BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for rate increase by Florida Public Utilities Company.	DOCKET NO. 040216-GU ORDER NO. PSC-04-1110-PAA-GU ISSUED: November 8, 2004

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

NOTICE OF PROPOSED AGENCY ACTION ORDER APPROVING IN PART THE REQUESTED RATE INCREASE OF FLORIDA PUBLIC UTILITIES COMPANY

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the adjusting of the company's books in accordance with our final decisions, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

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I. BACKGROUND

This proceeding commenced on May 10, 2004, with the filing of a petition for a permanent rate increase by Florida Public Utilities Company (FPUC or the company). We last granted FPUC a $1,282,001 permanent rate increase by Order No. PSC-95-0518-FOF-GU, issued April 26, 1995, in Docket No. 940620-GU, In Re: Application for a rate increase by Florida Public Utilities Company. In this latest filing, FPUC requested an increase of $8,186,989 in additional annual revenues. The company based its request on a 13-month average rate base of $65,835,210 for a projected test year ending December 31, 2005. The requested overall rate of return is 8.66% based on an 11.50% return on equity.

By Order No. PSC-04-0721-PCO-GU, issued July 26, 2004, in this docket, we granted an interim increase of $1,236,108. In that Order, we found the company's rate base to be $50,496,627 for the interim test year ended December 31, 2003, and its allowed rate of return to be 7.65%, using a return on equity of 10.40%.

Pursuant to Section 366.06(4), Florida Statutes (F.S.), FPUC requested that we process its petition for rate relief using Proposed Agency Action (PAA) procedures. Customer meetings were held in West Palm Beach on July 7, 2004, and Deltona on July 8, 2004. We have jurisdiction over this request for a rate increase and interim rate increase under Sections 366.06(2) and (4), and 366.071, F.S.

II. PROJECTED TEST YEAR

The company used actual data for the 2003 test year rate base, net operating income, and capital structure. The projected test year was based on the projected level of customers, related revenues, expenses updated for cost increases and trending, and projected cost of capital. Plant additions for 2003 and the first seven months of 2004 have been audited and analyzed by our auditors and staff. In addition, 2003, 2004, and the projected test year reflect the acquisition of the assets of South Florida Natural Gas Company (SFNG).

The purpose of the test year is to represent the financial operations of a company during the period in which the new rates will be in effect. We find that the calendar year 2005 is representative of current operations and is an appropriate test year.

III. QUALITY OF SERVICE

As stated above, customer meetings were held in West Palm Beach and in Deltona, Florida, to gather information from customers regarding the company's quality of service and its request for a permanent rate increase. Three customers spoke at the West Palm Beach meeting and five customers spoke at the Deltona meeting. There were no quality of service complaints. All but two of the residential customers who attended expressed concern over the rate increase.

Quality of service was reviewed by analyzing all complaints taken by the Commission's Division of Regulatory Compliance and Consumer Assistance for the period of August 2003 through mid-August 2004. There were a total of 27 complaints, 11 involving billing complaints and 16 involving service. All but two were resolved in a timely manner. The number of complaints per customer compares favorably with other large Florida natural gas utilities. Therefore, we find that FPUC's quality of service is satisfactory.

IV. RATE BASE

A. South Florida Operations Center

The utility planned to purchase land in Palm Beach County in mid-2004 for the new location of its operations center, at a cost of $2,500,000. However, the utility has now indicated that the anticipated cost of the land is $4,200,000 due to a substantial increase in demand for this type of property. The utility further indicated that the total cost would be approximately $4,500,000, including $300,000 in attorney's fees, closing costs, and other costs. The utility did not indicate that the proposed operations center would be occupied by the end of the projected test year, or that construction of the center would have even begun.

Chapter 366.06(1), Florida Statutes (F.S.), states that this Commission "shall investigate and determine the actual legitimate cost of the property of each utility company, actually used and useful in the public service . . . ." There is no guarantee that the land will be purchased by the end of the projected test year. Further, it is being purchased solely for the location of a new operations center, and the utility has not indicated that construction will have begun by the end of the projected test year. As a result, the land will not be used for its intended purpose, and will not be used and useful in serving the public in the projected test year.

The projected cost is now $2 million more than the projection in the utility's MFRs. Further, there was no analysis provided on the retirement, and/or sale of the existing property. At this time, it is not possible to determine the appropriate treatment of the proposed building. At the time the new building is built and placed in service, an analysis would need to be completed to determine the appropriate allocation between utility and non-utility, and also whether the new building will be 100% used and useful in providing service. A further analysis would need to be completed on the retirement of the existing operations center. This would include any related gain on sale. Finally, additional analysis would need to be performed as to the prudence of purchasing this property, in light of the purchase price being increased by $2 million during this rate case. Section 366.06(1), F.S., further states that such "value, as determined by the commission, shall be used for ratemaking purposes and shall be the money honestly and prudently invested by the public utility company in such property used and useful in serving the public . . . ."

Therefore, we find that this land shall be considered non used and useful for the purpose of setting rates in this case and the $2,500,000 shall be removed from rate base. Additionally, Account 390, Structures and Improvements, and the associated accumulated depreciation and expense shall be reduced by $26,340, $198 and $396, respectively, for associated building construction plans that are also considered non used and useful. The removal of the related property tax on the land will be addressed later in this Order. Once the new operations building is placed in service, as well as the existing center retired, the utility may seek recovery in its next rate case.

B. Sanford Office Building and Land

In November, 2002, the company vacated the Sanford office building, due to the Environmental Protection Agency (EPA) finding that the soil at this location is contaminated. FPUC states that they are awaiting mediation with the EPA. There has been no set schedule as to when the mediation process will begin. The utility states that the Central Florida operation was moved from the Sanford location to a new larger facility located in DeBary late in 2002. Further, the utility states that the Sanford location is currently not marketable pending remediation. FPUC further states that the property should continue to be included in rate base since the property has been included in rate base prior to being vacated, and the eventual sale will benefit ratepayers.

Again pursuant to Section 366.06(1), F.S., only "the actual legitimate costs of property of each utility company, actually used and useful in the public service" should be included in rate base, and we find that this building and property shall be removed from rate base for ratemaking purposes in this case. Once the utility has determined the environmental costs, the cost to remove the building, as well as the gain on sale of the property, the utility can seek rate recovery. These factors shall be analyzed in a future proceeding. The utility contends that if we deem it not appropriate to include this property in rate base, that the return should be provided for through the environmental reserve.

Upon the company's completion of the mediation process with the EPA, FPUC may request inclusion of the loss on the office building, mitigation expenses, and associated land in a separate proceeding before this Commission. In this future proceeding addressing the environmental costs, the cost of removal, potential gain on sale, rate of return on the land, and related property tax not included in rates shall be addressed. At that time, we can further analyze any sharing of the gain on sale, due to the lost return and related property tax during the period of time the land was not included in rate base.

Therefore, the vacant office building and land are not used and useful at this time and shall be removed from plant in service. For the projected test year, we find that for Account 390, Structures and Improvements, plant-in-service, accumulated depreciation, and depreciation expense shall be reduced by $97,768, $104,123, and $2,542, respectively. Also, Account 389, Land and Land Rights, shall be reduced by $8,436 plant-in-service. The net adjustment to plant-in-service is a reduction of $106,204.

C. Plant Additions

Our staff engineer's review and evaluation of the construction budget determined that it was overstated in the amount of $1,182,900 for the year ending December 31, 2004. To correct the 2004 overstatement, a reduction shall be made to plant-in-service, accumulated depreciation, and depreciation expense of $1,182,900, $29,559, and $29,559, respectively, for the projected test year.

For the projected test year, 2005, FPUC understated its construction budget by $213,500. To correct the understatement of the construction budget, plant-in-service, accumulated depreciation, and depreciation expense shall be increased by $106,750, $1,357, and $2,713, respectively, for the projected test year.

For the 2005 projected test year, the net effect of these two adjustments is a decrease of $1,076,150, $28,202, and $26,846 to plant, accumulated depreciation, and depreciation expense, respectively.

D. Plant Retirements

Our staff engineer's review and evaluation of plant retirements determined that the plant retirements were overstated for 2004 and the projected test year due to retired or sold vehicles, and numerical errors for some plant accounts. For 2004, the numerical errors resulted in miscalculated retirements for Accounts 392.2, Transportation-Trucks and Vans; and 396, Power Equipment. The 2004 adjustments due to the miscalculations results in reductions of $5,073, $5,400, and $327, for plant-in-service, accumulated depreciation, and depreciation expense, respectively. In addition, some vehicles were retired or sold and not removed from FPUC's projected test year. Therefore, adjustments to plant-in-service, accumulated depreciation, and depreciation expense shall be made to the following accounts:

(1) Account 392.1,Transportation-Cars, shall be reduced by $9,503, $10,577, and $447 to reflect vehicle #85 which was sold May 23, 2002;

(2) Account 392.1,Transportation-Cars, shall be reduced by $14,551, $15,568, and $1,644 to reflect vehicle #135 which was transferred from the natural gas division to the propane division; and

(3) Account 392.4, Transportation – Trailers, shall be reduced by $985, $1,012 and $27 to reflect trailer #75 which was retired in a previous year.

For the 2005 projected test year, the net effect is a reduction to plant, accumulated depreciation, and depreciation expense for the projected test year of $30,112, $32,557, and $2,445, respectively.

E. Inactive Service Lines

Rule 25-12.045, Inactive Gas Service Lines, Florida Administrative Code, outlines the necessary action "for inactive gas service lines that have been used, but have become inactive without reuse." Section (1)(c) of the rule states: "After five years of inactivity, service lines shall be retired and physically abandoned within six months." Section (2) states:

> To physically abandon a service line, the operator must disconnect the service line from all sources of gas at the nearest point to the gas main. Where the appropriate governmental authority prohibits cutting pavement, the service line shall be disconnected at the nearest point not under a paved surface. The stub of the

service line, the short section of the remaining service line to the main, shall be disconnected closer to the main or at the main, if at some later date it becomes accessible during normal operations.

Based upon review of the information provided by FPUC, there are 309 service lines that have been inactive for five or more years. Therefore, these lines shall be removed from the projected test year for ratemaking purposes. Accordingly, $113,998, $278,678, and $4,045 shall be removed from plant-in-service, accumulated depreciation, and depreciation expense, respectively, for the projected test year. The cost to remove the inactive service lines is approximately $157,204, which is included in the accumulated depreciation amount of $278,678.

F. Bare Steel Replacement Program

The bare steel replacement program proposed by the utility would replace all of the utility's existing bare steel mains and service lines with plastic pipe. Bare steel mains and service lines do not appear to have effective cathodic protection on them. Included in this total is approximately five miles of cast iron mains. Some of these mains and service lines have experienced corrosion and corrosion-related gas leaks.

The utility's proposed program would replace all existing mains over a 75-year period beginning in 2005, at a total cost of $28,315,380, amortized at $377,538 per year. We find that the replacement period shall be shortened to 50 years to reflect the average useful life of the equipment. This change results in a yearly increase in amortization expense of $188,770 for a total of $566,308. Accumulated amortization for the projected test year is also increased by $94,385.

G. Acquisition Adjustment

On December 14, 2001, FPUC acquired the assets of SFNG for a purchase price of $9,917,000. Part of the purchase price was for SFNG's propane operations. SFNG had approximately 4,300 residential, 360 commercial, and 1,000 propane customers. The utility believes that its request for inclusion of its proposed acquisition adjustment is justified for the following reasons.

The utility states that there were approximately $138,000 in operational savings as a result of the acquisition. The utility imputed that these savings translated into a justifiable rate base increase of approximately $1,801,000. This calculation assumes that it would take $1,801,000 in rate base to produce an additional revenue requirement of $138,000 based on its December 31, 2001 rate of return of 7.68%. Using the same methodology, the utility calculated that the rate of return differential between SFNG and FPUC at December 31, 2001 would equate to $816,000 in additional justifiable rate base. The utility also calculated the fuel cost differential between the two utilities and, again applying FPUC's allowable rate of return, imputed that an additional $4,018,000 in rate base was justified. In this filing, FPUC stated that its justifiable increase to rate base as a result of this purchase was $6,637,112; however, FPUC is seeking approval for total goodwill of $3,300,000 to be included in rate base as a positive acquisition adjustment.

The utility indicated that $960,376 of the total amount of $3,300,000 represented the fair market value over the book value of the acquired assets. Section 366.06(1), F.S., states that this Commission

> shall investigate and determine the actual legitimate costs of the property of each utility company, actually used and useful in the public service, and shall keep a current record of the net investment of each public utility company in such property which value, as determined by the commission, shall be used for ratemaking purposes and shall be the money honestly and prudently invested by the public utility company in such property used and useful in serving the public, less accrued depreciation, and shall not include any goodwill or going-concern value or franchise value in excess of payment made therefor.

According to Title 18 of The Code of Federal Regulations (18 CFR), revised as of April 1, 2004, p. 580, an acquisition adjustment ". . . shall include the difference between (a) the cost to the accounting utility . . ., and (b) the original cost, estimated if not known." The utility stated that its request for the inclusion of an additional $3,300,000 as an acquisition adjustment in rate base meets this standard.

However, we find that the $3,300,000 amount contains an amount for goodwill. In its exhibit, the utility stated, "The total goodwill inclusive of intangible assets for the SFNG portion of the acquisition amounted to $3.3 million. Included in the total goodwill is the difference between the fair market value and book value (historical cost) of the plant acquired, amounting to $960,376." As discussed above, 18 CFR defines an acquisition adjustment as the cost to the utility over the original cost. In this case, this amounts to the $960,376 that we find shall be included in rate base. The remaining $2,339,624 is goodwill and shall not be included in rate base.

In order to properly evaluate the utility's request, it is necessary to use objective standards to develop quantitative benefits to the former customers of SFNG and the pre-acquisition customers of FPUC. By Order No. 23858, issued December 11, 1990, in Docket No. 891353-GU, <u>In re: Application of Peoples Gas Systems, Inc. for a rate increase</u>, this Commission examined a number of potential benefits to the existing customers of the acquired Southern Gas Company. The Order stated, "It is our policy to disallow positive acquisition adjustments unless extraordinary circumstances can be proven." The Commission ultimately approved a positive acquisition adjustment of $2,351,756 amortized over 30 years. In this case, we have also examined the potential benefits resulting from FPUC's acquisition of SFNG. We find that there are resulting benefits as discussed below.

<u>Increased Quality of Service</u>

SFNG's last full year of operations prior to its acquisition was 2001. For that year, there were a total of nine complaints filed with the Division of Regulatory Compliance and Consumer Assistance. SFNG had approximately 4,300 residential and 360 commercial customers. This translates into a complaint ratio of 1.93 complaints per 1000 customers for the 2001 calendar year. FPUC has approximately 49,200 gas customers, and there were 27 complaints filed the period of August 2003 to early August 2004. FPUC's complaint ratio is approximately .55 per 1000 customers; a ratio approximately three-and one-half times lower than SFNG's ratio.

Our staff engineer assigned to the present case indicates that portions of the existing SFNG plant were old, and were not maintained to the standards of FPUC. In particular, pressure regulators and gate stations will need to be upgraded to meet the present standards of FPUC. This is a reliability issue not a safety issue. Many parts in use are no longer made due to their age. Pursuant to our staff engineer, expenses for the needed repairs and upgrades to the former SFNG plant are included in this case.

Lower Overall Cost of Capital

SFNG's last Rate of Return Report for June 2001 filed on September 17, 2001, prior to the acquisition, indicated that SFNG had a 10.28% allowable rate of return, and an average achieved rate of return of 5.47%, which was below the required rate of return of 9.47%. In this case, we have determined a cost of equity of 11.25% and an overall rate of return of 7.62%.

Lowered Operating Costs

In the past, this Commission has looked at cost savings to support any request to include acquisition adjustments in rate base. See Order No. 18716, issued January 26, 1988, in Docket No. 870118-GU, Petition of Central Florida Gas Company to increase its rates and charges. Also, see Order No. 24013, issued January 23, 1991, in Docket No. 891175-GU, Petition of City Gas Company Inc. for a rate increase. In the present case, the utility provided an exhibit that indicated that there are measurable cost savings of at least $138,000 of net cost reductions that resulted from synergies realized from the merger. While certain expenses, such as additional printing and mailing costs do increase, it is more than offset by a reduction in expenses by eliminating duplicative staff and facilities, and the costs for SFNG's billing subcontractor. A review of FPUC's documentation shows that the stated savings appear reasonable. Additionally, there does not appear to be any adverse financial consequences to the existing rate payers. These cost savings benefit not only the former SFNG customers, but FPUC's pre-acquisition or existing customers as well; moreover, even after the inclusion of the acquisition adjustment in rate base, there appear to be net savings of approximately $65,000.

Additionally, the purchase of SFNG allows FPUC to reduce allocated costs to the pre-acquisition customers of FPUC. FPUC allocates plant and a number of expenses to both regulated and non-regulated operations based on such factors as percentage of customers, utility plant, or payroll. Adding additional non-regulated propane and additional natural gas customers has the effect of reducing the percentage allocated to the existing pre-acquisition regulated customers.

Also, while fuel costs are removed in determining final base rates in a rate case, fuel costs impact the total amount of a customer's bill. To properly evaluate the total impact on customers, fuel charges as well as base rates must be considered. FPUC provided documentation indicating that its fuel charge per therm for 2001 was 15.5% less than the per therm cost for SFNG. This would translate into potential yearly cost savings of over $300,000 for the former SFNG customers, based on rates in effect prior to the acquisition. As a result, if our proposed rates become final, the average bill reduction for a former SFNG residential customer using 22 therms monthly is a decrease of 2.4%, or $0.83 per month reduction compared to the average residential bill for SFNG customers approved by this Commission in Order No. 24608, issued June 3, 1991, in Docket No. 900623-GU, In re: Petition for general rate Relief by South Florida Natural Gas Company.

Conclusion

We find that FPUC has properly met its burden to justify the inclusion of an acquisition adjustment of $960,376 in rate base. The acquisition of the SFNG system has benefited the former customers of SFNG through expense reductions, reduced fuel prices, and a higher level of customer service. The existing rate payers benefit from the acquisition because there is a net savings of approximately $65,000 even after the inclusion of this acquisition adjustment in rate base and a larger base to allocate common costs, and the average former SFNG customer will have a monthly bill reduction of 2.4%. FPUC's larger size after the acquisition should allow FPUC to more easily attract capital at a lower cost rate, which will benefit all of its customers. This acquisition adjustment shall be amortized over 30 years. The utility has indicated, and our staff, upon review of FPUC's recent depreciation study, agrees that a 30-year amortization period reasonably reflects the useful remaining life of the SFNG plant. Therefore, the acquisition adjustment shall be amortized over 30 years.

