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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Florida Public Utilities Company for an increase in its rates and charges in their Consolidated Electric Division.	))))	Docket No. 030438-EI Filed: December 29, 2003

DIRECT TESTIMONY OF

DONNA DERONNE

Respectfully submitted,
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ON BEHALF OF THE CITIZENS OF FLORIDA

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA PUBLIC UTILITIES COMPANY

DOCKET NO. 030438-EI

I. INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Donna DeRonne. I am a Certified Public Accountant licensed in the State of Michigan and a senior regulatory consultant at the firm of Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC, has extensive experience in the utility regulatory field as expert witnesses in over 400 regulatory proceedings, including numerous electric, gas, water and wastewater and telephone utility cases.

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

A. Yes. I have testified before the Florida Public Service Commission on several prior occasions. I have also testified before several other state regulatory commissions.

Q. HAVE YOU PREPARED AN APPENDIX DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix I, which is a summary of my regulatory experience and qualifications.

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. Larkin & Associates, PLLC, was retained by the Florida Office of Public Counsel (OPC) to review the rate case filing submitted by Florida Public Utilities (FPU or Company) for its consolidated electric division. Accordingly, I am appearing on behalf of the Citizens of Florida (Citizens).

Q. ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF THE CITIZENS OF FLORIDA?

A. Yes. Hugh Larkin, Jr. and Mark Cicchetti are also presenting testimony in this case.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am providing the OPC's overall recommended revenue requirement in this case. I am also recommending several adjustments to the Company's projected 2004 operating income, along with an adjustment to deferred taxes included in the Company's capital structure.

II. OVERALL FINANCIAL SUMMARY

Q. HAVE YOU PREPARED ANY EXHIBITS IN SUPPORT OF YOUR RECOMMENDATIONS?

A. Yes, I have prepared Exhibit__(DD-1), which consists of Schedules A-1, B-1, C-1 through C-9, and D-1 through D-5. These schedules provide supporting calculations and additional information for some of the adjustments I am recommending in this testimony.

Q. WHAT DOES SCHEDULE A-1, ENTITLED "REVENUE REQUIREMENT" SHOW?

A. Schedule A-1 presents the revenue requirement calculation at this time, giving effect to all the adjustments I am recommending in this testimony, along with the impacts of the recommendations made by Citizens' witnesses Hugh Larkin, Jr. and Mark Cicchetti. The adjustments presented on Schedule A-1 which impact rate base can be found summarized on Schedule B-1. The OPC adjustments to net operating income are listed on Schedule C-1. Schedules C-2 through C-9 provide supporting calculations for my recommended adjustments to net operating income presented on Schedule C-1. Schedule D-1 presents the overall cost of capital. The overall cost of capital is sponsored by Citizens' witness Mark Cicchetti, with the exception of an adjustment to deferred taxes, which I am supporting.

Q. WHAT IS THE REVENUE REQUIREMENT FOR FPU'S CONSOLIDATED ELECTRIC DIVISION?

A. As shown on Schedule A-1, the OPC's recommended adjustments in this case result in a revenue increase for FPU's Electric Operating Division of $961,809. As noted below, this does not reflect the impact of all of the Commission Staff's recommendations that may be appropriate.

Q. HAVE YOU REFLECTED THE IMPACT OF ANY OF THE ADJUSTMENTS RECOMMENDED BY THE COMMISSION'S AUDIT STAFF IN ITS AUDIT REPORT?

A. Yes, I have. A copy of Staff's audit report, with Audit Control No. 03-274-4-1, was received on December 18, 2003. The associated workpapers were received on December 19, 2003. There are many adjustments to the Company's rate case filing that are identified in the report which the OPC agrees are appropriate. Many of the Audit Staff's adjustments are reflected in the OPC's recommended revenue requirement. In cases in which we agree with and are reflecting an Audit Staff adjustment, the specific adjustment is discussed either in this testimony or in the direct testimony of Citizens' witness Hugh Larkin, Jr. Absence of addressing an issue does not necessarily mean we are in disagreement. Larkin & Associates, PLLC, is still in the process of reviewing the workpapers supporting Audit Staff's recommended adjustments.

