSD customer facilities charge plus $40.00.

(b) For those customers who have contracted for standby service of 500 KW or greater – the GSLD customer facilities charge plus $40.00.

Local Facilities Charge:

(a) For those customers who have contracted for standby service capacity of less than 500 KW- $3.00/KW.

(b) For those customers who have contracted for standby service of 500 KW or greater - $0.80/KW.

(Cutshaw/Shelley)

ISSUE 72: What are the appropriate service charges?

FPUC: The appropriate service charges, which should be approved, are:

Service Charges

A. Initial establishment of service	$ 61.00
B. Re-establish or Change Account	$ 26.00
C. Temporary disconnect then reconnect Service	$ 65.00
D. Re-connect service after being disconnected for rule violation	
Normal Business Hours	$ 52.00
After Normal Business Hours	$178.00
E. Connect and then disconnect temporary Service	$ 85.00
F. Collection Charge	$ 16.00

(Cutshaw/Shelley)

ISSUE 73: What are the appropriate charges for temporary service?

FPUC: The Company's proposal to provide temporary service on the following basis should be approved:

> When the temporary service is to be later replaced with a permanent service, the Company will install a service drop, meter and other facilities as may be necessary to the customer's temporary service pole and remove same at the termination of temporary service. To recover the cost of installing and removing such temporary service, an advance of $230.00 per service to the applicant will be applied. For underground temporary service using customer provided wire, an advance of $200.00 per service will be required. Should the Company be required to install an additional pole, additional charges will apply. A pole with an overhead service will be an additional $395.00, and a pole with an underground service will be an additional $560.00.

When the temporary service will not be replaced by a permanent service or when the location is such that multiple temporary poles and/or extensive facilities are required, the Company will estimate the cost of installing and removing the temporary facilities and the advance charge to the applicant will be that cost estimate.

The rate schedule for temporary service shall be that which is applicable to the class of service for that customer.

(Cutshaw/Shelley)

ISSUE 74: Is FPUC's restructuring of the energy charges for the residential rate class into a two-tier inclining block structure appropriate?

FPUC: Yes. Approval of this structure would be consistent with the Commission's approval of a step rate, or inclining block rate, for the residential purchased power adjustment factor for the Company. Consumers will be given an incentive and a financial benefit to conserve electricity and reduce or maintain usage below 1,000 kWh per month. The result will also benefit the Company through improved load factors and the potential for reduced purchased power costs. (Martin, Cutshaw/Shelley)

ISSUE 75: Should FPUC's current outdoor lighting (OL-2) and street lighting (SL-3) rate classes be combined into a single Lighting Service (LS) rate class? If so, what are the appropriate lighting rates for the LS rate class? If not, what are the appropriate lighting rates for the OL-2 and SL-3 rate classes?

FPUC: Yes. The appropriate rates are:

Type Facility	Lamp Lumens	Size	KWH/Mo. Watts	Facilities Estimate	Maintenance* Charge	Energy Charge	Total
Charge	Charge						
High Pressure Sodium Lights							
Acorn 16,000	15061	$16.72	$2.12	$2.71	$21.55		
ALN 440	16,000	150	61	$24.88	$3.03	$2.71	$30.62
Amer. Rev.	9,500	100	41	8.23	$2.78	$1.83	$12.84
Amer. Rev.	16,000	150	61	$7.70	$3.79	$2.71	$14.20
Cobra Head	9,500	100	41	$6.34	$1.88	$1.83	$10.05
Cobra Head	22,000	200	81	$8.31	$2.14	$3.63	$14.08