Based on the above, the proper totals for the acquisition adjustment, accumulated amortization of the acquisition adjustment, and the related amortization expense for the projected test year shall be $960,376, $128,052, and $32,013, respectively. Because the assets of SFNG were acquired on December 14, 2001, the 30-year amortization period shall be for the period beginning January 1, 2002, reducing the remaining amortization period at the end of the projected test year to 26 years. The resulting reductions to utility plant, and amortization expense are $2,339,624 and $67,713, respectively. The total accumulated amortization of acquisition shall be increased by $78,189.

The permanence of these cost savings shall be reviewed in FPUC's next rate case. If it is determined at that time that the cost savings no longer exist, the acquisition adjustment shall be partially or totally removed from rate base.

H. Construction Work In Progress (CWIP)

Our auditors reviewed the proposed construction budget for the projected test year and made two adjustments that resulted from delays, cancellations or other changes to the forecast. Additional CWIP totaling $79,036 was carried over from 2004 to the projected test year, and reduced by a $37,500 decrease to the general plant construction budget; this results in a net increase to the utility's projected test year CWIP budget of $41,536. Therefore, the appropriate level of CWIP for the projected test year is $235,540.

I. Working Capital

1. Working Capital Allocations

Audit Exception No. 2 stated that the utility used projected factors in its filing to allocate common asset and liability accounts to working capital in its MFRs. When the utility determined its 2004 factors, the allocation rates determined were much lower than the factors originally projected. In addition, the utility used a revenue factor based on utility-only rather than on a consolidated basis. Since most of the allocated accounts are liabilities, the changes to the allocation factors have the effect of increasing working capital. Therefore, we find that working capital shall be increased by $1,434,985 to reflect these changes.

2. Cash

The utility's MFRs indicated a 13-month average of cash in working capital for the projected test year of $444,298. Audit Disclosure No. 6 of the staff audit stated that a proposed equity offering had been rescinded by the Board of Directors based on advice of the company's underwriters for the equity offering. The postponed offering affected the projected level of cash in working capital. The utility still believes that an equity offering will be necessary within the next three years; however, the utility could not positively state the offering will be made until after the projected test year. Upon request of our staff, the utility provided a revised projection of cash which stated that projected test year cash would be $288,650. As a result of this revision, cash shall be reduced by $155,648 ($444,298 - $288,650).

3. Materials and Supplies

The Plant Materials and Operating Supplies account includes the cost of material purchased for use in the utility business for construction, operation and maintenance purposes. The utility's MFRs indicate that the projected test year balance in this account will be $473,077. Although, a portion of this account would normally be allocated to non-utility operations, the utility did not make an allocation to its non-regulated operations. The utility indicated that if an allocation was made based on how the materials in this account were used, that 9% would be allocated to propane. To allow for this 9% adjustment, the Materials and Supplies account shall be reduced by $42,577.

4. Medical Self Insurance Reserve and Accrued Liability Insurance

Later in this Order we decrease Injuries and Damages expense, Account 925, by $9,676. The 13-month average effect of this decrease is $4,838. Therefore, we have decreased the balance in accrued liability insurance by $4,838.

We have also decreased Other Post Employment Benefits expense, Account 926.3, by $11,886. The 13-month average effect of this decrease is $5,943. Therefore, we have decreased the balance in the medical self insurance reserve by $5,943.

In summary, based on the two above-noted adjustments, working capital shall be increased by $4,838 for accrued liability insurance and by $5,943 for medical self insurance reserve, resulting in a net increase to working capital of $10,781. This adjustment is in addition to the allocation factor adjustment we made above.

5. Prepaid Pensions

We have decreased Pension expense due to an updated actuarial valuation of the pension plan and a change in the allocation factor. Due to the reduced pension expense, we find that an increase of $31,706 to the 13-month average of Prepaid Pensions is warranted. This adjustment is in addition to the allocation factor adjustment we made above.

6. Total Working Capital

In its MFRs, the utility requested that its working capital balance be adjusted to $0. The utility's MFRs indicate that its projected test year net working capital is ($1,673,309). The utility's working capital is negative primarily because liability insurance proceeds for gas site cleanups and the Area Expansion Program (AEP) were removed from working capital. The AEP program allows customers who might not otherwise be able to obtain service pay a surcharge for construction and under certain circumstances receive a refund after the collection period has ended.

There are additional reasons given by the utility for the negative balance, such as FPUC's aggressive cash management regimen involving frequent transfers of funds between cash and its interest bearing accounts, and the regulatory treatment of certain regulated assets and liabilities by this Commission. However, the net effect of prior Commission decisions affecting the utility's present working capital balance have had the effect of reducing, not increasing, the utility's negative working capital balance. Also, the utility stated in a response to a data request that its use of a zero balance in working capital was consistent with its two prior gas cases, and that it was neither inappropriate nor unusual to use these prior proceedings as a precedent.

In the FPUC gas division's last two interim orders, Order No. 23516, issued September 19, 1990, in Docket No. 900151-GU, In re: Application for a rate increase in natural gas operations by Florida Public Utilities Company and Order No. PSC-94-1519-FOF-GU, issued December 9, 1994, in Docket No. 940620, In re: Application for a rate increase by Florida Public Utilities Company, this Commission allowed adjustments to zero negative working capital. In addition, in the company's full revenue requirements case, by Order No. 24094, issued February 12, 1991, in Docket No. 900151-GU, In re: Application for a rate increase in natural gas operations by Florida Public Utilities Company, this Commission also allowed an adjustment to bring negative working capital to zero. Further, in the water and wastewater industry, negative working capital is generally increased to zero.

There are also cases where we have approved a negative working capital. Most recently, by Order No. PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030438-EI, In re: Petition for rate increase by Florida Public Utilities Company, we approved a negative working capital allowance for FPUC's electric division. This Commission also approved a negative working capital in Order No. PSC-97-0135-FOF-EI, issued February 10, 1997, in Docket No. 961542-EI, In Re: Investigation of 1995 earnings of Florida Public Utilities Company – Fernandina Beach Electric Division, and in Order No. 21532, issued June 12, 1989, in Docket No. 880558-EI, In re: Petition of Florida Public Utilities Company for rate increase for Marianna Division. In the latter case, this Commission stated:

> Arbitrarily increasing working capital, by raising a negative working capital to zero, would require additional dollars of return on an inflated rate base. However, Section 366.06(1), Florida Statutes, allows a utility to earn a return only on funds actually invested in used and useful assets.
>
> In certain instances it would be appropriate to use a zero working capital instead of a negative: (1) if a negative allowance would have the effect of penalizing a utility for subsidization received from its parent, or (2) large accumulated losses have resulted in a balance sheet which is not typical of a going concern.

89 FPSC 7:185.

In its response to a question as to whether there were any economic factors particular to FPUC in this case that were unsustainable on a stand-alone basis, or that would result if working capital had a negative balance, the utility stated that a negative working capital balance should not generally be viewed as an acceptable condition for a ongoing business entity. The utility further stated that the Commission's restricting, redefining or otherwise modifying the traditional contents of working capital often artificially reduced working capital to a negative balance. However, the MFRs indicates that per books working capital, after utility adjustments, but prior to Commission adjustments, was negative $8,381,014. After Commission adjustments, the balance was negative $1,673,309, a positive increase to working capital of $6,707,705.

In FPUC's last electric rate case a negative working capital balance was approved because the negative balance was a fall out from other rate case adjustments. See Order No. PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030438-EI, In Re: Petition for rate increase by Florida Public Utilities Company. We find that the same method for calculating working capital should be used in this docket. As noted in the prior cases, FPUC has utilized a negative working capital for many years. It appears that a negative working capital balance is sustainable by the utility on a stand alone basis.

For the above reasons, we find that the utility has not met its burden to show that it would be harmed if working capital remained a negative $706,682 and was not set at zero. In its filing, the utility made an adjustment to increase its working capital from a negative $1,673,309 to a working capital of zero. We find that this adjustment shall be reversed, such that the starting balance is negative $1,673,309, the balance per the books. Using this balance and making the adjustments set out above, we calculate that the net working capital is negative $706,682. Our calculation of the appropriate working capital is shown on Attachment 1A.

J. Total Rate Base

Based on the adjustments set out above, we calculate total rate base to be $59,171,674. Our calculation of rate base is shown on Attachment 1.

V. COST OF CAPITAL

A. Accumulated Deferred Taxes in Capital Structure

The company included accumulated deferred taxes of $6,253,275 in its 2005 projected test year capital structure. The income statements for 2003 through 2005, filed in the MFRs, each showed deferred income tax expense. Examination and comparison of the deferred income tax expense and balance sheet deferred taxes revealed that the increase in the credit balance of accumulated deferred income taxes in the balance sheet did not match the total of deferred income tax expense for the three years shown in the income statement.

Additionally, in the company's prefiled testimony, Witness Khojasteh stated "there was also an offsetting decrease to projected deferred taxes in 2003-2005 to account for the basis reduction from plant investments associated with our recent water sale." This basis reduction treatment is allowed by the Internal Revenue Service when a sale is considered an involuntary conversion. As a result of discussions with our staff, the company agreed that because the gain from the sale of the water division went below-the-line into stockholders equity, the tax effect should also be treated below-the-line, such that the tax effect follows the tax event that created it.

After numerous discussions between company and our staff, the company provided revised schedules C-24 and G-2(C-24) showing recalculated deferred income tax expense, as well as revised balance sheet amounts for accumulated deferred taxes for the years 2003, 2004, and 2005. The deferred income tax expense matched the increase in the credit balance of accumulated deferred income taxes in these revised schedules. However, the company agreed that errors had been made in the calculation of excess tax depreciation amounts related to bonus depreciation. For tax purposes, property placed in service after May 5, 2003, and before January 1, 2005, qualifies for a 50-percent first-year depreciation allowance. Bonus depreciation for 2003 and 2004 plant additions had only been included in deferred taxes at 20 percent, rather than at 50 percent. Additionally, the smaller percentage adjustments for 2003 and 2004 were reflected in the year subsequent to the actual year the plant additions were made.

Therefore, it was necessary to increase the excess tax depreciation related to the bonus depreciation by 30 percent (bringing the bonus from 20 percent to the allowed 50 percent) of the company's total 2003 and 2004 plant additions (provided by the company in an exhibit), and correct the timing error. We must then reduce the 2004 bonus depreciation amount by 50 percent of the plant additions that we disallowed earlier in this Order, as this adjustment related to 2004 additions. The company contends that a further adjustment is needed for 2003, due to the change in May 2003 from 30% to 50% bonus depreciation. However, we decline to make an adjustment based on the company's response to staff's 1st Set of Data Requests, wherein the company stated that "for purposes of this computation, we used 50% bonus although pre-May 6, 2003 acquisitions are 30% bonus property because the majority of the property was acquired post May 6, 2003."

In summary, the net result of the above adjustments results in an increase to the 13-month average balance of accumulated deferred income taxes of $2,992,338 for the projected 2005 test year. Therefore, we find that the appropriate amount of accumulated deferred income taxes to include in the capital structure is $9,245,613.

B. Unamortized Investment Tax Credits (ITCs) in Capital Structure

The company proposed to include ITCs of $276,563 in its projected 2005 test year capital structure at a 9.81% cost rate. We find that the amount, as filed, is appropriate. However, based on adjustments to the investor capital components and cost rates discussed below, the appropriate cost rate for ITCs is 9.28%.

C. Cost of Common Equity

FPUC, through the pre-filed testimony of witnesses George Bachman, Doreen Cox, and Robert Camfield, requested 11.50% as the appropriate cost rate for common equity. FPUC supported this cost of equity with the results of four cost of equity models applied to both gas utilities and non-utility companies.

Using Value Line data, FPUC developed a sample of comparable gas utilities consisting of twelve natural gas distribution companies. The selection criteria included market liquidity of shares, business line, historical variations in cash flow and earnings per share, and beta – a measure of non-diversifiable risk. Using similar data and criteria (except for business line), FPUC also developed a sample of comparable non-utility companies consisting of 23 companies from various industries.

FPUC used a discounted cash flow (DCF) model, where the cost of equity is the discount rate that equates future cash flows of a company with its current stock price. FPUC applied a simple DCF model and a three-stage DCF model, which allows for various growth rates, to the sample of comparable gas utilities. The results ranged from 8.5% to 10.6%. FPUC included a 4.5% allowance for issuance costs, which added about 20 basis points to the results. The growth rate inputs included both historical growth and growth forecasted by security analysts.

FPUC employed a capital asset pricing model (CAPM), which is a risk premium model that uses as inputs a risk-free rate, an overall return for the market, and beta – a measure of systematic risk, which is risk that cannot be diversified away. FPUC applied its CAPM model to its sample of both groups of comparable companies. The results ranged from 9.6% to 12.5% for the gas utilities and 9.4% to 12.0% for the non-utility companies.

The next model FPUC used was a risk premium model that is based on realized returns on the S & P 500 for various time frames and a debt cost rate based on U.S. Treasury securities. The results are adjusted for issuance costs, diversifiable risk, and the small firm effect, i.e., firms with small market capitalizations may have higher required returns. The results of this model range from 11.9% to 13.8%.

Finally, FPUC relied on the historical returns, for various periods, for its gas utility and non-utility samples. For the gas utility sample, the returns ranged from 15.4% to 17.4% including the reinvestment of dividends. For the non-utility sample, the returns ranged from 11.6% to 14.5%.

FPUC's four models rely heavily on historical information as inputs. FPUC primarily used historical growth rates for cash flow and earnings per share as well as analysts' forecasted growth rates as inputs for its DCF model. Both the CAPM model and the risk premium model use historical earned, i.e., realized, returns as inputs. The historical returns model, as the name implies, uses historical returns exclusively.

We find that FPUC relied too heavily on historical information in its cost of equity models. The cost of equity is based on investor expectations and is forward-looking. FPUC attempted to find past periods that may reflect expectations for the economy and capital markets but that can never be a good fit. We find that the use of forecasted information is best for cost of equity models.

We also disagree with FPUC's use of earned or realized returns, which can differ significantly from required returns. Investors' required returns are a function of investors' expectations of risk and return. What an investor has earned on a stock for a particular holding period is only partially relevant. Past experience as well as expectations about earnings and risk are included in forecasted information.

Finally, we disagree with FPUC's use of non-utility companies. FPUC's use of gas utilities in the models is appropriate because the business risk of the natural gas distribution industry is reflected in the stock prices and other inputs associated with the gas utilities.

Despite these disagreements, we note that the two most expectational models employed by FPUC are the DCF and CAPM models. The average of the two DCF results is approximately 9.7% and the CAPM result for the gas utilities is 12.5%. The average of these two approaches is 11.10%.

A return on common equity of 11.25% is somewhat above the average of the DCF and CAPM models. We find that going above the average to 11.25% compensates for the business risk factors, such as small size and heavy dependence on commercial and industrial load. We note that we set the cost rate for common equity for City Gas at 11.25% in January 2004 (See Order No. PSC-04-0128-PAA-GU, issued February 9, 2004, in Docket No. 030659-GU, In Re: Application for a rate increase by City Gas Company of Florida.). For the reasons discussed above, we set the cost of common equity for FPUC's gas division at 11.25% with a range of plus or minus 100 basis points for all regulatory purposes.

D. Weighted Average Cost of Capital

For its projected test year capital structure, FPUC allocated investor capital amounts from its consolidated 13-month average capital structure to its gas division. FPUC specifically identified customer deposits, deferred taxes, and investment tax credits for the gas division in developing the capital structure. The utility's resulting overall cost of capital was 8.66%, which was based in part on an equity ratio of 52.17% and a cost rate for common equity of 11.50%.

The five areas where we disagree with FPUC's position on cost of capital are as follows:

1) The appropriate cost rate for common equity;
2) The appropriate balance for deferred taxes;
3) Revision of capital structure to reflect the postponement of the planned equity (common stock) offering;
4) The treatment of non-utility investment in reconciling rate base and capital structure; and
5) The appropriate cost rate for short-term debt.

Regarding the planned equity offering, FPUC's consolidated capital structures for 2004 and 2005 reflect net proceeds of $14.1 million from an equity offering that was planned for June 2004. Based on the advice of it underwriters, FPUC delayed the equity offering at a board of directors meeting on July 16, 2004.

The company now plans an equity offering for June 2005 and has filed a capital structure reflecting this postponement. However, the company's position is that the capital structure as filed is appropriate for determining the cost of capital for this case. The company believes its capital structure as filed is appropriate because it is in the range of an optimal capital structure for a company of FPUC's size, it is consistent with the company's long term financial plans, and it avoids the financial risk of a more highly leveraged capital structure.

FPUC plans to meet any financing needs originally encompassed by the equity offering through short-term debt, i.e., an extended line of credit. FPUC provided our staff with a revised capital structure reflecting the postponement of the equity offering to June 2005. The equity ratio based on this revised capital structure is 45.96%, including the non-utility adjustment discussed below.

We find that the revised capital structure shall be used in determining the cost of capital. The company should not earn a return on equity it has not issued. Further, the replacement interim financing for the equity offering is short-term debt priced at reasonable rates, and an equity ratio of approximately 46% is reasonable for a relatively small gas distribution utility.

Regarding the non-utility issue, FPUC has an investment in a propane gas distribution business – Flo-Gas. The amount of this investment for the projected test year is $2,248,022. In reconciling rate base and capital structure, our practice regarding non-utility investment is stated below:

> . . . we believe all non-utility investment should be removed directly from equity when reconciling the capital structure to rate base unless the utility can show, through competent evidence, that to do otherwise would result in a more equitable determination of the cost of capital for regulatory purposes. In the case of Gulf, we believe that the non-utility investment should be removed from equity. This will recognize that non-utility investments will almost certainly increase a utility's cost of capital since there are very few investments that a utility can make that are of equal or lower risk. Removing non-utility investments directly from equity recognizes their higher risks, prevents cost of capital cross-subsidies, and sends a clear signal to utilities that ratepayers will not subsidize non-utility related costs.

Order No. 23573, p. 21, issued October 3, 1990, in Docket No. 891345-EI, In re: Petition of Gulf Power Company for an increase in its rates and charges.

In FPUC's filing, the company removed the investment in Flo-Gas on a pro-rata basis from investor sources of capital. FPUC noted that funds cannot be traced, i.e., assets cannot be identified with specific financing components. Also, FPUC argued that treating Flo-Gas as financed 100% by equity puts its propane business at a competitive disadvantage and that its capital structure, without removing the investment in Flo-Gas directly from equity, is reasonable.

We find that the investment in Flo-Gas shall be removed directly from equity in reconciling capital structure and rate base. In response to FPUC's tracing of funds and competitive disadvantage arguments, we find that removing non-utility investment from equity is a regulatory adjustment that prevents the relatively low risk utility from subsidizing a higher risk business. FPUC's natural gas business faces significantly less competition, and, hence, risk, than its unregulated propane business. This adjustment is consistent with our treatment of non-utility investment in Order No. PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030438-EI, In Re: Petition for Rate Increase by Florida Public Utilities Company.