III. <u>CONSTRUCTION WORK IN PROGRESS (CWIP)</u>

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

A. No, it should not. Construction Work In Progress (CWIP), as the title designates, is not plant that is completed and providing service to ratepayers. It is not used nor useful in delivering electric service to the Company's customers. The ratemaking process is predicated on an examination of the operations of a utility to insure that the assets upon which ratepayers are required to provide the utility with a rate of return are, in fact, reasonably priced and are both used and useful in providing services on a current basis. Facilities in the process of being built are not used or useful. Their total cost and the basis on which they were constructed cannot be examined in the context of providing service to ratepayers. The ratemaking process therefore excludes, in most jurisdictions, CWIP from being included in rate base until such time that projects are completed and providing service to ratepayers. As a general ratemaking principle, CWIP should be excluded from rate base and excluded from the ratemaking process until such time that it is actually providing service to ratepayers.

Furthermore, some of the plant being added that is included in CWIP in the filing, such as a mapping/outage/workorder system and SCADA system, could result in operational efficiencies, thereby reducing costs, which would not be reflected in the test period.

Q. WHAT HAS THE COMPANY INCLUDED IN THIS CASE FOR CWIP?

A. The Company has requested $620,769 in rate base for CWIP. A listing of the six (6) projects for which the Company has included CWIP recovery were provided on Schedule C-59(B-13), page 2. Each of the projects are projected to be in service prior to the end of the test year; thus, they were included in the 2004 plant additions contained in the Company's filing. On Schedule C-59(B-13), the Company is effectively adding the 13-month average CWIP balance for each of the projects. This is in addition to the impact the projects will already have on the projected 13-month average plant in service balances. The projected completion date for the projects included in CWIP ranges from March 2004 to June 2004.

Q. DO ANY OF THE SIX PROJECTS FOR WHICH CWIP RECOVERY IS INCLUDED IN THE FILING ALSO HAVE PLANT RETIREMENTS ASSOCIATED WITH THEM?

A. Yes. The project having the largest dollar impact on the CWIP balance, specifically the "Rebuild Jessy Terry Substation" project resulting in $435,154 being added for CWIP, will have an associated retirement. The project is projected to be complete in June 2004. According to MFR Schedule C-59(B-10), there is a projected retirement of $175,000 associated with this project. Thus, the Company's filing includes the project in plant in service beginning in June 2004, the 13-month average CWIP balance for the project for the months prior to June, and the associated plant that will be retired would also be included in plant in service for the period through June 2004.

Q. IN FPU'S LAST FULL RATE CASE PROCEEDING, DOCKET NO. 930400-EI, WAS CWIP INCLUDED IN THE RATE BASE CALCULATION?

A. Based on a review of the decision in that case involving the Marianna electric operations, Order No. PSC-94-0170-FOF-EI, CWIP of $289,255 was included in rate base. In the last rate case involving the Fernandina Beach Division, Docket No. 881056-EI, the parties stipulated to a CWIP balance of $660,241. While the prior full rate case decisions for the electric operations apparently included CWIP, I nonetheless recommend that it be excluded in this case. The regulatory principles for exclusion of CWIP remain the same, even if it was granted in a prior case.

Q. DO OTHER JURISDICTIONS WITH WHICH YOU ARE FAMILIAR, ALLOW INCLUSION OF CONSTRUCTION WORK IN PROGRESS IN RATE BASE?

A. No. In the other jurisdictions in which I have testified and participated in the analysis of rate case filings, CWIP is excluded from rate base when calculating a utility's revenue requirement.