Cobra Head	28,500	250	101	$9.07	$3.36	$4.50	$16.93
Cobra Head	50,000	400	162	$9.21	$2.35	$7.26	$18.82
Flood 28,500	250101	$9.98	$2.05	$4.50	$16.53		
Flood 50,000	400162	$15.16	$1.92	$7.26	$24.34		
Flood 130,000	1,000	405	$18.99	$2.54	$18.09	$39.62	
SP2 Spectra	9,500	100	41	$21.07	$3.66	$1.83	$26.56
Metal Halide Lights							
ALN 440	16,000	175	71	$25.73	$2.22	$3.19	$31.14
Flood 50,000	400162	$10.29	$1.88	$7.26	$19.43		
Flood 130,000	1,000405	$17.51	$2.48	$18.09	$38.08		
Shoebox	16,000	175	71	$19.27	$2.49	$3.19	$24.95
Shoebox	28,500	250	101	$20.51	$2.78	$4.50	$27.79
SP2 Spectra	9,500	100	41	$20.91	$2.55	$1.83	$25.29
Vertical Shoebox	130,000	1,000	405	$24.70	$3.12	$18.09	$45.91

(Cutshaw/Shelley)

ISSUE 76: Should FPUC's current SL1-2 and OL (mercury vapor) rate classes be combined into a single OSL rate class? If so, what are the appropriate lighting rates for the OSL rate class? If not, what are the appropriate lighting rates for the SL1-2 and OL rate classes?

FPUC: Rate Schedules SL-1 and SL-2, applicable to mercury vapor lighting, should be revised and renamed Rate Schedule OLS. The appropriate rates thereunder are:

Lamp Size Lumens	KWH/Mo. Estimate Charge	Facilities Charge	Maintenance* Charge	Energy Charge	Total
7,000	72	$1.19	$1.04	$3.15	$5.38
20,000	154	$1.31	$1.12	$6.74	$9.17

(Cutshaw/Shelley)

ISSUE 77: Should FPUC's Transitional Rate for non-profit sports fields be eliminated?

FPUC: Yes. (Cutshaw/Shelley)

ISSUE78: Should FPUC's proposed Economic Development Rider Program (EDRP) tariff be approved?

FPUC: Yes. The proposed EDRP is consistent with other similar such Economic Development mechanisms approved by the Commission for other utilities. Approval of this EDRP for the Company will better enable FPUC to assist the municipalities, counties, and chambers of commerce in efforts to attract new businesses to locate in these areas. This is beneficial not only for the respective communities, but new and expanding businesses will enable the Company to spread fixed costs over a larger customer base. (Socarras, Cutshaw/Shelley)

ISSUE 79: What is the appropriate effective date for FPUC's new rates and charges?

FPUC: The revised rates and charges should become effective for meter readings on or after 30 days from the date of the Commission's vote. (Martin)

Other Issues

ISSUE 80: Should FPUC be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?

FPUC: Yes.

ISSUE 81: Should this docket be closed?

FPUC: Yes.

f. Stipulated Issues

FPUC is aware of no stipulated issues at this time, but it appears that several issues may be eligible for stipulation, which may become more apparent upon the filing of Prehearing Statements.

g. Pending Motions

FPUC has no pending motions at this time.

h. Pending Confidentiality Claims or Requests

FPUC has the following pending requests for confidentiality:

-July 14, 2014 – Request for Confidentiality of information contained in FPUC's Responses to Citizen's 4th Requests for Production

-July 17, 2014 – Request for Confidentiality of information contained in FPUC's Responses to Citizen's 6th Requests for Production

-August 4, 2014 – Request for Confidentiality of information contained in OPC Witness Ramas' Testimony.

-August 5, 2014 – Request for Confidentiality of information in portions of the Company's Rebuttal Testimonies and Exhibits of witnesses Householder, Martin and Kim.

i. Objections to Witness Qualifications as an Expert

FPUC has no objections to any witnesses' qualifications at this time.

j. <u>Compliance with Order No. PSC-14-0194-PCO-EI</u>

FPUC has complied with all requirements of the Order Establishing Procedure entered in this docket, as well as the subsequent orders issued modifying that Order.

RESPECTFULLY SUBMITTED this 15th day of August, 2014.

Beth Keating
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing filing has been served by Electronic Mail this 15th day of August, 2014, upon the following:

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