Regarding the cost rate for short-term debt, FPUC used 5.98%. The rate for FPUC's short-term debt is based on the 30-day London Interbank Offered Rate (LIBOR) plus 90 basis points. FPUC estimated the 5.98% by first estimating the Fed Funds rate and noting that the 30-day LIBOR is historically 20 basis points above the Fed Funds rate. For 2005, FPUC estimated the Fed Funds at 4.88% based on the period 1993 through 1999. Thus, the short-term debt cost rate is the 4.88% Fed Funds rate estimate plus 110 basis points.

We disagree with the company's use of a 5.98% cost rate for short-term debt. According to the September 1, 2004 Blue Chip Financial Forecast, the average Fed Funds rate for 2005 is projected to be 2.93%. Based on this forecast, the appropriate estimate for the cost rate of short-term debt is 4.03%. The Blue Chip forecast is a consensus forecast based on the forecasts of 46 business economists and encompasses the expectations for interest rates as well as the historical trend.

With theses adjustments and cost rates, the appropriate weighted average cost of capital for the projected test year is 7.62%. Our calculation of the Cost of Capital is shown on Attachment 2.

VI. NET OPERATING INCOME

A. Total Operating Revenues

The company inadvertently failed to include the tariffed charges paid by pool managers in Other Operating Revenues. This is a $100 per month charge paid by each of the three pool managers that serve FPUC's transportation-only customers. Therefore, revenues shall be increased by $3,600. The appropriate amount of Total Operating Revenues for the projected test year is $22,571,824.

B. Overhead Cost Allocations

FPUC is made up of two electric divisions, two natural gas divisions, four propane divisions, and four merchandise and jobbing divisions. Administrative and general expenses are charged to the appropriate division by using clearing allocations. Per Audit Exception No. 3, the company allocated workmen's compensation insurance based on a combination of a claims and payroll allocation factor. However, the claims of headquarters employees, who work on all companies and go through the clearing account, were not allocated but instead were included in gas division claims. In addition, the company's payroll factor did not allocate the headquarters employees' payroll but instead included it in the gas division's payroll. Further, the payroll allocation was not allocated to merchandising and jobbing. Correction of these items results in a $128,661 difference in the amount filed by the company. Of this amount, $57,084 is included in adjustments to OPEBs (Other Post Retirement Benefits section below) and pensions (Pension Expense section below). Therefore, Account 926, Employee Pensions and Benefits, shall be decreased by $71,577.

In addition to the changes in the payroll factor described above, we have updated the company's allocation factors using 2004 rates based on 2003 amounts. Recalculating the allocations to 2003 expenses results in a $72,131 difference in the amount filed by the company. Therefore, expenses shall be reduced by $74,439 ($72,131 trended by various factors to 2005).

Further, in its response to the audit report, the company disclosed that the workers compensation allocation should also be adjusted. In the original projection an allocation of 59.77% was used, but this included claims from all corporate employees being allocated to natural gas. To correct the problem the company reviewed the corporate claims and calculated an adjustment to allocate corporate employees' claims based on payroll. This produced an allocation factor of 58% and a reduction of $9,676. Therefore, Account 925, Injuries and Damages, shall be decreased by $9,676.

In summary, Account 926 shall be decreased by $71,577, O&M expenses in various accounts shall be reduced by $74,439, and Account 925 shall be reduced by $9,676 for a total decrease to expenses of $155,692.

C. Nonrecurring Expenses

According to Audit Disclosure No. 7, in 2003, FPUC paid $1,533 to replace SCADA equipment that was damaged by a lightning strike. In addition the company paid $3,701 for modifications to its bill printing program. These expenses appear to be nonrecurring in nature and we find that Account 877, Measuring and Regulating Station Expenses, shall be decreased by $1,584 ($1,533 trended to 2005) for the SCADA equipment replaced and Account 921 be decreased by $3,823 ($3,701 trended to 2005) for modifications to the bill printing program. The company believes that though these specific items may be nonrecurring, similar types of charges occur periodically, and that these expenses should not be removed. However, we find that when and how frequently these costs will be incurred is uncertain and determine that they shall not be allowed. See Order No. 5471, issued June 30, 1972 in Docket No. 71342-EU, In re: Petition of Gulf Power Company for authority to increase its rates and charges so as to give said utility an opportunity to earn a fair return on the value of its property used and useful in serving the public.

In addition, according to it response to Staff Data Request 95, the company identified $70,420 in nonrecurring expenses recorded in Account 923 in 2003. They consist of: $1,219 in audit predecessor charges, $836 in legal fees for equity issuance costs, and $68,365 in legal fees pertaining to the Lake Worth Generation Project, for a total of $70,420. Therefore, Account 923 shall be decreased by $72,720 ($70,420 trended to 2005).

In summary, Account 877 shall be decreased by $1,584, Account 921 shall be decreased by $3,823, and Account 923 shall be decreased by $72,720, for a total decrease to expenses of $78,127.

D. New Positions

In 2005, the company included $1,000,799 in expenses for new positions. The company appears to have justified the new positions; however, adjustments are necessary to amounts included in 2005.

Several new positions were filled at annual salaries less than projected. Therefore, Account 874 shall be decreased by $4,077; Account 878 shall be decreased by $2,872; Account 880 shall be decreased by $1,981; and various accounts shall be decreased by $19,361, for a total decrease to expenses of $28,291. In addition, one new position was filled at an annual salary higher than projected. Therefore, Account 887 shall be increased by $2,031.

Also, the company updated its projections for four new positions. Therefore, Account 912 shall be decreased by $16,570, $38,641, $2,332, and $5,722 for a total decrease to expenses of $63,265.

The company projected $30,524 in Account 925 for a new Gas Safety position in 2005. Pursuant to its response to Staff Data Request 73, line item number 25, this position was incorrectly allocated to the electric division. Therefore, Account 925 shall be increased by $19,593 ($50,117 - $30,524).

In summary, expenses shall be increased by $21,624 and decreased by $91,557 for a net decrease to expenses of $69,932 for new positions requested by the company.

E. Fleet Image Improvement Program

The utility is requesting $39,000 in additional expenses to make cosmetic improvements and repairs to a number of its maintenance vehicles. These improvements include reinstalling company name decals, repainting truck cabs, wheels, and frames, and repairing physical damage. The MFRs indicate that the utility allocates 18% of expenses for light trucks and vans to non-regulated operations. As a result, 18% of the requested expenses, or $7,020 shall be removed, and the remaining $31,980 of the requested expenses are approved.

F. Periodic Meter and Regulator Change-Out Expense

Rule 25-7.064, F.A.C., requires that utilities periodically test customer meters within a ten-year interval. According to FPUC's response to Staff Data Request 78, in 2003, the company charged $129,776 to Account 878, Meter and House Regulator Expense, and trended it to 2005, for a total of $139,987. However, in its response to Staff Data Request 79, the company projected its 2005 meter change-out expense to be $92,456. Therefore, this account shall be decreased by $47,531 ($139,987 - $92,456).

G. State Sales Tax on Company-Use Gas

In 2003, the company included credits for $5,743 and $8,880 in Accounts 903 and 905, respectively, for state sales tax on company-use gas. Company-use gas is recovered through the Purchased Gas Adjustment Clause and these taxes shall also be recovered through the clause. Therefore, Accounts 903 and 905 shall be increased by $6,195 and $9,579 (amounts trended to 2005), respectively, to remove the state sales tax. The total adjustment is a $12,630 increase to expenses.

H. Bad Debt Expense

In 2003, the company included $188,003 in bad debt expense, $139,296 in Allowance for Uncollectibles, and a 0.4000 bad debt component in its revenue expansion factor based on a three-year average of net write-offs to revenues. In prior cases, we have tested the reasonableness of a company's bad debt expense by using a three or a four-year average of net write-offs as a percent of revenues. A three-year average was used in the company's last rate case. However, we find that a five-year average shall be used in this case because of the abnormal fluctuation in net write-offs over the past several years. Net-write-offs vary from $57,907 in 1999 to $240,491 in 2001 to $106,357 in 2002. Based on a calculation for the 1999 to 2003 period, the five-year average percent of net write-offs is 0.33%. This methodology results in an allowable expense of $156,055 for 2003. Therefore, Account 904, Uncollectible Accounts, shall be reduced by $34,411 for 2005 ($188,003 - $156,055 trended to 2005). This results in a reasonable amount of expense for the projected test year. A corresponding adjustment should be made to working capital. Allowance for Uncollectibles has a negative balance and is a contra account to Accounts Receivable. Therefore, the Allowance for Uncollectibles shall be decreased by $17,205, the 13-month average of $34,411, thereby increasing working capital. Based on the above, the bad debt component of the revenue expansion factor is 0.3300.

It should be noted that this adjustment is for ratemaking purposes only. For surveillance, annual report, and other reporting purposes, the company's actual bad debt expense shall be reported.

I. Non-Utility Advertising Expense

Audit Exception No. 4 stated that the utility charged $2,475 to Account 912.2 in 2003 for an advertisement related to the propane operations that should be disallowed for ratemaking purposes. A review of this advertisement shows that only 50% of the costs related to propane gas operations and so only 50% of the cost shall be disallowed. After trending, 50% of the expense relating to propane, or $1,335, is disallowed.

J. Account 913 Advertising

In Audit Disclosure No. 8, the auditors indicated that Account 913.4 contained $99,000 in expenses related to cooperative advertising with a builder. This amount is trended to $106,821 for the projected test year. Under the cooperative agreement, FPUC reimburses the builder $200 per qualified home to be used for advertising to promote the availability of natural gas. The utility indicated that its agreement with the builder will involve the reimbursement for 495 homes. Upon request of our staff for an updated projection for the number of homes expected to be connected as a result of this agreement, the utility indicated that under the revised estimate only 302 homes with a total reimbursement of $60,400 would be made. Therefore, an adjustment to reduce the projected test year expense to the revised expense is required. This adjustment reduces expenses by $46,421.

Also, the utility indicated that it received $189.83 per home in revenues per year per qualified home. This revenue is less than the associated expense by $10.17 per home. Although this program may be successful in the long run, the revenues in the projected test year are short of projected test year expenses due to a mismatch in costs and related benefits. Expenses associated with the program shall not be included without considering the corresponding effects on revenues generated by the program. Further, these expenses shall only be included to the extent that revenues equal or exceed the expense. Therefore, we have reduced expenses by an additional $3,071 to properly match expenses of the program to the additional revenues generated by the program.

In Audit Disclosure No. 15, the auditors indicated that Account 913.4 contained one-half, or $12,875, in advertising expenses that were duplicated in other operational accounts. The utility agrees with the facts as stated. In its response, the utility stated that it was requesting an additional $2,150 for advertising in the Hispanic media over what was included in its MFRs. The utility, however, provided no justification for this increase.

Our staff also reviewed other expenses that the utility had submitted as conservation-related to determine if these expenses were appropriately recoverable through base rates. This review showed that $26,875 in expenses in 2003 should be disallowed because the expenses were image enhancing in nature, were charitable contributions, or had no benefit for the regulated gas ratepayer. These expenses included such items as Daytona 500 tickets, propane advertising, airline tickets for spouses to a gas conference, and numerous giveaway items such as umbrellas, pens, and caps. These expenses trended through 2005 amount to $28,990.

Based on the above adjustments, expenses in Account 913 shall be reduced by $91,357.

K. Account 920 Payroll Increase

The officer bonus program has been in place since 2001. FPUC executive base salaries were reduced by 15% at the time of implementing this plan, and that portion was put at risk and awarded based on achieving certain goals and other criteria. In 2005, FPUC increased executive payroll by $40,000 for this plan, $20,800 or 52% of which was charged to the gas division. However, based on Audit Disclosure No. 12, if all goals are met, the bonus is now expected to be increased by only $20,000 at the total company level because one of the officer positions has been eliminated. Therefore, Account 920, Administrative and General Salaries, shall be reduced by $10,400 ($20,000 x .52).

L. Temporary Help and Relocation Expenses

Pursuant to the company's response to Staff Data Request 110, in 2003, FPUC hired temporary help while the Network Administrator was on sick leave. The expense charged to the gas division was $11,574. This caused expenses to be overstated because the Network Administrator was still on the payroll. Therefore, Account 921, Office Supplies and Expenses shall be reduced by $11,952 ($11,574 trended to 2005).

In 2003, FPUC included $12,167 in expenses for employee relocation expenses. Based on its response to Staff Data Request 109, expenses shall be reduced by $5,876 to reflect a four-year average of relocation expenses trended to 2005. See Order No. PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 911150-GU, In re: Application for a rate increase by Peoples Gas System, Inc.

The total adjustment is a $17,828 decrease to expenses.

M. Duplicate Legal Fees and Annual Report Costs and Audit Contingency

Per Audit Exception No. 9, in 2003, FPUC recorded $11,929 in legal fees associated with its Securities and Exchange Commission filing and $14,974 in costs associated with the design and printing of its annual report. At the end of 2003, the company decided to accrue for these types of expenses and began an accrual. In addition to recording the actual costs, the company accrued $10,200 for the SEC filing costs and $7,500 for annual report costs. Recording both the actual costs and the accrual created a duplication of charges. Therefore, Account 923, Outside Services, shall be reduced by $1,786 for duplicate legal fees and Account 930, Miscellaneous General Expenses, shall be reduced by $6,585 for duplicate annual report costs.

Per Audit Exception No. 6, the company does not pay its tax auditors unless they produce a tax savings. In 2005, FPUC included $10,200 for a property tax audit. This amount was based on a year when the company did pay the tax auditors; however, its tax bill was reduced by more than this amount. We find that this is a contingent expense and that it shall be removed from expenses. Therefore, Account 923.3, Outside Services, shall be reduced by $10,200 for the property tax audit contingency.

The total adjustment is an $18,571 decrease to expenses.

N. Health Insurance Costs

Per Audit Exception No. 8, to forecast Account 926, Employee Pensions and Benefits, the company obtained an estimate of health insurance costs from its insurance company and reduced it by 25% for the portion paid for by employees and for the amount related to retirees. This amount was then further reduced by capitalized payroll which was calculated using ten months of actual 2003 data and two months of 2002 data and trending by 3%. It was then increased for other miscellaneous payments made in 2002 which were trended up 3% for two years and decreased for the John Alden stop loss policy which has been eliminated. Capitalized payroll for November and December 2003 was $13,061 higher than the 2002 capitalized payroll used. This would reduce expense because capitalized wages were removed. Further, the company also used 2002 payments instead of 2003 payment amounts. If the 2003 payments were used, the account would be reduced by $1,566. The 2003 amounts shall be used instead of 2002 because the company used an actual 2003 test year and projections should be based on 2003 amounts. Therefore, Account 926 shall be reduced by $14,626.

O. Other Post Employment Benefits (OPEB)

Other post employment benefits (OPEB) primarily represent retiree health care costs. The financial reporting of OPEB is governed by Financial Accounting Standard No. 106, which prescribes accrual accounting. The company has included $115,286 of OPEB expense in its MFRs for the projected test year ending December 31, 2005. The Medicare Prescription Drug, Improvement and Modernization of Act of 2003 was not a factor that FPUC considered in determining the 2005 projected expense. The company received an updated actuarial study which reflects the accounting effects of implementing this Act. As a result, the expense is expected to be slightly less than originally projected. Additionally, based on Audit Exception No. 3, we have changed the allocation factor to the Natural Gas Division from 51% to 47%. Therefore, based on the updated study and the findings in the staff audit, the OPEB expense shall be reduced by $11,886 to reflect a balance of $103,400.

P. Pension Expense

The company included $612,547 of pension expense in its MFRs for the projected test year ending December 31, 2005. However, the company has since received an updated actuarial valuation of the employee's pension plan. The updated valuation includes an assumed discount rate of 6.25%, a salary progression assumption of 3.5%, and an expected rate of return on assets of 8.5%. We find these assumptions to be reasonable. Additionally, based on Audit Exception No. 3, we changed the allocation factor to the Natural Gas Division from 51% to 47%. Based on the updated valuation and the findings in the staff audit, pension expense shall be reduced by $26,645 to reflect a balance of $585,902.

Q. Rate Case Expense

In its MFRs, the utility requested $587,300 in rate case expense, amortized over four years. As part of its analysis, our staff requested an updated expense to date through July, 2004, with supporting documentation, as well as the estimated amount to complete the case. The utility submitted a revised estimate of rate case expense through completion of the PAA process of $420,717. The components of the utility's estimated rate case expense are as follows:

	MFR Estimated	Actual	Additional Estimated	Total
Legal Fees	$118,000	$17,060	$33,540	$50,600
Consultant Fees	333,000	208,705	46,845	255,550
Travel Expenses	30,700	1,737	9,500	11,237
Paid Overtime & Temp Pay	50,000	32,998	8,002	41,000
Other Expenses	55,600	29,213	33,117	62,330
Total	$587,300	$289,713	$131,004	$420,717

A review of the requested actual expenses and supporting documentation shows that these expenses appear to be reasonable. Also, a review of the estimated expenses above shows the estimated expenses submitted by the utility to be reasonable.

Therefore, we find that the appropriate rate case expense is $420,717, amortized at the rate of $105,179 over four years. Therefore, Account 928, Regulatory Commission Expenses, shall be reduced by $41,646. In addition, one-half of the unamortized rate case expense of $368,127, or $184,064, shall be included in unamortized rate case expense in working capital for the projected test year. As a result, working capital shall be reduced by $329,826.

R. Membership Dues

The company recorded $13,035 in Florida Natural Gas Association (FNGA) dues in 2003. Pursuant to its response to Staff Data Request 64, 15% of the FNGA dues, or $1,955, are attributed to lobbying activities. In addition, the company recorded $435 and $500 in dues to Volusia Home Builders Association and Home Builders Association, respectively. These organizations provide no benefit to the general body of ratepayers; therefore, these dues shall be removed. Further, pursuant to its response to Staff Data Request 65, the dues of the National Association of Corporate Directors should have been allocated to the electric and propane operations. This amounts to a decrease of $221. Therefore, Account 930, Dues and Economic Development Expense, shall be reduced by $3,213 ($3,111 trended to 2005).

S. Change in Depreciation Rates

FPUC's projected test year depreciation expense was recalculated using the depreciation rates approved by Proposed Agency Action Order No. PSC-04-1045-PAA-GU, issued October 26, 2004, in Docket No. 040352-GU, In re: 2004 Depreciation Study by Florida Public Utilities Company. The impacts of the new depreciation rates on the projected test year are to increase depreciation expense by $154,289 and to increase accumulated depreciation by $77,145.

T. Taxes Other Than Income (TOTI)

The company included $4,464,719 of TOTI in its MFRs for the projected test year ending December 31, 2005. This amount includes $1,402,286 of State Gross Receipts Tax and $1,346,194 of Franchise Fees. The company has included the exact amounts as part of its 2005 revenue. Therefore, no adjustment is necessary for these two components of TOTI.