IV. NET OPERATING INCOME

Revenues from New Large Industrial Customer

Q. ARE THERE ANY NEW LARGE CUSTOMERS PROJECTED TO COME ON-LINE THAT WERE NOT CONSIDERED IN THE COMPANY'S RATE CASE FILING?

A. Yes. It has recently been announced that Family Dollar will be constructing a distribution center in the Company's Marianna service territory. The center will be 907,000 square-foot facility. The projected revenues to be received from this new customer were not considered at the time the Company's filing was prepared. According to Company witness Mark Cutshaw, the new customer will fall under rate schedule General Service Large Demand (GSLD). Additionally, according to a December 12, 2003 article in the Tallahassee Democrat newspaper, the new facility will employ up to 450 people, bringing new jobs to the area. This would result in an increase in the number of residential customers served by the Company in the Marianna service territory.

Q. WHEN IS IT ANTICIPATED THAT THE NEW FACILITY WILL BE RECEIVING SERVICE?

A. During his deposition on December 16, 2003, Mark Cutshaw indicated that the customer will begin receiving temporary service on January 15, 2004, using temporary facilities for construction operations. The Company anticipates having permanent service to the facility by June 1, 2004, with the new customer completely on-line at full capacity in December 2004. It is anticipated that the new distribution facility will be up and running prior to the end of the projected test year.

Q. SHOULD AN ADJUSTMENT BE MADE TO THE FILING TO REFLECT THIS NEW CUSTOMER BEING ADDED?

A. Yes. If the projected revenues from this new large customer are not added, then the Company will receive a windfall in subsequent years until the time of its next rate case. As the Company will begin providing some level of service in January 2004, and anticipates operations at full facility capacity by December 2004, the projected annualized revenues associated with the new customer should be added.

Q. WHAT ADJUSTMENT IS NECESSARY TO REFLECT THE ANNUALIZED LEVEL OF REVENUES TO BE RECEIVED FROM THIS NEW LARGE CUSTOMER?

A. During the December 16, 2003 deposition of Mark Cutshaw, Mr. Cutshaw agreed to provide the projected level of sales for the new Family Dollar facility as Exhibit No. 1 to his deposition. The Company has projections of the amount of energy the facility will be using, the load and the demand. According to Mr. Cutshaw's deposition, the projections were based on usage at a similar Family Dollar distribution facility located in Kentucky. I recommend that base revenues, excluding fuel, contained in the filing be increased to reflect the annualized impact of the Family Dollar facility being added onto the Company's system. As of the date this testimony was finalized, Exhibit 1 to Mr. Cutshaw's deposition still had not been received. At this point I have reflected a line for the necessary adjustment on Schedule C-1 with the amounts excluded.

Q. ARE YOU ALSO RECOMMENDING AN ADJUSTMENT TO REFLECT THE REVENUES TO BE RECEIVED FROM THE NEW RESIDENTIAL CUSTOMERS THAT WILL RESULT FROM THE NEW FAMILY DOLLAR FACILITY?

A. Yes. On Schedule C-2, I calculate the impact of adding 450 additional residential customers in the Marianna service territory to the Company's projected revenues. As shown on the schedule, base revenues should be increased by $122,937.

<u>Reversal of Discontinued Operations Allocation Adjustment</u>

Q. THE COMPANY'S FILING INCLUDES A SIGNIFICANT ADJUSTMENT TO 2002 TEST YEAR EXPENSES ASSOCIATED WITH DISCONTINUED OPERATIONS. WILL YOU PLEASE DISCUSS THIS ADJUSTMENT?

A. According to the prefiled testimony of Company witness Khojasteh, 2002 operating expenses have been adjusted to reflect the effects of the loss of the Company's water division, which was sold in March 2003. In the adjustment, the Company significantly increases the amount of division and corporate level expenses allocated to the electric division. The reason provided in the testimony, at page 7, was that "These adjustments reflect the loss of some synergy in overheads at the division and corporate level from the sale of our water division." In calculating the adjustment, the Company left all else equal and only removed the water operations in determining the change in the allocation factors. It then applied these revised allocation factors to the actual recorded 2002 costs that are allocated, with no revisions to the costs. This assumes that there will be no corporate cost savings as a result of the sale of the water operations. Depending on the specific account impacted, the Company then applied various inflation and projection factors to the increased allocation amounts.