Payroll Taxes

Earlier in this Order, in the above sections for New Positions and Account 920 Payroll Increase, we have made adjustments to payroll expense which amount to a net decrease of $80,333. Using a composite payroll tax rate of 8.37%, we have decreased the related payroll taxes associated with these adjustments by $6,724 ($80,333 x 8.37%).

Regulatory Assessment Fees

We have increased total operating revenues by $3,600. As a result, Regulatory Assessment Fees (RAFs) shall be increased by $18 ($3,600 x .005) to reflect the additional revenues. Also, pursuant to Audit Exception No. 10, we have determined the revenue amount used for the 2005 RAF calculation to be understated. As a result, RAFs shall be increased by $6,692. The net effect of these RAF adjustments is an increase of $6,710.

Property Taxes

Earlier in this Order, we decreased net plant by $3,409,046. This amount includes $2,500,000 of land that has been determined to be non-used and useful. The property taxes related to this amount have been specifically identified to be $42,500. For the remaining balance of net plant that was removed of $909,046, we have used the 2003 property tax rate of 1.75% (net plant/property tax expense) to calculate the decrease in property tax expense to be an additional $15,908 ($909,046 x 1.75%). Also, we have increased accumulated depreciation by $171,530. As a result, property taxes shall be increased by $3,001 ($171,530 x 1.75%). Additionally, we have decreased the acquisition adjustment and related accumulated amortization which decreases net plant by $2,417,813. Therefore, property taxes shall be decreased by $42,312 ($2,417,813 x 1.75%). In addition, in Audit Exception No. 11 we removed $42,448 of property taxes related to common property, but the related property taxes were not. Therefore, the net effect of these adjustments is a decrease in property taxes of $140,166 {($42,500)+($15,908)+$3,001+($42,312)+($42,448)}.

As a result of the above mentioned adjustments, the net effect is a decrease of $140,180 {($6,724) + $6,710 + ($140,166)} to reflect a balance of $4,324,539 in TOTI.

U. Income Tax Expense

The company proposed to include ($1,093,873) of income tax expense for its 2005 projected test year. However, our adjustments to revenues and expenses increase tax expense by $196,541. To reflect the income tax on permanent differences (nondeductible meals of $8,924), we have also made an adjustment to increase the company's income tax expense by $3,358. Our adjustments to the company's capital structure and rate base result in an increase of $82,832 for interest reconciliation. The net result of these adjustments is an increase of $282,730 to income tax expense. Therefore, the appropriate amount of income tax expense, including current income taxes, deferred income taxes, ITC amortization, and interest reconciliation is ($811,143).

V. Total Net Operating Income

Based on the above, we calculate total net operating income to be $880,787. Our calculation of Net Operating Income is shown on Attachment 3.

VII. REVENUE REQUIREMENTS

A. Revenue Expansion Factor

The company calculated a revenue expansion factor of 0.618087 and a net operating income multiplier of 1.6179. However, we calculate a revenue expansion factor of 0.618523 and a net operating income multiplier of 1.6168. The only difference between the company's calculation and our calculation is the bad debt rate, which the company included at 0.40% and which we modified to 0.33%.

Our calculations of the revenue expansion factor and net operating income multiplier are shown on Attachment 4.

B. Revenue Increase

We calculate the appropriate annual operating revenue increase for the projected test year to be $5,865,903. Our calculation of the revenue requirement is shown on Attachment 5.

VIII. COST OF SERVICE AND RATE DESIGN

A. Cost of Service Methodology

The appropriate cost of service methodology to be used in allocating costs to the various rate classes is reflected in our cost of service study contained in Attachment No. 6, pages 1-18.

The purpose of a cost of service study is to allocate the total costs of the utility system among the various rate classes. The results of the cost of service study are used to determine how any revenue increase granted by this Commission will be allocated to the rate classes. Once this determination is made, rates are designed for each rate class that recover the total revenue requirement attributable to that class.

The company's proposed cost of service study is contained in MFR Schedule H. We also prepared a cost of service study which differs in several respects from the company's filed study. Our study reflects the adjustments to rate base, expenses, net operating income, billing determinants and projected test year base rate revenues. In addition, we used a different methodology to develop the capacity allocators. This differing methodology results in a slight difference in the allocators that were used to allocate capacity costs among the rate classes.

B. Revenue Allocation Across Rate Classes

Our allocation of the revenue increase is contained in Attachment 6, page 18 of 18. The allocation of the increase is designed to move each rate class towards the system rate of return (i.e., to parity), while taking into account the rate impact on each customer class.

C. Customer Charges

The customer charge is a fixed charge that applies to each customer's bill no matter the quantity of gas used for the month. The customer charge is typically designed to recover costs such as metering and billing that are incurred no matter whether any gas is consumed.

Our approved customer charges, along with the existing customer charges, and the company-proposed charges are contained in the table below:

Rate Class	Present Charge: Deland, Sanford, Palm Beach Districts	Present Charge: New Smyrna Beach District	Company Proposed Charge All Districts	Commission Approved Charge
Residential Service (RS)	$8.00	$7.00	$8.00	$8.00
General Service (GS)	$15.00	$12.00	$15.00	$15.00
General Service Transportation Service (GSTS)	$15.00	$12.00	$15.00	$15.00
Large Volume Service (LVS) >500 therms/mo.	$45.00	$12.00	$45.00	$45.00
Large Volume Transportation Service (LVTS) >500 therms/mo.	$45.00	$12.00	$45.00	$45.00
Interruptible Service (IS)	$240.00	NA	$240.00	$240.00
Interruptible Transportation Service (ITS)	$240.00	NA	$240.00	$240.00

As shown in the above table, FPUC has not proposed a change to its existing customer charges, except for the New Smyrna Beach District. The company is proposing the adoption of uniform rates for all customers in FPUC's territory which will result in changes to the customer charges paid by the New Smyrna Beach customers. These changes appear to be reasonable and are approved as shown in the table above.

D. Energy Charges

Our approved per therm Energy Charges are contained in Attachment 7, page 1.

E. Miscellaneous Service Charges

Our approved miscellaneous service charges are shown in the table below:

Type of Charge	Time of Service	Present Charges: Deland, Sanford, Palm Beach LVS & LVTS	Deland, Sanford, Palm Beach All Other	New Smyrna Beach Residential	New Smyrna Beach Commercial	Commission Approved RS	Commission Approved GS & GSTS	Commission Approved LVS, LVTS, IS, & ITS
Establishment of Service								
	Regularly Scheduled	$57.00	$25.00	$20.00	$30.00	$42.00	$60.00	$90.00
	Outside Normal Business Hours	NA	NA	NA	NA	$56.00	$79.00	$119.00
Change of Acct. – Meter Read Only								
	Regularly Scheduled	$12.00 all classes		$10.00 all classes		$19.00 all classes		
	Outside Normal Business Hours	NA	NA	NA	NA	$24.00 all classes		
Reconnection after Disconnection		$48.00	$21.00	$20.00	$30.00	This charge has been merged with the Establishment of Service Charge (see above)		
Reconnection after Disconnection for Non-Pay								
	Regularly Scheduled	$58.00	$31.00	$20.00	$30.00	$60.00	$78.00	$108.00
	Outside Normal Business Hours	NA	NA	NA	NA	$74.00	$97.00	$137.00
Bill Collection in Lieu of Disconnection for Non-Pay		$9.00 all classes		$10.00 all classes		$16.00 all classes		

Failed Trip Charge						
	Regularly Scheduled	NA	NA	NA	NA	$19.00 all classes
	Outside Normal Business Hours	NA	NA	NA	NA	$24.00 all classes
Electronic Bill Payment Charge		NA	NA	NA	NA	$3.50 per transaction for all classes
Worthless Check Charge		In accordance with Section 68.065, F.S.				In accordance with Section 68.065, F.S.
Late Payment Charge		Greater of 1.5% of Past Due Amount or $5.00				Greater of 1.5% of Past Due Amount or $5.00

Miscellaneous service charges are designed to recover the costs of initial connection of service, reconnection after a customer's service has been disconnected for non-payment, and similar activities. FPUC has proposed two new charges in this case.

The first proposed new charge is a failed trip charge that is designed to recover the costs incurred by the company when a customer fails to keep a scheduled appointment and FPUC is not able to perform the requested activity. The proposed charge is $19.00.

The second new charge is an electronic bill payment charge that is designed to recover the bank and overhead costs incurred by the company in accepting payment by credit card, debit card, or electronic check. The proposed charge is equal to $3.50 per transaction. Currently, the company does not accept payment by these methods. This proposed charge is appropriate because it recovers those additional costs from those customers who opt to pay by credit card, debit card, or electronic check.

Our staff reviewed the cost support initially filed by FPUC for its proposed miscellaneous charges and also additional information supporting those charges which the company provided at the request of our staff. Based on this review, we find that the miscellaneous service charges shall be approved as set out above.

F. Uniform Base Rates

FPUC purchased the New Smyrna Beach gas distribution system from South Florida Natural Gas Company in December 2001. The rates and service charges for the New Smyrna Beach District customers remained unchanged following the purchase, and thus these customers currently pay different rates from those paid by FPUC's other customers.

Customers in the New Smyrna Beach District are currently served under three rate schedules: Residential Service (NSB-RS), Commercial and Industrial Service (NSB-CI), and

Commercial and Industrial Transportation Service (NSB-CITS). FPUC has proposed to eliminate the separate base rate schedules and service charges applicable to its New Smyrna Beach District customers and migrate these customers to the appropriate residential and commercial rate schedules and service charges applicable to all FPUC customers. Combining the two districts will reduce the unnecessary duplication of costs associated with administering two sets of base rates and other tariff provisions.

We approved a similar proposal for Peoples Gas (Peoples) in its recent rate case. In 1997 Peoples acquired the West Florida Natural Gas Company; however, rates for the West Florida customers remained unchanged. In Peoples' recent rate case, we approved Peoples' proposal to apply uniform rates and service charges to all customers, including customers formerly served by West Florida Gas. See Order No. 03-0038-FOF-GU, issued January 6, 2003, in Docket No. 020384-GU, In Re: Petition for Rate Increase by Peoples Gas System.

We find that FPUC's proposal to eliminate the separate base rate schedules applicable to its New Smyrna Beach District customers and charge all customers under uniform base rate schedules is reasonable and shall be approved. The consolidation will result in a uniform set of rates for all of FPUC's customers, and will not result in a significant rate impact to current New Smyrna Beach district customers.

G. Pool Manager Service Charge

FPUC has not proposed to change the current monthly Pool Manager Service Charge of \$100. This charge was approved in Order No. PSC-01-0073-TRF-GU, issued January 9, 2001, in Docket No. 000795-GU, In Re: Petition by Florida Public Utilities Company for approval of unbundled transportation Service.

FPUC provided cost data that support the current charge of \$100. The charge is designed to cover FPUC's cost to support the pool managers in providing transportation service to FPUC's transportation-only customers. Specifically, FPUC provides daily reports to its pool managers specifying how much gas the pool managers must deliver to FPUC. This insures that the pool managers deliver the appropriate quantity of gas from the interstate pipeline to FPUC for delivery to its transportation-only customers.

A review of the derivation of the Pool Manager Service Charge shows that it is appropriate. Therefore, the proposed charge is approved.

H. Elimination of LVIS and LVITS Rate Schedules

FPUC's Large Volume Interruptible Service (LVIS) and the Large Volume Interruptible Transportation Service (LVITS) rate schedules have been closed to new customers since June 30, 1998, and there are no customers currently served under either rate schedule. Therefore, these schedules shall be eliminated from FPUC's tariff, as proposed by the company.

I. Transportation Fee for Change in Pool Managers

FPUC has proposed to reduce the fee for transportation customers who change their pool manager after its initial designation from $50 to $19. The fee is designed to recover the same costs as the Change of Account fee, which is discussed above in the Miscellaneous Service Charges section. We find that the proposed charge is appropriate and it shall be approved.

J. Gas Lighting Service Rate Schedule

FPUC's proposed new Gas Lighting Service (GLS) rate schedule applies to customers that have a minimum of five gas lighting fixtures that are acceptable to the company. Service to the fixtures must also be capable of being discontinued without affecting other gas service provided to the customer.

Currently, customers with gas light fixtures are billed under FPUC's existing otherwise applicable metered General Service or General Service Large Volume rate schedules. Service under the GLS schedule will be unmetered, and therm usage will be billed based on the estimated usage of each gas fixture. Customers that take both gas lighting and gas service under another FPUC rate schedule will pay only a per-therm GLS non-fuel energy charge. Customers who take only gas lighting service will pay the GLS non-fuel energy charge plus the customer charge of the otherwise applicable rate schedule.

FPUC has proposed that the gas lighting service will be subject to interruption at the discretion of the company. If a lighting customer continues to use gas after being notified that an interruption exists, the customer is billed at the higher of $1.50 per therm or the cost to FPUC by its supplier. This provision insures that customers comply with interruption orders. Any penalties paid under this provision are credited to the company's Purchased Gas Adjustment clause.

We find that FPUC's new proposed GLS rate schedule is appropriate and it is approved.

K. Proposed Charges for Transportation Service Customers

FPUC has proposed three separate charges for transportation service customers, as discussed below:

1. Telemetry Maintenance Charge

FPUC has proposed a reduction in the monthly Telemetry Maintenance Charge (telemetry charge) from $82.50 to $30. The telemetry charge applies to transportation customers whose annual usage exceeds 50,000 therms. The telemetry equipment is installed at the customer's premises and allows the measurement of real-time consumption data by the company. The reduction in the charge results from a reduction in the cost of the equipment. The charge includes the projected annual maintenance and replacement costs of the equipment.

2. Transportation Administration Charges

a. Non-monitored Transportation Charge - FPUC has proposed a new fixed monthly Non-monitored Transportation Charge (non-monitored charge) of $4.50. This charge applies to all transportation customers and is designed to recover the additional costs FPUC incurs to provide transportation service. The charge will replace the variable Non-monitored Transportation Administration Charge, which is discussed below.

b. Monitoring and Reporting Charge - FPUC has proposed to reduce the monthly Monitoring and Reporting Charge from $54 to $16.00. This charge applies to all transportation customers that are required to have telemetry equipment installed.

In addition to the fixed telemetry and the Monitoring and Reporting charge, FPUC currently recovers the incremental transportation-related costs through two Commission-approved cost recovery mechanisms: (1) the Transportation Cost Recovery Clause (TCR), and (2) the Non-monitored Transportation Administration Charge (NTAC). See Order No. 01-0073-TRF-GU, issued January 9, 2001, in Docket No. 000795-GU, <u>In Re: Petition by Florida Public Utilities Company for approval of unbundled transportation service</u>.

Both cost recovery factors are billed as a cents-per-therm charge and are applied to the customer's actual consumption. The TCR factors were designed to recover certain transportation-related start-up expenses. At the end of the recovery period, any over or under-recovery is to be trued up. Order No. PSC-01-1963-TRF-GU, issued October 1, 2001, in Docket No. 010846-GU, <u>In Re: Petition for Approval of initial transportation cost recovery factors by Florida Public Utilities Company</u>.

In Order No. PSC-01-1963-TRF-GU, we also approved FPUC's initial NTAC factors for the period October 2001 through December 2002, with any over or under-recovery trued up at the end of the period. Since then, we have approved several modifications to the NTAC factors.

FPUC states that it will discontinue billing its customers the TCR and the NTAC cost recovery factors at the time the revised rates in this case become effective. This will insure that customers are not billed twice for transportation-related costs. As stated earlier, the TCR factor is a temporary fee, and the proposed new fixed non-monitored charge is designed to replace the NTAC factor. The above-noted proposed charges are approved. Also, within 30 days after the effective date of the revised rates, FPUC shall file a petition calculating the final true-up of both the TCR and NTAC factors. The petition shall include a proposed treatment of the final disposition of any over or under-recovery.

L. Elimination of Charge for Historical Consumption Information

The charge for historical consumption information applies to customers on the General Service Transportation Service (GSTS), Interruptible Transportation Service (ITS), and Commercial and Industrial Transportation Service – New Smyrna Beach (CITS-NSB) rate schedules who request their historical consumption information. Customers taking service under these rate schedules are provided with a free initial report showing their previous 12-month historical consumption information. For any additional requests for consumption information, a $15.00 fee is charged. Non-transportation customers requesting historical consumption information are provided this information at no charge.

In response to our staff data requests, the company stated that it proposed to eliminate the charge since so few transportation customers had requested the reports, and because non-transportation customers are provided the consumption information without charge. We find that the company's proposal to eliminate the charge is reasonable, and it is approved.

M. Effective Date for Revised Rates and Charges

All new rates and charges shall become effective for meter readings on or after 30 days from October 19, 2004, the date of our vote approving them. This will insure that customers are aware of the new rates before they are billed for usage under the new rates.

IX. OTHER ISSUES

A. Interim Increase Refund

In this docket, the requested interim test year was the twelve months ended December 31, 2003. We granted an interim increase by Order No. PSC-04-0721-PCO-GU, issued July 26, 2004.

An interim increase is reviewed when final rates are derived to determine if any portion should be returned to the ratepayers. In this case, interim rates went into effect August 5, 2004, and will be continued until final rates are scheduled to take effect in November 2004. Therefore, 2004 is the appropriate year to analyze for affirmation of the interim increase. Having reviewed the company's 2004 financial projections and making adjustments appropriate for the 2004 test year, we find that no refund of the interim increase is required because the revenue requirement for the 2004 test year exceeds the revenue requirement awarded for the interim.

B. Required Entries and Adjustments

To ensure that the utility adjusts its books in accordance with our decisions, FPUC shall provide proof, within 90 days of the consummating order or order finalizing this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made to its annual report, rate of return reports, and its books and records.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Public Utilities Company's application for increased rates is hereby approved as set forth in the body of this Order. It is further

ORDERED that all findings set forth herein are approved. It is further

ORDERED that all matters contained in the attachments attached hereto are incorporated herein by reference. It is further

ORDERED that the provisions of this Order, except for the adjusting of the company's books in accordance with our final decisions, are issued as proposed agency action, and shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that Florida Public Utilities Company is authorized to collect increased revenues of $5,865,903. It is further

ORDERED that no refund of the interim rate increase approved by Order No. PSC-04-0721-PCO-GU, issued July 26, 2004, shall be required. It is further

ORDERED that Florida Public Utilities Company shall file revised tariffs reflecting the increased rates and charges, the change in rate structure, and all other provisions approved in this Order and all other documents described herein. It is further

ORDERED that the rate increase shall be effective on billings rendered for all meter readings taken on or after November 18, 2004. It is further

ORDERED that Florida Public Utilities Company shall provide proof, within 90 days of the consummating order or order finalizing this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made to its annual report, rate of return reports, and its books and records. It is further

ORDERED that our bad debt adjustment is for ratemaking purposes only, and that for surveillance, annual report, and other reporting purposes, Florida Public Utilities Company shall report its actual bad debt expense. It is further

ORDERED that within 30 days after the effective date of the revised rates, Florida Public Utilities Company shall file a petition calculating the final true-up of both the TCR and NTAC factors. The petition shall include a proposed treatment of the final disposition of any over or under-recovery. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of this Order, this docket shall be closed upon the issuance of a Consummating Order.

By ORDER of the Florida Public Service Commission this 8th day of November, 2004.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records

(S E A L)

RRJ

DISSENT

Commissioner Charles M. Davidson dissented on the decision to allow a positive acquisition adjustment of $960,376.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

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

The action proposed herein, except for the adjusting of the company's books in accordance with our final decisions, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on November 29, 2004.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action in this matter concerning the adjusting of the company's books in accordance with our final decisions may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

X. Attachments

COMPARATIVE AVERAGE RATE BASES
FLORIDA PUBLIC UTILITIES COMPANY
PTY 12/31/05

ATTACHMENT 1

ISSUE NO.		TOTAL PER BOOKS	COMPANY: COMPANY ADJS.	COMPANY: COMPANY ADJUSTED	COMMISSION: COMM. ADJS.	COMMISSION: COMMISSION APPROVED
	PLANT IN SERVICE					
	UTILITY PLANT	93,956,032				
	Non-regulated		(1,920,851)			
	Misc. intang. plant-non-comp		(1,900,000)			
	Bare steel replacement program-amort.		(188,772)			
	Bare steel replacement program-retiremnts.		(7,266)			
3	South Florida Operations Center (389)				(2,500,000)	
3	South Florida Operations Center (390)				(26,340)	
4	Sanford Office Building & Land				(106,204)	
5	Plant additions				(1,076,150)	
6	Plant retirements				(30,112)	
7	Inactive service lines				(113,998)	
	Total Plant-In-Service	93,956,032	(4,016,889)	89,939,143	(3,852,804)	86,086,339
	COMMON PLANT ALLOCATED	3,429,181				
	Total Common Allocated	3,429,181	0	3,429,181	0	3,429,181
	ACQUISITION ADJUSTMENT	1,816,579				
	Include Atlantic Utilities		3,300,000			
	Remove acquisition goodwill		(1,513,179)			
9	Reduce SFNG acquisition adj.				(2,339,624)	
	Total Acquisition Adjustment	1,816,579	1,786,821	3,603,400	(2,339,624)	1,263,776
	CONSTRUCTION WORK IN PROGRESS	190,577				
10	Increase for budget changes				41,536	
	COMMON CWIP ALLOCATED	3,427				
	Total Construction Work In Progress	194,004	0	194,004	41,536	235,540
	TOTAL PLANT	99,395,796	(2,230,068)	97,165,728	(6,150,892)	91,014,836
	DEDUCTIONS					
	ACCUM. DEPR.- PLANT IN SERVICE	29,479,477				
	Non-regulated		(536,639)			
	Bare steel replacement program-retiremnts.		(6,132)			
	Bare steel replacement program-retiremnts.		(1,134)			
3	South Florida Operations Center (390)				(198)	
4	Sanford Office Building & Land				(104,123)	
5	Plant additions				(28,202)	
6	Plant retirements				(32,557)	
7	Inactive service lines				(278,678)	
8	Increase for bare steel replacement prog.				94,385	
40	Change in depreciation rates				77,145	
	Total Accum. Depr. - Plant In Service	29,479,477	(543,905)	28,935,572	(272,228)	28,663,344
	ACCUM DEPR. - COMMON PLANT	1,039,014				0
	Total Accum. Depr. - Common Plant	1,039,014	0	1,039,014	0	1,039,014
	ACCUM. AMORT. - ACQUISITION ADJ.	308,262				
	Include Atlantic Utilities		49,866			
9	Reduce SFNG acquisition adj.				78,189	
	Total Accum. Depr. - Acquisition Adj.	308,262	49,866	358,128	78,189	436,317
	CUSTOMER ADVANCES FOR CONSTR.	997,805				
	Total Customer Advances for construction	997,805	0	997,805	0	997,805
	TOTAL DEDUCTIONS	31,824,558	(494,039)	31,330,519	(194,039)	31,136,480
	NET UTILITY PLANT	67,571,238	(1,736,029)	65,835,209	(5,956,853)	59,878,356
	WORKING CAPITAL ALLOWANCE	(7,966,722)	7,966,722	0	(706,682)	(706,682)
	TOTAL RATE BASE	59,604,516	6,230,693	65,835,209	(6,663,535)	59,171,674

WORKING CAPITAL

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 040216-GU
PTY 12/31/05

ATTACHMENT 1A

ISSUE NO.		COMPANY AS FILED TOTAL PER BOOKS	COMPANY ADJS.	COMPANY ADJUSTED	COMMISSION ADJS.	COMMISSION APPROVED
	ASSETS					
	Other Funds	6,100		6,100		6,100
12	Cash	1,079,871	(635,573)	444,298	(155,648)	288,650
	Insurance Proceeds Environmental Cleanup	3,135,957	(3,135,957)	0		0
	Cash-Other	9,400		9,400		9,400
	Accounts Receivable-Customer	4,775,265		4,775,265		4,775,265
	Accounts Receivable-Other	269,087		269,087		269,087
29	Allowance for Uncollectibles	(150,256)		(150,256)	17,205	(133,051)
13	Materials & Supplies	473,077		473,077	(42,577)	430,500
	Stores Expense	19,318		19,318		19,318
11	Prepaid Insurance	335,835		335,835	(74,383)	261,452
11 & 15	Prepaid Pensions	74,493		74,493	6,525	81,018
	Prepaid Other	72,008		72,008		72,008
	Unbilled Revenues	824,126		824,126		824,126
38	Other Deferred Debits-Rate Case Exp.	513,890		513,890	(329,826)	184,064
	Other Deferred Debits-Allocated	3,877		3,877		3,877
	Other Deferred Debits-Direct	23,647		23,647		23,647
	Other Deferred Debits-AEP	4,067,137	(4,067,137)	0		0
	Underrecoveries-PGA & Conserv.	183,039		183,039		183,039
	Deferred Piping & Conversion	1,428,964		1,428,964		1,428,964
	Misc. Deferred Debits	19,603		19,603		19,603
	Misc. Deferred Debits	(29)		(29)		(29)
	TOTAL ASSETS	17,164,409	(7,838,667)	9,325,742	(578,704)	8,747,038
	LIABILITIES					
	Misc. Non-Current Liab-Insurance	59,070		59,070		59,070
14	Misc. Non-Current Liab-Insurance	1,379,753		1,379,753	(10,781)	1,368,972
	Provision for Rate Refund	267,483		267,483		267,483
11	Accounts Payable-Operating	3,642,270		3,642,270	(686,631)	2,955,639
	Accounts Payable-Other	465,113		465,113		465,113
	Taxes Payable-Gross receipts	115,433		115,433		115,433
	Taxes Payable-FPSC Assessment	68,220		68,220		68,220
11	Taxes Payable-Income Taxes	1,769,203		1,769,203	(211,555)	1,557,648
	Taxes Payable-Ad Valorem	356,034		356,034		356,034
	Taxes Payable-Other	4,879		4,879		4,879
11	Interest Accrued-Debt	639,545		639,545	(77,243)	562,302
	Interest Accrued-Customer Deposits	114,589		114,589		114,589
	Dividends Payable-Preferred Stock	1,672		1,672		1,672
11	Taxes Payable-Employee & Sales	66,476		66,476	7,188	73,664
	Taxes Payable-Franchise	759,548		759,548		759,548
	Taxes Payable-Municipal	174,147		174,147		174,147
	Accrued Liability-Vacation Payroll	705,722		705,722	(566,309)	139,413
11	Accrued Liability-Misc.	88,725		88,725		88,725
	Misc. Deferred Liab-Misc.	388		388		388
	Misc Deferred Liab-Unamort. Gains	221,283	(221,283)	0		0
	Overrecoveries-PGA & Conserv.	594,244		594,244		594,244
	Overrecoveries-Unbundle	0		0		0
	Environmental Liability Insurance Proceeds	5,027,989	(5,027,989)	0		0
	Environmental Liability Pending Rate Recovery	8,882,808	(8,882,808)	0		0
	Environ Costs Net of Customer Proceeds	(273,463)		(273,463)		(273,463)
16	Adjustment for Negative Working Capital		(1,673,309)	(1,673,309)	1,673,309	0
	TOTAL LIABILITIES	25,131,131	(15,805,389)	9,325,742	127,978	9,453,720
	TOTAL WORKING CAPITAL ALLOWANCE	(7,966,722)	7,966,722	0	(706,682)	(706,682)

FLORIDA PUBLIC UTILITIES COMPANY
PTY 12/31/05
13 Month Average

ATTACHMENT 2

COMPANY POSITION

	FPUC PER BOOKS	PRO RATA	FPUC ADJUSTED	RATIO	COST RATE	WEIGHTED COST
LONG TERM DEBT	50,346,860	(24,654,534)	25,692,326	39.03%	8.04%	3.14%
SHORT TERM DEBT	796,154	(389,871)	406,283	0.62%	5.98%	0.04%
PREFERRED STOCK	600,000	(293,816)	306,184	0.47%	4.75%	0.02%
COMMON EQUITY	56,448,772	(27,642,601)	28,806,171	43.75%	11.50%	5.03%
CUSTOMER DEPOSITS	4,094,408		4,094,408	6.22%	6.28%	0.39%
DEFERRED TAXES	6,253,275		6,253,275	9.50%	0.00%	0.00%
TAX CREDIT - ZERO COST	0		0	0.00%	0.00%	0.00%
TAX CREDIT – OVERALL	276,563		276,563	0.42%	9.81%	0.04%
TOTAL	$118,816,032	($52,980,822)	$65,835,210	100.00%		8.66%

COMMISSION APPROVED

	CONSOLIDATED TOTAL COMPANY	FLO GAS	ADJUSTED PER BOOKS	COMM. SPECIFIC	PRO RATA	COMM. ADJUSTED	RATIO	COST RATE	WEIGHTED COST
LONG TERM DEBT	50,346,860		50,346,860		(28,476,024)	21,870,836	36.96%	8.04%	2.97%
SHORT TERM DEBT	5,720,154		5,720,154		(3,235,301)	2,484,853	4.20%	4.03%	0.17%
PREFERRED STOCK	600,000		600,000		(339,358)	260,642	0.44%	4.75%	0.02%
COMMON EQUITY	50,449,234	(2,248,022)	48,201,212		(27,262,453)	20,938,759	35.39%	11.25%	3.98%
CUSTOMER DEPOSITS	4,094,408		4,094,408			4,094,408	6.92%	6.28%	0.43%
DEFERRED TAXES	6,253,275		6,253,275	2,992,338		9,245,613	15.63%	0.00%	0.00%
TAX CREDIT - ZERO COST	0		0			0	0.00%	0.00%	0.00%
TAX CREDIT - OVERALL	276,563		276,563			276,563	0.47%	9.28%	0.04%
TOTAL	$117,740,494	($2,248,022)	$115,492,472	$2,992,338	($59,313,136)	$59,171,674	100%		7.62%

COMPARATIVE NET OPERATING INCOME

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 040216-GU
PTY 12/31/05

ATTACHMENT 3
Page 1 of 2

ISSUE NO.		TOTAL PER BOOKS	COMPANY ADJS.	COMPANY ADJUSTED	COMMISSION ADJS.	COMMISSION APPROVED
			COMPANY		COMMISSION	
	OPERATING REVENUES					
	Base Revenues	17,717,851				
	Fuel	36,236,758	(36,236,758)			
	Conservation	2,136,828	(2,136,828)			
	Unbundling	0				
	Gross Receipts Tax	1,402,286				
	Franchise Tax	1,346,194				
	Other Operating Revenues	2,674,539				
	Area Expansion Program		(572,646)			
22	Add pool manager revenue				3,600	
	TOTAL REVENUES	61,514,456	(38,946,232)	22,568,224	3,600	22,571,824
	OPERATING EXPENSES:					
	COST OF GAS	36,055,579	(36,055,579)			
	CONSERVATION	2,126,144	(2,126,144)			
	STORAGE & UNBUNDLING	15,930				
	OPERATION & MAINTENANCE EXPENSE	14,779,699				
23	Decrease for overhead cost allocations (various)				(155,692)	
24	Remove nonrecurring expenses (877, 921, 923)				(78,127)	
25	Decrease for new positions (various)				(69,932)	
26	Decrease for Fleet Image Improvement Prog.(874)				(7,020)	
27	Decrease for meter change outs (878)				(47,531)	
28	Remove tax credits-company use gas (903, 905)				12,630	
29	Decrease bad debt expense (904)				(34,411)	
30	Decrease for non-utility advertising (912)				(1,335)	
31	Decrease cooperative & duplicative ads (913)				(91,357)	
32	Remove payroll increase (920)				(10,400)	
33	Decrease for relocation & temporary help (921)				(17,828)	
34	Decrease for duplicate fees & audit (923, 930)				(18,571)	
35	Decrease for allocation of Acct. 926				(14,626)	
36	Decrease OPEB (926)				(11,886)	
37	Decrease pension expense (926)				(26,645)	
38	Decrease for rate case expense (928)				(41,646)	
39	Decrease for membership dues (930)				(3,213)	
	TOTAL O & M EXPENSE	52,977,352	(38,181,723)	14,795,629	(617,590)	14,178,039

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 040216-GU
PTY 12/31/05

COMPARATIVE NOIs

ATTACHMENT 3
Page 2 of 2

ISSUE NO.		TOTAL PER BOOKS	COMPANY ADJS.	COMPANY ADJUSTED	COMMISSION ADJS.	COMMISSION APPROVED
	DEPRECIATION	2,791,858				
	Include deferred gain		120,420			
	Remove bare steel depreciation		(5,449)			
	Remove non-regulated depreciation		(78,954)			
3	South Florida Operations Center (390)				(396)	
4	Sanford Office Building & Land				(2,542)	
5	Plant additions				(26,846)	
6	Plant retirements				(2,445)	
7	Inactive service lines				(4,045)	
40	Change in depreciation rates				154,289	
	AMORTIZATION	568,823				
8	Include bare steel amortization		377,538		188,770	
9	Include acquisition adj. amortization		99,726		(67,713)	
	Include environmental amortization		456,350			
	Remove AEP amortization		(569,783)			
	TOTAL DEPRECIATION & AMORTIZATION	3,360,681	399,848	3,760,529	239,072	3,999,601
	TAXES OTHER THAN INCOME					
41	Payroll taxes	545,736			(6,724)	
	Gross receipts, franchise fees	1,402,286				
	Franchise fees	1,346,194				
	Miscellaneous & emergency excise tax	(3,676)				
41	Property tax	1,068,026			(140,166)	
41	Regulatory Assessment Fee	300,880	(194,726)		6,710	
	TOTAL TAXES OTHER THAN INCOME	4,659,446	(194,726)	4,464,720	(140,180)	4,324,539
	INCOME TAX EXPENSE					
	Income taxes - current & deferred	(688,670)	(364,872)			
	Investment tax credit	(40,331)				
42	Tax effect of adjustments				196,541	
42	Interest Synch/Rec. Adj.				82,832	
42	Increase for permanent differences				3,358	
	TOTAL INCOME TAXES	(729,001)	(364,872)	(1,093,873)	282,730	(811,143)
	TOTAL OPERATING EXPENSES	60,268,478	(38,341,473)	21,927,005	(235,967)	21,691,037
	NET OPERATING INCOME	1,245,978	(604,759)	641,219	239,567	**880,787**

NET OPERATING INCOME MULTIPLIER

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 040216-GU
PTY 12/31/05

ATTACHMENT 4

DESCRIPTION	COMPANY PER FILING	COMMISSION APPROVED
REVENUE REQUIREMENT	100.0000%	100.0000%
GROSS RECEIPTS TAX RATE	0.0000%	0.0000%
REGULATORY ASSESSMENT RATE	0.5000%	0.5000%
BAD DEBT RATE	0.4000%	0.3300%
NET BEFORE INCOME TAXES	99.1000%	99.1700%
STATE INCOME TAX RATE	5.5000%	5.5000%
STATE INCOME TAX	5.4505%	5.4544%
NET BEFORE FEDERAL INCOME TAXES	93.6495%	93.7157%
FEDERAL INCOME TAX RATE	34.0000%	34.0000%
FEDERAL INCOME TAX	31.8408%	31.8633%
REVENUE EXPANSION FACTOR	61.8087%	61.8523%
NET OPERATING INCOME MULTIPLIER	1.6179	1.6168

COMPARATIVE REVENUE DEFICIENCY CALCULATIONS
FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 040216-GU

ATTACHMENT 5

		COMPANY ADJUSTED		COMMISSION APPROVED
RATE BASE (AVERAGE)		$65,835,209		$59,171,674
RATE OF RETURN	X	8.66%	X	7.62%
REQUIRED NOI		$5,701,329		$4,508,882
Operating Revenues		$22,568,224		$22,571,824
Operating Expenses:				
Operation & Maintenance		14,795,629		14,178,039
Depreciation & Amortization		3,760,529		3,999,601
Amortization of Environ. Costs		0		0
Taxes Other than Income Taxes		4,464,720		4,324,539
Income Taxes		(1,093,873)		(811,143)
Total Operating Expenses		21,927,005		21,691,037
ACHIEVED NOI		641,219		880,787
NET REVENUE DEFICIENCY		5,060,256		3,628,094
REVENUE TAX FACTOR		1.6179		1.6168
TOTAL REVENUE DEFICIENCY		**$8,186,989**		**$5,865,903**

COST OF SERVICE					ATTACHMENT 6
CLASSIFICATION OF RATE BASE					PAGE 1 OF 18
(Page 1 of 2: PLANT)					
FLORIDA PUBLIC UTILITIES COMPANY					
DOCKET NO. 040216-GU					
	TOTAL	CUSTOMER	CAPACITY	COMMODITY	CLASSIFIER
302 FRANCHISES AND CONSENTS	0				
LOCAL STORAGE PLANT	0		0		100% capacity
INTANGIBLE PLANT:	213,641		213,641		100% capacity
PRODUCTION PLANT	0		0		100% capacity
DISTRIBUTION PLANT:					
374 Land and Land Rights	94,388		94,388		100% capacity
375 Structures and Improvements	433,809		433,809		100% capacity
376 Mains	47,374,119		47,374,119		100% capacity
377 Comp.Sta.Eq.	0				100% capacity
378 Meas.& Reg.Sta.Eq.-Gen	253,037		253,037		100% capacity
379 Meas.& Reg.Sta.Eq.-CG	2,406,874		2,406,874		100% capacity
380 Services	19,704,524	19,704,524			100% customer
381- 382 Meters	6,753,845	6,753,845			100% customer
383- 384 House Regulators	2,181,210	2,181,210			100% customer
385 Industrial Meas.& Reg.Eq.	101,276		101,276		100% capacity
386 Property on Customer Premises	0				ac 374-385
387 Other Equipment	453,374	163,732	289,642		ac 374-386
Total Distribution Plant	79,756,456	28,803,311	50,953,145	0	
GENERAL PLANT:	9,545,423	4,772,712	4,772,712	0	50% customer,50%, cap.
TOTAL DIST / INTANGIBLE / GENERAL	89,515,520	33,576,022	55,939,498	0	
PLANT ACQUISITIONS:	1,263,776		1,263,776	0	100% capacity
GAS PLANT FOR FUTURE USE:	0		0	0	100% capacity
CWIP:	235,540	85,063	150,477	0	dist. plant
TOTAL PLANT	91,014,836	33,661,085	57,353,751	0	