Q. IS THE COMPANY'S ADJUSTMENT APPROPRIATE OR LIKELY TO BE REFLECTIVE OF THE LEVEL OF COSTS TO BE ALLOCATED TO THE ELECTRIC OPERATIONS IN 2004?

A. No. I recommend that the Company's adjustment for discontinued operations, which is reflected on MFR Schedule C-59(C-4), page 2, column 2, be removed. This results in a $365,770 reduction to operating expenses, a $66,593 reduction to maintenance expense, a $4,180 reduction to depreciation expense and a $42,180 reduction to taxes other than income. Each of these amounts are on a 2002 basis, which is prior to the Company's application of various projection factors. On Schedule C-3, I provide the breakdown of the Company's adjustment, by sub account, along with the respective projection factors applied by the Company in order to determine the necessary adjustment to the projected 2004 test year. As shown on Schedule C-3, projected 2004 test year operation and maintenance expenses should be reduced by $429,133, depreciation expense should be reduced $4,180 and property taxes should be reduced $43,825.

Q. WHY DO YOU RECOMMEND THE COMPANY'S ADJUSTMENT FOR DISCONTINUED OPERATIONS BE REVERSED?

A. There are several reasons. First and foremost, the Company did not take into consideration the fact that there should be savings in common costs as a result of selling the water operations. It is not realistic to assume that the complete sale of one of the Company's operations, i.e., all water operations, will not result in any divisional or common cost savings or reductions. In response to Citizens' Interrogatory No. 18, the Company provided a breakdown, by account, of the adjustment. Numerous subaccounts are listed, including, but not limited to, accounts such as customer records and collections, miscellaneous customer accounts, office postage and mailing, supervision and engineering, administrative and general salaries, meter reading expense, and uncollectible accounts. It is inappropriate to assume that the overall operations of the corporation, along with common and divisional operations, will not change after the sale of a whole operation.

The second reason the Company's adjustment is not appropriate is that it does not take into consideration other changes in the relationship of the electric operations to the FPU operations as a whole. The information provided with the responses to Citizens' Interrogatory No. 18 and POD No. 31 appears to show that the revised allocation to electric was based on amounts for the twelve months ended June 30, 2001 with the water operations removed. Many other changes beyond the sale of the water operations have occurred in the overall FPU operations since June 30, 2001. For example, according to the Company's 2002 Annual Report, in November 2002 the Company acquired Nature Coast Gas, Inc. as part of its expansion of the West Central Florida propane service area. This acquisition added approximately 1,200 new customers. The Annual Report, at page 8, indicates that the Nature Coast acquisition is a "...new acquisition model for us - a model which can serve as a template for similar opportunities in the future." The annual report also indicates that the natural gas operations added 2,117 additional customers and almost 50 miles of gas mains during 2002. In determining the increases in the allocation factors to the electric operations, the Company did not take the Nature Coast acquisition into consideration, nor did it consider other changes in the overall FPU operations that would occur.

During depositions on December 15, 2003, Company witness Bachman agreed that the purchase of Nature Coast would result in a reduction in the percentage allocations to electric operations. The Company's adjustment for discontinued operations is inappropriate and one-sided and should be removed.