COST OF SERVICE					ATTACHMENT 6
CLASSIFICATION OF RATE BASE					PAGE 2 OF 18
(PAGE 2 OF 2: ACCUMULATED DEPRECIATION)					
FLORIDA PUBLIC UTILITIES COMPANY					
DOCKET NO. 040216-GU					
	TOTAL	**CUSTOMER**	**CAPACITY**	**COMMODITY**	**CLASSIFIER**
LOCAL STORAGE PLANT:	**0**				related plant
INTANGIBLE PLANT	**85,292**		**85,292**		"
DISTRIBUTION PLANT:					
374 Land and Land Rights	(7,539)		(7,539)		"
375 Structures and Improvements	265,052		265,052		"
376 Mains	18,006,393		18,006,393		"
377 Comp.Sta.Eq.	0				"
378 Meas.& Reg.Sta.Eq.-Gen	86,842		86,842		"
379 Meas.& Reg.Sta.Eq.-CG	407,861		407,861		"
380 Services	4,368,867	4,368,867			"
381- 382 Meters	2,276,928	2,276,928			"
383- 384 House Regulators	817,780	817,780			"
385 Industrial Meas.& Reg.Eq.	60,147		60,147		"
386 Property on Customer Premises	0				"
387 Other Equipment	83,488	23,709	59,779		"
Total Distribution Plant	**26,365,819**	**7,487,284**	**18,878,535**	**0**	
GENERAL PLANT:	3,251,247	1,625,624	1,625,624	0	general plant
AMORT. ACQ. ADJUSTMENT	436,317		436,317		plant acquisitions
RETIREMENT WORK IN PROGRESS:		0	0	0	distribution plant
CUST. ADVANCES FOR CONSTRUCTION	997,805	498,903	498,903		50% cust. 50% cap.
TOTAL ACCUMULATED DEPRECIATION	**31,136,480**	**9,611,810**	**21,524,670**	**0**	
NET PLANT (Plant less Accum. Dep.)	59,878,356	24,049,276	35,829,080	0	
less: CUSTOMER ADVANCES	0	0	0		50% cust. 50% cap.
plus: WORKING CAPITAL	(706,682)	(473,699)	(211,007)	(21,975)	oper. and maint. exp.
equals: TOTAL RATE BASE	**59,171,674**	**23,575,576**	**35,618,073**	**(21,975)**	
	100.0%	40.2%	59.8%		

COST OF SERVICE CLASSIFICATION OF EXPENSES (PAGE 1 OF 2)					ATTACHMENT 6 PAGE 3 OF 18
FLORIDA PUBLIC UTILITIES COMPANY DOCKET NO. 040216-GU					
	TOTAL	CUSTOMER	CAPACITY	COMMODITY	CLASSIFIER
OPERATIONS AND MAINTENANCE EXPENSES					
LOCAL STORAGE PLANT:	15,930		15,930		ac 301-320
813 Other Gas Supply Expense	140,482			140,482	100% commodity
DISTRIBUTION:					
870 Operation Supervision & Eng.	**246,016**	**131,203**	**114,813**	**0**	**ac 871-879**
871 Dist. Load Dispatch	16,795		16,795		100% capacity
872 Compr. Sta. Lab. & Ex.			0	0	ac 377
873 Compr. Sta. Fuel & Power				0	100% commodity
874 Mains and Services	1,647,551	483,972	1,163,579	0	ac376+ac380
875 Meas. & Reg. Sta. Eq.-Gen	3,185	0	3,185	0	capacity
876 Meas. & Reg. Sta. Eq.-Ind.	15,594	0	15,594	0	capacity
877 Meas. & Reg. Sta. Eq.-CG	17,067	0	17,067	0	capacity
878 Meter and House Reg.	1,310,303	1,310,303	0	0	customer
879 Customer Instal.	**266,398**	**96,207**	**170,191**	**0**	**ac 375-385**
880 Other Expenses	**702,383**	**253,659**	**448,724**	**0**	**ac 374-385**
881 Rents	41,165		41,165		100% capacity
885 Maintenance Supervision	**119,308**	**32,763**	**86,545**	**0**	**ac886-894**
886 Maint. of Struct. and Improv.	92,589	0	92,589	0	capacity
887 Maintenance of Mains	611,753	0	611,753	0	capacity
888 Maint. of Comp. Sta. Eq.		0	0	0	capacity
889 Maint. of Meas.& Reg. Sta. Eq.-Gen	12,566	0	12,566	0	capacity
890 Maint. of Meas.& Reg. Sta. Eq.-Ind.	740	0	740	0	capacity
891 Maint. of Meas.& Reg. Sta. Eq.-CG	32,849	0	32,849	0	capacity
892 Maintenance of Services	172,430	172,430	0	0	customer
893 Maint. of Meters and House Reg.	109,653	109,653	0	0	customer
894 Maint. of Other Equipment	**17,049**	**6,157**	**10,892**	**0**	**ac 374-385**
Total Distribution Expenses	**5,435,394**	**2,596,348**	**2,839,046**	**0**	
CUSTOMER ACCOUNTS:					
901 Supervision	198,926	198,926			
902 Meter-Reading Expense	518,559	518,559			
903 Records and Collection Exp.	1,191,220	1,191,220			
904 Uncollectible Accounts	161,940			161,940	100% commodity
905 Misc. Expenses	69,726	69,726			
Total Customer Accounts	**2,140,371**	**1,978,431**	**0**	**161,940**	
(907-910) CUSTOMER SERV.& INFO. EXP.	0	0			
(911-916) SALES EXPENSE	1,895,335	1,895,335			100% customer
(935) MAINT. OF GEN. PLANT	97,763	48,882	48,882	0	
(920-931) ADMINISTRATION AND GENERAL	4,452,763	2,984,753	1,329,545	138,465	O&M excl. A&G
TOTAL O&M EXPENSE	14,178,038	9,503,748	4,233,402	440,887	

COST OF SERVICE						ATTACHMENT 6
CLASSIFICATION OF EXPENSES						PAGE 4 OF 18
(Page 2 of 2)						
FLORIDA PUBLIC UTILITIES COMPANY						
DOCKET NO. 040216-GU						
	TOTAL	CUSTOMER	CAPACITY	COMMODITY	REVENUE	CLASSIFIER
DEPRECIATION and AMORTIZATION EXPENSE:						
Depreciation & Amort Expense	2,945,890	1,183,174	1,762,716	0		Net plant
Amortization - other gas plant	566,308	227,449	338,859			Net plant
Amortization - of utility plant - acq. adj.	31,053	12,472	18,581			Net plant
Amortization - AEP - Excess MACC	456,350	183,286	273,064			Net plant
Total Deprec. and Amort. Expense	**3,999,601**	**1,606,382**	**2,393,219**	**0**	**0**	
TAXES OTHER THAN INCOME TAXES:						
Revenue Related	2,850,943				2,850,943	100% revenue
Other	1,473,596	591,849	881,747	0		Net plant
Total Taxes other than Income Taxes	**4,324,539**	**591,849**	**881,747**	**0**	**2,850,943**	
REV.CRDT TO COS (NEG.OF OTHR OPR.REV)	0	0				100% customer
RETURN (REQUIRED NOI)	4,508,882	1,796,459	2,714,097	(1,675)		Rate base
INCOME TAXES	(811,143)	(323,181)	(488,263)	301	0	Return (noi)
TOTAL OVERALL COST OF SERVICE	$26,199,917	$13,175,257	$9,734,203	$439,514	$2,850,943	

FULLY ALLOCATED EMBEDDED COST OF SERVICE STUDY (SUMMARY)						ATTACHMENT 6 PAGE 5 OF 18
FLORIDA PUBLIC UTILITIES COMPANY DOCKET NO. 040216-GU						
SUMMARY	**TOTAL**	**CUSTOMER**	**CAPACITY**	**COMMODITY**	**REVENUE**	**LAKE WORTH**
Attrition	0	0	0	0		
Operation And Maintenance Expense	14,178,038	9,503,748	4,191,996	440,887		41,406
Less O&M Direct Assignments	(3,868,024)	(2,076,358)	(1,767,999)	0		
Net O&M	10,292,275	7,427,390	2,423,998	440,887	0	
Depreciation Expense	2,945,890	1,183,174	1,622,864	0	0	139,852
Amortization - other gas plant	566,308	227,449	338,859	0	0	
Amortization - of utility plant - acq. adj.	31,053	12,472	18,581	0	0	
Amortization - AEP - Excess MACC	456,350	183,286	273,064	0	0	
	0	0	0	0	0	
	0	0	0	0	0	
Taxes Other Than Income Taxes	4,324,539	591,849	744,034	0	2,850,943	137,713
Return	4,508,882	1,796,459	2,372,001	(1,675)	0	342,096
Income Taxes	(811,143)	(323,181)	(592,907)	0	0	104,644
Rev. Crd. To Cos	0	0	0	0	0	
TOTAL COST OF SERVICE	**26,199,917**	**13,175,257**	**8,968,492**	**439,514**	**2,850,943**	**765,711**
RATE BASE	**59,171,674**	**23,575,576**	**31,722,574**	**(21,975)**	**0**	**3,895,499**
less: Rate Base direct assignments	**(50,751,054)**	**(21,176,004)**	**(29,575,050)**	**0**	**0**	**0**
NET RATE BASE	**8,420,620**	**2,399,572**	**2,147,524**	**(21,975)**	**0**	**3,895,499**
KNOWN DIRECT & SPECICAL ASSIGNMENTS:						
RATE BASE ITEMS (PLANT-ACC.DEP):						
381-382 Meters	4,476,917	4,476,917	0	0		
383-384 House Regulators	1,363,430	1,363,430	0	0		
385 Industrial Meas.& Reg.Eq.	41,129	0	41,129	0		
376 Mains	29,367,726	0	29,367,726	0		
380 Services	15,335,657	15,335,657	0	0		
378 Meas.& Reg.Sta.Eq.-Gen.	166,195	0	166,195	0		
Total Rate Base Direct Assignments	**50,751,054**	**21,176,004**	**29,575,050**	**0**		
O&M ITEMS						
892 Maint. Of Services O&M ITEMS	172,430	172,430	0	0		
876 Meas.& Reg. Sta. Eq. - Ind.	15,594	0	15,594	0		
878 Meter & House Reg.	1,310,303	1,310,303	0	0		
890 Maint. Of Meas.& Reg. Sta. Eq. - Ind.	740	0	740	0		
893 Maint. Of Meters And House Reg.	109,653	109,653	0	0		
874 Mains And Services	1,647,551	483,972	1,152,538	0		11,041
887 Maint. Of Mains	611,753	0	599,127	0		12,626
Total O&M Direct Assignments	**3,868,024**	**2,076,358**	**1,767,999**	**0**		**23,667**

COST OF SERVICE
DEVELOPMENT OF ALLOCATION FACTORS

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 040216-GU

	TOTAL	RS	GS / GSTS	LV / LVTS	IS / ITS	LS	NSB-RS	NSB-CI/CITS	LAKE WORTH	TOTAL INCL LAKE WORTH
CUSTOMER COSTS										
No. of Customers	49,207	40,221	3,155	1,137	14	43	4,279	358		49,207
Weighting	N/A	1.00000	4.67237	24.12231	15.08853	0.53568	1.00000	4.67237		
Weighted No. of Customers	88,585	40,221	14,741	27,437	211	23	4,279	1,673		
Allocation Factors	**100.00%**	**45.40%**	**16.64%**	**30.97%**	**0.24%**	**0.03%**	**4.83%**	**1.89%**		
No. of Customers: Total Annual Bills	590,487	482,650	37,860	13,649	168	516	51,348	4,296		
CAPACITY COSTS										
Peak & Avg. Month Sales Vol. (therms)	5,992,874	1,317,485	1,204,385	2,596,788	508,063	32,827	143,158	190,167		5,992,874
Allocation Factors	**100.00%**	**21.9842%**	**20.0970%**	**43.3313%**	**8.4778%**	**0.5478%**	**2.3888%**	**3.1732%**		
COMMODITY COSTS										
Annual Sales Vol.(therms)	60,917,496	10,845,772	11,852,482	29,534,569	5,622,569	393,924	978,690	1,689,490		60,917,496
Allocation Factors	**100.00%**	**17.80%**	**19.46%**	**48.48%**	**9.23%**	**0.65%**	**1.61%**	**2.77%**		
REVENUE-RELATED COSTS	0.01625	=FACTOR								
Tax on Cust., Cap. & Commod.	366,978	130,519	66,307	132,924	13,525	900	13,938	8,865	12,443	379,421
Allocation Factors	**100.00%**	**34.40%**	**17.48%**	**35.03%**	**3.56%**	**0.24%**	**3.67%**	**2.34%**	**3.28%**	
Allocation Factor w/o Lake Worth	**100.00%**	**35.57%**	**18.07%**	**36.22%**	**3.69%**	**0.25%**	**3.80%**	**2.42%**		

COST OF SERVICE										ATTACHMENT 6
ALLOCATION OF RATE BASE TO CUSTOMER CLASSES										PAGE 7 OF 18
FLORIDA PUBLIC UTILITIES COMPANY										
DOCKET NO. 040216-GU										
	TOTAL	RS	GS / GSTS	LV / LVTS	IS / ITS	LS	NSB-RS	NSB-CI/CITS	LAKE WORTH	TOTAL INCL LAKE WORTH
RATE BASE BY CUSTOMER CLASS										
DIRECT AND SPECIAL ASSIGNMENTS:										
Customer										
Meters	4,476,917	2,032,683	745,004	1,386,602	10,676	1,164	216,252	84,535		4,476,917
House Regulators	1,363,430	619,047	226,888	422,285	3,251	355	65,859	25,745		1,363,430
Services	15,335,657	6,962,946	2,552,007	4,749,799	36,569	3,988	740,772	289,576		15,335,657
General Plant	3,147,088	1,428,892	523,707	974,724	7,505	818	152,017	59,425		3,147,088
All Other	(747,516)	(339,399)	(124,394)	(231,522)	(1,783)	(194)	(36,108)	(14,115)		(747,516)
Total Customer	**23,575,576**	**10,704,169**	**3,923,212**	**7,301,888**	**56,218**	**6,130**	**1,138,792**	**445,166**		**23,575,576**
Capacity										
Industrial Meas. & Reg. Sta. Eq.	41,129	9,042	8,266	17,822	3,487	225	982	1,305		
Meas. & Reg. Sta. Eq.-Gen.	166,195	36,537	33,400	72,014	14,090	910	3,970	5,274		
Mains	29,367,726	6,456,260	5,902,020	12,725,405	2,489,734	160,867	701,537	931,903		
General Plant	3,147,088	691,862	632,469	1,363,673	266,804	17,239	75,178	99,864		
All Other	(999,564)	(219,746)	(200,882)	(433,124)	(84,741)	(5,475)	(23,878)	(31,718)		
Total Capacity	**31,722,574**	**6,973,954**	**6,375,273**	**13,745,790**	**2,689,373**	**173,766**	**757,790**	**1,006,628**	**3,895,499**	**35,618,073**
Commodity										
Account #	0	0	0	0	0	0	0	0	0	0
Account #	0	0	0	0	0	0	0	0	0	0
Account #	0	0	0	0	0	0	0	0	0	0
All Other	(21,975)	(3,912)	(4,276)	(10,654)	(2,028)	(142)	(353)	(609)	0	(21,975)
Total Commodity	(21,975)	(3,912)	(4,276)	(10,654)	(2,028)	(142)	(353)	(609)	0	(21,975)
TOTAL	**55,276,175**	**17,674,211**	**10,294,209**	**21,037,024**	**2,743,563**	**179,754**	**1,896,229**	**1,451,185**	**3,895,499**	**59,171,674**

COST OF SERVICE
ALLOCATION OF EXPENSES TO CUSTOMER CLASSES

ATTACHMENT 6
PAGE 8 OF 18

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 040216-GU

	TOTAL	RS	GS / GSTS	LV / LVTS	IS / ITS	LS	NSB-RS	NSB-CI/CITS	LAKE WORTH	TOTAL INCL LAKE WORTH
Customer	10,686,922	4,852,252	1,778,411	3,309,981	25,484	2,779	516,220	201,796	0	10,686,922
Capacity	5,814,860	1,278,351	1,168,610	2,519,652	492,972	31,852	138,906	184,518	0	5,814,860
Commodity	440,887	78,496	85,782	213,755	40,693	2,851	7,083	12,228	0	440,887
Revenue	0	0	0	0	0	0	0	0	0	0
Total	**16,942,670**	**6,209,098**	**3,032,803**	**6,043,388**	**559,149**	**37,482**	**662,209**	**398,542**	**0**	**16,942,670**
OPERATIONS AND MAINTENANCE EXPENSE:										
DIRECT AND SPECIAL ASSIGNMENTS:										
Customer										
878 Meters and House Regulators	1,310,303	594,925	218,048	405,830	3,125	341	63,293	24,742		1,310,303
893 Maint. of Meters & House Reg.	109,653	49,786	18,247	33,962	261	29	5,297	2,071		109,653
874 Mains & Services	483,972	219,741	80,538	149,897	1,154	126	23,378	9,139		483,972
892 Maint. of Services	172,430	78,289	28,694	53,405	411	45	8,329	3,256		172,430
All Other	7,427,390	3,372,305	1,235,992	2,300,430	17,711	1,931	358,772	140,248		7,427,390
Total	**9,503,748**	**4,315,047**	**1,581,519**	**2,943,525**	**22,863**	**2,471**	**459,068**	**179,455**		**9,503,748**
Capacity										
876 Measuring & Reg. Sta. Eq.- I	15,594	3,428	3,134	6,757	1,322	85	373	495		15,594
890 Maint. of Meas.& Reg.Sta.Eq.-I	740	163	149	321	63	4	18	23		740
874 Mains and Services	1,152,538	253,376	231,625	499,409	97,710	6,313	27,532	36,573		1,152,538
887 Maint. of Mains	599,127	131,713	120,406	259,609	50,793	3,282	14,312	19,012		599,127
All Other	2,423,998	532,897	487,150	1,050,349	205,501	13,278	57,905	76,919		2,423,998
Total	**4,191,996**	**921,577**	**842,464**	**1,816,445**	**355,389**	**22,962**	**100,139**	**133,021**		**4,191,996**
Commodity										
Account #	0	0	0	0	0	0	0	0		
All Other	440,887	78,496	85,782	213,755	40,693	2,851	7,083	12,228		440,887
Total	440,887	78,496	85,782	213,755	40,693	2,851	7,083	12,228		
TOTAL O&M	**14,136,632**	**5,315,120**	**2,509,764**	**4,973,725**	**418,744**	**28,285**	**566,290**	**324,704**	**41,406**	**14,178,038**
DEPRECIATION EXPENSE:										
Customer	1,183,174	537,204	196,892	366,456	2,821	308	57,152	22,341		1,183,174
Capacity	1,622,864	356,774	326,146	703,207	137,583	8,890	38,767	51,497		1,622,864
Total	**2,806,038**	**893,978**	**523,038**	**1,069,663**	**140,404**	**9,197**	**95,919**	**73,838**	**139,852**	**2,945,890**
AMORT. OF OTHER GAS PLANT										
Customer	227,449	103,270	37,850	70,446	542	59	10,987	4,295		227,449
Capacity	338,859	74,495	68,100	146,832	28,728	1,856	8,095	10,753		338,859
Total	566,308	177,766	105,950	217,278	29,270	1,915	19,081	15,048		566,308
AMORT. OF ACQUISITION ADJUSTMENT										
Customer	12,472	5,663	2,075	3,863	30	3	602	236		12,472
Capacity	18,581	4,085	3,734	8,051	1,575	102	444	590		18,581
Total	31,053	9,748	5,810	11,914	1,605	105	1,046	825		31,053
AMORT OF AEP - EXCESS MACC										
Customer	183,286	83,219	30,501	56,768	437	48	8,853	3,461		183,286
Capacity	273,064	60,031	54,877	118,322	23,150	1,496	6,523	8,665		273,064
Total	456,350	143,250	85,378	175,090	23,587	1,543	15,376	12,126		456,350

COST OF SERVICE

ALLOCATION OF EXPENSES TO CUSTOMER CLASSES

FLORIDA PUBLIC UTILITIES COMPANY

DOCKET NO. 040216-GU

	TOTAL	RS	GS / GSTS	LV / LVTS	IS / ITS	LS	NSB-RS	NSB-CI/CITS	LAKE WORTH	TOTAL INCL LAKE WORTH
TAXES OTHER THAN INCOME TAXES:										
Customer	591,849	268,721	98,490	183,309	1,411	154	28,589	11,176	0	591,849
Capacity	744,034	163,570	149,528	322,399	63,078	4,076	17,774	23,610	137,713	881,747
Subtotal	1,335,883	432,291	248,018	505,708	64,489	4,229	46,362	34,785	137,713	1,473,596
Revenue	2,850,943	1,013,965	515,116	1,032,645	105,072	6,993	108,279	68,872	0	2,850,943
Total	**4,186,826**	**1,446,255**	**763,134**	**1,538,354**	**169,561**	**11,223**	**154,641**	**103,658**	**137,713**	**4,324,539**
RETURN (NOI)										
Customer	1,796,459	815,658	298,949	556,404	4,284	467	86,776	33,922	0	1,796,459
Capacity	2,372,001	521,465	476,700	1,027,818	201,093	12,993	56,662	75,269	342,096	2,714,097
Commodity	(1,675)	(298)	(326)	(812)	(155)	(11)	(27)	(46)	0	(1,675)
Total	**4,166,786**	**1,336,825**	**775,323**	**1,583,410**	**205,223**	**13,449**	**143,411**	**109,144**	**342,096**	**4,508,882**
INCOME TAXES										
Customer	(323,181)	(146,736)	(53,781)	(100,096)	(771)	(84)	(15,611)	(6,102)	0	(323,181)
Capacity	(592,907)	(130,346)	(119,156)	(256,914)	(50,265)	(3,248)	(14,163)	(18,814)	0	(592,907)
Commodity	301	54	59	146	28	2	5	8	0	301
Total	**(915,787)**	**(277,028)**	**(172,878)**	**(356,865)**	**(51,008)**	**(3,330)**	**(29,769)**	**(24,908)**	**104,644**	**(811,143)**
REVENUE CREDITED TO COS:										
Customer	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
TOTAL COST OF SERVICE:										
Customer	13,175,257	5,982,046	2,192,495	4,080,674	31,418	3,426	636,416	248,782	0	13,175,257
Capacity	8,968,492	1,971,651	1,802,394	3,886,160	760,330	49,126	214,240	284,590	765,711	9,734,203
Capacity LV	0	0	0	0	0	0	0	0	0	0
Commodity	439,514	78,251	85,515	213,089	40,566	2,842	7,061	12,190	0	439,514
Subtotal	22,583,263	8,031,948	4,080,403	8,179,924	832,314	55,394	857,717	545,562	765,711	23,348,974
Revenue	2,850,943	1,013,965	515,116	1,032,645	105,072	6,993	108,279	68,872	0	2,850,943
Total	**25,434,206**	**9,045,913**	**4,595,519**	**9,212,569**	**937,386**	**62,388**	**965,996**	**614,434**	**765,711**	**26,199,917**

ATTACHMENT 6
PAGE 10 OF 18

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 040216-GU

SUMMARY	TOTAL	RS	GS / GSTS	LV / LVTS	IS / ITS	LS	NSB-RS	NSB-CI/CITS	LAKE WORTH	TOTAL INCL LAKE WORTH
Rate Base	55,276,175	17,674,211	10,294,209	21,037,024	2,743,563	179,754	1,896,229	1,451,185	3,895,499	59,171,674
Attrition	0	0	0	0	0	0	0	0	0	0
Operation And Maintenance	14,136,632	5,315,120	2,509,764	4,973,725	418,744	28,285	566,290	324,704	41,406	14,178,038
Depreciation	2,806,038	893,978	523,038	1,069,663	140,404	9,197	95,919	73,838	139,852	2,945,890
Amortization Expenses	1,053,711	330,763	197,138	404,282	54,462	3,564	35,504	27,998	0	1,053,711
Taxes Other Than Income Tax (Sub Total)	1,335,883	432,291	248,018	505,708	64,489	4,229	46,362	34,785	137,713	1,473,596
Taxes Other Than Income Tax (Revenue)	2,850,943	1,013,965	515,116	1,032,645	105,072	6,993	108,279	68,872	0	2,850,943
Income Tax (Total)	(915,787)	(277,028)	(172,878)	(356,865)	(51,008)	(3,330)	(29,769)	(24,908)	104,644	(811,143)
Revenue Credited To Cost Of Service	0	0	0	0	0	0	0	0	0	0
Total Cost Of Service (Customer)	13,175,257	5,982,046	2,192,495	4,080,674	31,418	3,426	636,416	248,782	0	13,175,257
Total Cost Of Service (Capacity)	8,968,492	1,971,651	1,802,394	3,886,160	760,330	49,126	214,240	284,590	765,711	9,734,203
Total Cost Of Service (Commodity)	439,514	78,251	85,515	213,089	40,566	2,842	7,061	12,190	0	439,514
Total Cost Of Service (Revenue)	2,850,943	1,013,965	515,116	1,032,645	105,072	6,993	108,279	68,872	0	2,850,943
TOTAL COST OF SERVICE	**25,434,206**	**9,045,913**	**4,595,519**	**9,212,569**	**937,386**	**62,388**	**965,996**	**614,434**	**765,711**	**26,199,917**
No. Of Customers	49,207	40,221	3,155	1,137	14	43	4,279	358	0	49,207
Peak And Average Month Sales Vol.	5,992,874	1,317,485	1,204,385	2,596,788	508,063	32,827	143,158	190,167	0	5,992,874
Annual Sales	60,917,496	10,845,772	11,852,482	29,534,569	5,622,569	393,924	978,690	1,689,490	0	60,917,496

COST OF SERVICE
DERIVATION OF REVENUE DEFICIENCY

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 040216-GU

COST OF SERVICE BY CUSTOMER CLASS	TOTAL	RS	GS / GSTS	LV / LVTS	IS / ITS	LS	NSB-RS	NSB-CI/CITS	LAKE WORTH	TOTAL INCL LAKE WORTH
CUSTOMER COSTS	13,175,257	5,982,046	2,192,495	4,080,674	31,418	3,426	636,416	248,782	0	13,175,257
CAPACITY COSTS	8,968,492	1,971,651	1,802,394	3,886,160	760,330	49,126	214,240	284,590	765,711	9,734,203
COMMODITY COSTS	439,514	78,251	85,515	213,089	40,566	2,842	7,061	12,190	0	439,514
REVENUE COSTS	2,850,943	1,013,965	515,116	1,032,645	105,072	6,993	108,279	68,872	0	2,850,943
TOTAL	**25,434,206**	**9,045,913**	**4,595,519**	**9,212,569**	**937,386**	**62,388**	**965,996**	**614,434**	**765,711**	**26,199,917**
less: REVENUE AT PRESENT RATES	**21,806,111**	**9,445,638**	**3,856,491**	**6,250,402**	**480,601**	**106,302**	**1,119,170**	**547,507**	**765,712**	**22,571,823**
Equals: GAS SALES REVENUE DEFICIENCY	**3,628,095**	**(399,725)**	**739,028**	**2,962,167**	**456,785**	**(43,914)**	**(153,174)**	**66,927**	**(1)**	**3,628,094**
	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0
	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Equals: TOTAL BASE-REVENUE DEFICIENCY	**3,628,095**	**(399,725)**	**739,028**	**2,962,167**	**456,785**	**(43,914)**	**(153,174)**	**66,927**	**(1)**	**3,628,094**
UNIT COSTS:										
Customer	**$22.31**	**$12.39**	**$57.91**	**$298.98**	**$187.01**	**$6.64**	**$12.39**	**$57.91**	**N/A**	
Capacity	**$1.50**	**$1.50**	**$1.50**	**$1.50**	**$1.50**	**$1.50**	**$1.50**	**$1.50**	**N/A**	
Commodity	**$0.00721**	**$0.00721**	**$0.00721**	**$0.00721**	**$0.00721**	**$0.00721**	**$0.00721**	**$0.00721**	**N/A**	

COST OF SERVICE
RATE OF RETURN BY CUSTOMER CLASS
(PAGE 1 OF 2: PRESENT RATES)

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 040216-GU

	TOTAL	RS	GS / GSTS	LV / LVTS	IS / ITS	LS	NSB-RS	NSB-CI/CITS	LAKE WORTH	TOTAL INCL LAKE WORTH
PRESENT REVENUES: (projected test year)										
Gas Sales (due to growth)	17,717,849	7,495,850	3,117,728	5,238,517	418,564	84,469	913,902	448,819	765,712	18,483,561
Gross receipts and Franchise fees	2,748,481	854,683	652,860	980,917	61,656	20,662	88,762	88,941	0	2,748,48
Other Operating Revenue	1,339,781	1,095,105	85,903	30,968	381	1,171	116,506	9,747	0	1,339,781
Total	**21,806,111**	**9,445,638**	**3,856,491**	**6,250,402**	**480,601**	**106,302**	**1,119,170**	**547,507**	**765,712**	**22,571,823**
EXPENSES:										
Purchased Gas Cost	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
O&M Expenses	14,136,632	5,315,120	2,509,764	4,973,725	418,744	28,285	566,290	324,704	41,406	14,178,038
Depreciation Expenses	2,806,038	893,978	523,038	1,069,663	140,404	9,197	95,919	73,838	139,852	2,945,890
Amortization Expenses	1,053,711	330,763	197,138	404,282	54,462	3,564	35,504	27,998	0	1,053,711
Taxes Other Than Income--Fixed	1,335,883	432,291	248,018	505,708	64,489	4,229	46,362	34,785	137,713	1,473,596
Taxes Other Than Income--Revenue	2,850,943	1,013,965	515,116	1,032,645	105,072	6,993	108,279	68,872	0	2,850,943
Total Expses excl. Income Taxes	**22,183,207**	**7,986,116**	**3,993,074**	**7,986,024**	**783,172**	**52,268**	**852,354**	**530,199**	**318,971**	**22,502,178**
INCOME TAXES:	**(915,787)**	**(277,028)**	**(172,878)**	**(356,865)**	**(51,008)**	**(3,330)**	**(29,769)**	**(24,908)**	**104,644**	**(811,143)**
NET OPERATING INCOME:	**538,691**	**1,736,550**	**36,295**	**(1,378,757)**	**(251,563)**	**57,364**	**296,585**	**42,217**	**342,097**	**880,788**
RATE BASE:	**55,276,175**	**17,674,211**	**10,294,209**	**21,037,024**	**2,743,563**	**179,754**	**1,896,229**	**1,451,185**	**3,895,499**	**59,171,674**
RATE OF RETURN	**0.97%**	**9.83%**	**0.35%**	**-6.55%**	**-9.17%**	**31.91%**	**15.64%**	**2.91%**	**8.78%**	**1.49%**
REQUIRED RATE OF RETURN	**7.62%**	**7.62%**	**7.62%**	**7.62%**	**7.62%**	**7.62%**	**7.62%**	**7.62%**	**7.62%**	**7.62%**
REQUIRED NOI	**4,212,045**	**1,346,775**	**784,419**	**1,603,021**	**209,060**	**13,697**	**144,493**	**110,580**	**296,837**	**4,508,882**
NOI DEFICIENCY	**3,673,354**	**(389,775)**	**748,124**	**2,981,778**	**460,622**	**(43,667)**	**(152,093)**	**68,363**	**(45,260)**	**3,628,094**
NOI Multiplier	**1.6168**	**1.6168**	**1.6168**	**1.6168**	**1.6168**	**1.6168**	**1.6168**	**1.6168**	**1.6168**	**1.6168**
Revenue Deficiency (Excess)	**5,939,078**	**(630,189)**	**1,209,567**	**4,820,939**	**744,734**	**(70,600)**	**(245,903)**	**110,530**	**(73,176)**	**5,865,902**
Proposed Increase in other operating rev.	**376,575**	**295,494**	**9,368**	**29,297**	**8,029**	**(210)**	**31,437**	**3,160**	**0**	**376,575**
Required increase in base revenues	**5,562,503**	**(925,683)**	**1,200,199**	**4,791,642**	**736,705**	**(70,390)**	**(277,340)**	**107,370**	**(73,176)**	**5,489,327**

COST OF SERVICE
RATE OF RETURN BY CUSTOMER CLASS
(Page 2 of 2: APPROVED RATES)
FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 040216-GU

ATTACHMENT 6
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REVENUES - EQUAL ROR	TOTAL	RS	GS / GSTS	LV / LVTS	IS / ITS	LS	NSB-RS	NSB-CI/CITS	LAKE WORTH	TOTAL INCL LAKE WORTH
REVENUES:										
Gas Sales	23,280,352	6,570,167	4,317,927	10,030,159	1,155,269	14,079	636,562	556,189	692,536	23,972,888
Gross receipts and Franchise fees	2,748,480	854,683	652,860	980,917	61,656	20,662	88,762	88,941		2,748,481
Other Operating Revenue	1,716,356	1,390,599	95,271	60,265	8,410	961	147,943	12,907		1,716,356
Total	27,745,188	8,815,449	5,066,058	11,071,341	1,225,335	35,702	873,267	658,037	692,536	28,437,725
EXPENSES:										
Purchased Gas Cost	0	0	0	0	0	0	0	0	0	0
O&M Expenses	14,136,632	5,315,120	2,509,764	4,973,725	418,744	28,285	566,290	324,704	41,406	14,178,038
Depreciation Expenses	2,806,038	893,978	523,038	1,069,663	140,404	9,197	95,919	73,838	139,852	2,945,890
Amortization Expenses	1,053,711	330,763	197,138	404,282	54,462	3,564	35,504	27,998	0	1,053,711
Taxes Other Than Income--Fixed	1,335,883	432,291	248,018	505,708	64,489	4,229	46,362	34,785	137,713	1,473,596
Taxes Other Than Income--Revenue	2,850,943	1,013,965	515,116	1,032,645	105,072	6,993	108,279	68,872	0	2,850,943
Total Expses excl. Income Taxes	22,183,207	7,986,116	3,993,074	7,986,024	783,172	52,268	852,354	530,199	318,971	22,502,178
PRE TAX NOI:	5,561,981	829,333	1,072,983	3,085,318	442,163	(16,566)	20,912	127,838	373,565	5,935,547
INCOME TAXES:	1,349,937	(517,442)	288,564	1,482,296	233,104	(30,263)	(123,580)	17,258	76,728	1,426,665
NET OPERATING INCOME:	4,212,044	1,346,775	784,419	1,603,021	209,060	13,697	144,493	110,580	296,837	4,508,882
RATE BASE:	55,276,175	17,674,211	10,294,209	21,037,024	2,743,563	179,754	1,896,229	1,451,185	3,895,499	59,171,674
RATE OF RETURN	7.62%	7.62%	7.62%	7.62%	7.62%	7.62%	7.62%	7.62%	7.62%	7.62%
$ CHANGE IN BASE REVENUES	5,562,503	(925,683)	1,200,199	4,791,642	736,705	(70,390)	(277,340)	107,370	(73,176)	5,489,327
% CHANGE IN BASE REVENUES	31.39%	-12.35%	38.50%	91.47%	176.01%	-83.33%	-30.35%	23.92%	-9.56%	29.70%
REVENUES - COMMISSION APPROVED RATES										
Gas Sales	23,214,944	8,943,357	4,369,464	7,572,082	604,745	69,682	1,044,516	611,097	757,944	23,972,888
Gross receipts and Franchise fees	2,748,480	854,683	652,860	980,917	61,656	20,662	88,762	88,941	0	2,748,481
Other Operating Revenue	1,716,356	1,390,599	95,271	60,265	8,410	961	147,943	12,907	0	1,716,356
Total	27,679,780	11,188,639	5,117,595	8,613,264	674,811	91,305	1,281,221	712,945	757,944	28,437,725
EXPENSES:										
Purchased Gas Cost	0	0	0	0	0	0	0	0	0	0
O&M Expenses	14,136,632	5,315,120	2,509,764	4,973,725	418,744	28,285	566,290	324,704	41,406	14,178,038
Depreciation Expenses	2,806,038	893,978	523,038	1,069,663	140,404	9,197	95,919	73,838	139,852	2,945,890
Amortization Expenses	1,053,711	330,763	197,138	404,282	54,462	3,564	35,504	27,998	0	1,053,711
Taxes Other Than Income--Fixed	1,335,883	432,291	248,018	505,708	64,489	4,229	46,362	34,785	137,713	1,473,596
Taxes Other Than Income--Revenue	2,850,943	1,013,965	515,116	1,032,645	105,072	6,993	108,279	68,872	0	2,850,943
Total Expses excl. Income Taxes	22,183,207	7,986,116	3,993,074	7,986,024	783,172	52,268	852,354	530,199	318,971	22,502,178
PRE TAX NOI:	5,496,573	3,202,523	1,124,521	627,241	(108,361)	39,037	428,867	182,746	438,973	5,935,547
INCREASE NOI:	3,632,898	1,078,056	780,000	1,461,444	120,120	(9,275)	100,230	102,324	(4,804)	3,628,094
ORIGINAL NOI:	538,691	1,736,550	36,295	(1,378,757)	(251,563)	57,364	296,585	42,217	342,097	880,788
INCOME TAXES:	1,324,985	387,917	308,226	544,554	23,082	(9,051)	32,052	38,205	101,681	1,426,665
NET OPERATING INCOME:	4,171,589	2,814,606	816,295	82,687	(131,443)	48,088	396,815	144,541	337,293	4,508,882
RATE BASE:	55,276,175	17,674,211	10,294,209	21,037,024	2,743,563	179,754	1,896,229	1,451,185	3,895,499	59,171,674
RATE OF RETURN	7.55%	15.92%	7.93%	0.39%	-4.79%	26.75%	20.93%	9.96%	8.66%	7.62%
$ CHANGE IN BASE REVENUES	5,497,095	1,447,507	1,251,736	2,333,565	186,181	(14,787)	130,614	162,278	(7,768)	5,489,327
% CHANGE IN BASE REVENUES	31.03%	19.31%	40.15%	44.55%	44.48%	-17.51%	14.29%	36.16%	-1.01%	29.70%

COST OF SERVICE SUMMARY
COMMISSION APPROVED RATE DESIGN
COMBINE NEW SMYRNA BEACH CUSTOMERS WITH STANDARD CUSTOMERS
FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 040216-GU

	CUST	THERMS	NSB CUST CHARGE	NSB ENERGY CHARGE	NSB CUST REVENUE	NSB ENERGY REVENUE	TOTAL NSB BASE REVENUE	% OF NSB	PROPOSED BASE REV	MOVE STANDARD	OTHER OP REVENUE
NSB-RS TO RS	**4,279**	**978,690**	**$7.00**	**56.654**	**359,436**	**554,467**	**913,903**	**100%**		**TO RS**	**147,943**
NSB-CI/CITS TO GS	266	398,620	$12.00	23.514	38,304	93,732	132,036	29%		TO GS	8,032
NSB-CI/CITS TO LV	82	1,184,090	$12.00	23.514	11,808	278,427	290,235	65%		TO LV	
NSB-CI/CITS TO LVTS	10	106,780	$12.00	23.514	1,440	25,108	26,548	6%		TO LVTS	5
TOTAL NSB-CI/CITS	**358**	**1,689,490**			**51,552**	**397,267**	**448,819**	**100%**			**12,907**

	TOTAL	RS	GS / GSTS	LV / LVTS	IS / ITS	LS	NSB-RS	NSB-CI/CITS	LAKE WORTH	TOTAL INCL LAKE WORTH	
Total Current Base Revenues	17,717,849	8,409,753	3,249,764	5,555,300	418,564	84,469			765,712	18,483,562	
Total Projected Base Revenues	23,214,944	9,987,873	4,549,240	8,003,404	604,745	69,682			757,944	23,972,888	
Current Other Operating Revenue	1,339,781	1,231,715	77,495	29,440	276	855				1,339,781	
Approved Other Operating Revenue	1,716,356	1,538,542	103,303	65,140	8,410	961				1,716,356	
Increase Other Operating Revenue	376,575	306,827	25,808	35,700	8,134	106				376,575	
Gr Tax Revenues	1,402,286	481,349	344,974	533,964	31,457	10,542				1,402,286	
Ff Revenues	1,346,195	462,095	331,175	512,606	30,199	10,120				1,346,195	
Total Current Revenues	21,806,111	10,584,912	4,003,408	6,631,310	480,496	105,986			765,712	22,571,824	
Total Approved Revenues	27,679,781	12,469,859	5,328,692	9,115,114	674,811	91,305			757,944	28,437,725	

COST OF SERVICE SUMMARY COMMISSION APPROVED RATE DESIGN FLORIDA PUBLIC UTILITIES COMPANY DOCKET NO. 040216-GU										ATTACHMENT 6 PAGE 15 OF 18
	TOTAL	RS	GS / GSTS	LV / LVTS	IS / ITS	LS	NSB-RS	NSB-CI/CITS	LAKE WORTH	TOTAL INCL LAKE WORTH
I. PRESENT RATES (projected test year)										
GAS SALES (due to growth)	17,717,849	7,495,850	3,117,728	5,238,517	418,564	84,469	913,902	448,819	765,712	18,483,561
GROSS RECEIPTS AND FF	2,748,481	854,683	652,860	980,917	61,656	20,662	88,762	88,941	0	2,748,481
OTHER OPERATING REVENUE	1,339,781	1,095,105	85,903	30,968	381	1,171	116,506	9,747	0	1,339,781
TOTAL	21,806,111	9,445,638	3,856,491	6,250,402	480,601	106,302	1,119,170	547,507	765,712	22,571,823
ATTENDANT INCREASE IN TAXES	(915,787)	(277,028)	(172,878)	(356,865)	(51,008)	(3,330)	(29,769)	(24,908)	104,644	(811,143)
RESULTING NET OPERATING INCOME	538,691	1,736,550	36,295	(1,378,757)	(251,563)	57,364	296,585	42,217	342,097	880,788
RATE OF RETURN	0.97%	9.83%	0.35%	-6.55%	-9.17%	31.91%	15.64%	2.91%	8.78%	1.49%
INDEX		6.60	0.24	(4.40)	(6.16)	21.44	10.51	1.95	5.90	1.00
II. RATES - EQUAL RATES OF RETURN										
GAS SALES	23,280,352	6,570,167	4,317,927	10,030,159	1,155,269	14,079	636,562	556,189	692,536	23,972,888
GROSS RECEIPTS AND FF	2,748,480	854,683	652,860	980,917	61,656	20,662	88,762	88,941	0	2,748,481
OTHER OPERATING REVENUE	1,716,356	1,390,599	95,271	60,265	8,410	961	147,943	12,907	0	1,716,356
TOTAL	27,745,188	8,815,449	5,066,058	11,071,341	1,225,335	35,702	873,267	658,037	692,536	28,437,725
TOTAL REVENUE INCREASE	5,939,077	(630,189)	1,209,567	4,820,939	744,734	(70,600)	(245,903)	110,530	(73,176)	5,865,902
PERCENT INCREASE	33.52%	-8.41%	38.80%	92.03%	177.93%	-83.58%	-26.91%	24.63%	-9.56%	31.74%
RATE OF RETURN	7.62%	7.62%	7.62%	7.62%	7.62%	7.62%	7.62%	7.62%	7.62%	7.62%
INDEX	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
III. COMMISSION APPROVED RATES										
GAS SALES	23,214,944	8,943,357	4,369,464	7,572,082	604,745	69,682	1,044,516	611,097	757,944	23,972,888
GROSS RECEIPTS AND FF	2,748,481	854,683	652,860	980,917	61,656	20,662	88,762	88,941	0	2,748,481
OTHER OPERATING REVENUE	1,716,356	1,390,599	95,271	60,265	8,410	961	147,943	12,907	0	1,716,356
TOTAL	27,679,781	11,188,639	5,117,595	8,613,264	674,811	91,305	1,281,221	712,945	757,944	28,437,725
TOTAL REVENUE INCREASE	5,873,670	1,743,001	1,261,104	2,362,862	194,210	(14,997)	162,051	165,438	(7,768)	5,865,902
PERCENT INCREASE	33.15%	23.25%	40.45%	45.11%	46.40%	-17.75%	17.73%	36.86%	-1.01%	31.74%
RATE OF RETURN	7.55%	15.92%	7.93%	0.39%	-4.79%	26.75%	20.93%	9.96%	8.66%	7.62%

COST OF SERVICE SUMMARY
CALCULATION OF COMMISSION APPROVED COMBINED RATES

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 040216-GU

	TOTAL	RS	GS / GSTS	LV / LVTS	IS / ITS	LS	NSB-RS	NSB-CI/CITS	LAKE WORTH	TOTAL INCL LAKE WORTH
APPROVED TOTAL TARGET REVENUES	**$27,679,781**	**$12,469,859**	**$5,328,692**	**$9,115,114**	**$674,811**	**$91,305**			**$757,944**	**$28,437,725**
LESS: OTHER OPERATING REV., GRT & FF	$4,464,837	$2,481,986	$779,452	$1,111,710	$70,066	$21,623			$0	$4,464,837
NET TARGET REVENUE	$23,214,944	$9,987,873	$4,549,240	$8,003,404	$604,745	$69,682			$757,944	$23,972,888
LESS: CUSTOMER CHARGE REVENUES										
APPROVED CUSTOMER CHARGES		$8.00	$15.00	$45.00	$240.00	$0.00				
TIMES: NUMBER OF BILLS	590,494	533,998	41,052	14,760	168	516				
EQUALS: CUSTOMER CHARGE REVENUES	$5,592,281	$4,271,981	$615,780	$664,200	$40,320	$0			$0	$5,592,281
EQUALS: PER-THERM TARGET REVENUES	$17,622,663	$5,715,892	$3,933,460	$7,339,204	$564,425	$69,682			$757,944	$18,380,607
DIVIDED BY: NUMBER OF THERMS	60,917,500	11,824,460	12,251,102	30,825,445	5,622,570	393,923				60,917,500
EQUALS: PER-THERM RATES (UNROUNDED)		0.483395621	0.321069868	0.238089146	0.100385543	0.176893436			N/A	
PER-THERM RATES (ROUNDED)		$0.48340	$0.32107	$0.23809	$0.10039	$0.17689				
PER-THERM-RATE REVENUES (ROUNDED RATES)	$17,622,766	$5,715,944	$3,933,461	$7,339,230	$564,450	$69,681				
SUMMARY: APPROVED TARIFF RATES							**NSB-RS Migrated to RS**	**NSB-CI/CITS Migrated to GS**	**NSB-CI/CITS Migrated to LVS/LVTS**	
CUSTOMER CHARGES		$8.00	$15.00	$45.00	$240.00	$0.00	$8.00	$15.00	$45.00	
NON-GAS ENERGY CHARGES (CENTS PER THERM)		**48.340**	**32.107**	**23.809**	**10.039**	**17.689**	**48.340**	**32.107**	**23.809**	
PURCHASED GAS ADJUSTMENT (CENTS PER THERM)		70.000	70.000	70.000	70.000	70.000	70.000	70.000	70.000	
TOTAL (INCLUDING PGA)		118.34	102.107	93.809	80.039	87.689	118.34	102.107	93.809	
SUMMARY: PRESENT TARIFF RATES										
CUSTOMER CHARGES		$8.00	$15.00	$45.00	$240.00	N/A	$7.00	$12.00	$12.00	
NON-GAS ENERGY CHARGES (CENTS PER THERM)		33.512	21.513	15.474	6.612	N/A	56.654	23.514	23.514	
PURCHASED GAS ADJUSTMENT (CENTS PER THERM)		70.000	70.000	70.000	70.000	70.000	70.000	70.000	70.000	
TOTAL (INCLUDING PGA)		103.512	91.513	85.474	76.612	N/A	126.654	93.514	93.514	

COST OF SERVICE SUMMARY
CALCULATION OF RATES WITH NEW SMYRNA RATES SHOWN SEPARATELY

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 040216-GU

	TOTAL	RS	GS / GSTS	LV / LVTS	IS / ITS	LS	NSB-RS	NSB-CI/CITS	LAKE WORTH	TOTAL INCL LAKE WORTH
TOTAL TARGET REVENUES	**$27,745,188**	**$11,188,639**	**$5,117,595**	**$8,613,264**	**$674,811**	**$91,305**	**$1,281,221**	**$712,945**	**$757,944**	**$28,437,725**
LESS: OTHER OPERATING REV., GRT & FF	$4,464,837	$2,245,282	$748,131	$1,041,182	$70,066	$21,623	$236,705	$101,848		$4,464,837
NET TARGET REVENUE	$23,280,351	$8,943,357	$4,369,464	$7,572,082	$604,745	$69,682	$1,044,516	$611,097	$757,944	$23,972,888
LESS: CUSTOMER CHARGE REVENUES										
PROPOSED CUSTOMER CHARGES		$8.00	$15.00	$45.00	$240.00	$0.00	$8.00	$15.00		
TIMES: NUMBER OF BILLS	590,487	482,650	37,860	13,649	168	516	51,348	4,296	0	
EQUALS: CUSTOMER CHARGE REVENUES	$5,558,844	$3,861,198	$567,904	$614,197	$40,320	$0	$410,784	$64,440	$0	$5,558,844
EQUALS: PER-THERM TARGET REVENUES	$17,721,507	$5,082,159	$3,801,560	$6,957,885	$564,425	$69,682	$633,732	$546,657	$757,944	$18,414,044
DIVIDED BY: NUMBER OF THERMS	60,917,496	10,845,772	11,852,482	29,534,569	5,622,569	393,924	978,690	1,689,490	0	$60,917,496
EQUALS: PER-THERM RATES (UNROUNDED)		0.468584295	0.32073961	0.235584441	0.100385562	0.176892987	0.647531072	0.323563187	N/A	
PER-THERM RATES (ROUNDED)		0.46858	0.32074	0.23558	0.10039	0.17689	0.64753	0.32356		
PER-THERM-RATE REVENUES (ROUNDED RATES)		$5,082,112	$3,801,565	$6,957,754	$564,450	$69,681	$633,731	$546,651		
SUMMARY: TARIFF RATES										
CUSTOMER CHARGES		$8.00	$15.00	$45.00	$240.00	$0.00	$8.00	$15.00		
					0					
NON-GAS ENERGY CHARGES (CENTS PER THERM)		**46.858**	**32.074**	**23.558**	**10.039**	**17.689**	**64.753**	**32.356**		
PURCHASED GAS ADJUSTMENT (CENTS PER THERM)		70.000	70.000	70.000	70.000	70.000	70.000	70.000		
TOTAL (INCLUDING PGA)		116.858	102.074	93.558	80.039	87.689	134.753	102.356		
SUMMARY: PRESENT TARIFF RATES										
CUSTOMER CHARGES		$8.00	$15.00	$45.00	$240.00	N/A	$7.00	$12.00		
NON-GAS ENERGY CHARGES (CENTS PER THERM)		33.512	21.513	15.474	6.612	N/A	56.654	23.514		
PURCHASED GAS ADJUSTMENT (CENTS PER THERM)		70.000	70.000	70.000	70.000	70.000	70.000	70.000		
TOTAL (INCLUDING PGA)		103.512	91.513	85.474	76.612	N/A	126.654	93.514		

FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO. 040216-GU
COMMISSION APPROVED ALLOCATION OF REVENUE INCREASE

ATTACHMENT 6
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(1)	(2)	(3)	(4)		(5)	(6)	(7)	(8)	(9)		(10)
RATE	RATE BASE	PRESENT NOI	PRESENT ROR	PRESENT INDEX	INCREASE FROM SERVICE CHARGES	INCREASE FROM SALES OF GAS	TOTAL INCREASE IN REVENUE	REQUIRED NOI	APPROVED ROR	APPROVED INDEX	GAS SALES REVENUE PERCENTAGE INCREASE
RS	$17,674,211	$1,736,550	9.83%	6.60	$295,494	$1,447,507	$1,743,001	$2,814,606	15.92%	2.09	19.31%
GS / GSTS	$10,294,209	$36,295	0.35%	0.24	$9,368	$1,251,736	$1,261,104	$816,295	7.93%	1.04	40.15%
LV / LVTS	$21,037,024	($1,378,757)	-6.55%	(4.40)	$29,297	$2,333,565	$2,362,862	$82,687	0.39%	0.05	44.55%
IS / ITS	$2,743,563	($251,563)	-9.17%	(6.16)	$8,029	$186,181	$194,210	($131,443)	-4.79%	(0.63)	44.48%
GLS	$179,754	$57,364	31.91%	21.44	-$210	($14,787)	($14,997)	$48,088	26.75%	3.51	-17.51%
NSB / RS *	$1,896,229	$296,585	15.64%	10.51	$31,437	$130,614	$162,051	$396,815	20.93%	2.75	14.29%
NSB-CI / CITS **	$1,451,185	$42,217	2.91%	1.95	$3,160	$162,278	$165,438	$144,541	9.96%	1.31	36.16%
LAKE WORTH ***	$3,895,499	$342,097	8.78%	5.90	$0	($7,768)	($7,768)	$337,293	8.66%	1.14	-1.01%
TOTAL	59,171,674	880,788	1.49%	1.00	$376,575	$5,489,327	$5,865,902	$4,508,882	7.62%	1.00	29.70%

* New Smyrna Beach Residential (NSB-RS) rate class will be combined with the Residential Service (RS) rate class.
** New Smyrna Beach commercial/industrial (NSB-CI / CITS) rate class customers will be transferred to the appropriate GS/GSTS and LV/LVTS rate classes.
*** Special Contract.

FLORIDA PUBLIC UTILITIES COMPANY		
DOCKET NO. 040216-GU		
PRESENT AND COMMISSION APPROVED RATES		
		ATTACHMENT 7
		PAGE 1 OF 1
RATE SCHEDULE	PRESENT RATE	COMMISSION APPROVED RATE
RESIDENTIAL		
CUSTOMER CHARGE	$8.00	$8.00
NON-FUEL ENERGY CHARGE (cents/therm)	33.512	48.340
RESIDENTIAL - NEW SMYRNA BEACH *		
CUSTOMER CHARGE	$7.00	$8.00
NON-FUEL ENERGY CHARGE (cents/therm)	56.654	48.340
GENERAL SERVICE & GENERAL SERVICE TRANSPORTATION		
CUSTOMER CHARGE	$15.00	$15.00
NON-FUEL ENERGY CHARGE (cents/therm)	21.513	32.107
GENERAL SERVICE & GENERAL SERVICE TRANSPORTATION - NEW SMYRNA BEACH *		
CUSTOMER CHARGE	$12.00	$15.00
NON-FUEL ENERGY CHARGE (cents/therm)	23.514	32.107
LARGE VOLUME & LARGE VOLUME TRANSPORTATION		
CUSTOMER CHARGE	$45.00	$45.00
NON-FUEL ENERGY CHARGE (cents/therm)	15.474	23.809
LARGE VOLUME & LARGE VOLUME TRANSPORTATION - NEW SMYRNA BEACH *		
CUSTOMER CHARGE	$12.00	$45.00
NON-FUEL ENERGY CHARGE (cents/therm)	23.514	23.809
INTERRUPTIBLE SERVICE & INTERRUPTIBLE SERVICE TRANSPORTATION		
CUSTOMER CHARGE	$240.00	$240.00
NON-FUEL ENERGY CHARGE (cents/therm)	6.612	10.039
**GAS LIGHTING SERVICE ** **		
NON-FUEL ENERGY CHARGE (cents/therm)	N/A	17.689

* Present rates reflect base rates currently paid by New Smyrna Beach District customers. Commission approved rates will apply uniformly to all FPUC customers.

** Gas Lighting is a new rate schedule. Customers currently pay for lighting under the otherwise applicable rate schedule.