Garbage and Sewer Allocation Adjustment

Q. DID THE COMPANY MAKE ANY ADDITIONAL ADJUSTMENTS IN ITS FILING FOR DISCONTINUED OPERATIONS?

A. Yes. During the historic 2002 test year, the Company provided billing services for garbage and sewer for the City of Fernandina Beach from its Fernandina Beach division. According to the response to Citizens Interrogatory No. 20, these billing operations conducted for another entity shared overheads including office, employees and other items with the electric operations. Similar to the Company's adjustment for the sale of the water operations, this Company adjustment increases the amount of costs allocated to the electric operations due to the discontinuance of the service. As an attachment to the response, the Company identified the specific accounts impacted. The majority of the adjustment, which increases 2002 electric operation expenses by $28,148, impacted Account 901 - Supervision and Account 903 - Customer Records and Collection.

Q. DO YOU AGREE WITH THIS COMPANY PROPOSED ADJUSTMENT?

A. No, I do not. Similar to the Company's proposed adjustment for the sale of the water operations, this adjustment also does not take into consideration savings in common costs that would result from the discontinuance of providing this service. It is unrealistic to presume that the complete discontinuance of an operation will not result in common cost savings. The Company's proposed adjustment, which increases historic test year costs by $28,149 should be removed. As shown on Schedule C-4, the necessary adjustment to projected 2004 expenses is $29,862 after the Company's projection factors are considered.

<u>Employee Benefits - Retiree Medical</u>

Q. DO YOU HAVE ANY CONCERNS WITH THE AMOUNT INCLUDED IN THE PROJECTED 2004 TEST YEAR FOR RETIREE MEDICAL BENEFITS?

A. Yes. The methodologies used by the Company in projecting the 2004 test year medical expense recorded in Account 926.2 and post retirement benefits other than pensions recorded in expense Account 926.3 results in a double-counting of retiree medical costs being included in the Company's filing. Retiree medical costs are included in Account 926.3 in the filing under the full accrual basis of accounting required by Statement of Financial Accounting Standard No. 106. However, in calculating the amount of medical expense in Account 926.2, retiree medical costs were essentially included a second time under the pay-as-you-go basis. In other words, the retiree medical costs are included based on the accrual methodology and are included a second time on a pay as you go basis, resulting in a double recovery of retiree medical costs being included in the filing.

Q. WHAT ADJUSTMENT IS NECESSARY?

A. The amount of retiree medical costs included in the Company's projected test year employee medical expense in Account 926.2 should be removed. The appropriate adjustment is presented on Schedule C-5 and is calculated based on the Company's response to Citizens' POD 36, Attachment 36.1, pages 7 and 8. This adjustment reduces projected 2004 test year expenses in Account 926.2 by $20,386.

Q. DO YOU HAVE ANY ADDITIONAL CONCERNS WITH THE AMOUNT OF EXPENSE INCLUDED IN THE PROJECTED 2004 TEST YEAR IN ACCOUNT 926.2?

A. Yes. The Company has projected a significant increase in expenses in Account 926.2, which is the account in which active employee medical expenses are recorded. FPU projects the amount will increase from $256,801 in the historic test year, as recorded, to $431,346 in the projected 2004 test year on an electric operations basis, an increase of 68%. The projected amount is based on the Company's estimated 2003 employee benefit costs, which includes substantial projected increases, factored up by an additional 25% to determine the 2004 balance.

The Company has agreed to provide an updated exhibit breaking down the 2003 employee medical costs in a format similar to the Attachment 36.1, page 8 of the response to Citizens POD 36 as Exhibit 4 to the Deposition of Company witness George Bachman. The exhibit will be based on eleven months of actual costs for 2003 and one month of estimated costs. During the December 15, 2003 joint deposition of Company witnesses Martin, Khojasteh and Mesite, the Company also agreed to provide exhibits addressing specific components of the employee benefit expense calculation, specifically Exhibits 6 and 7. These exhibits (i.e., Exhibit 4 to the Deposition of George Bachman and Exhibits 6 & 7 to the Joint Deposition) were not received prior to finalizing this testimony. It is my intention to compare the exhibits with the response to Citizens POD 36, which contains the amount included in the filing, to determine if an additional adjustment to employee medical expense is needed.

Absent the additional information provided in the exhibits being analyzed, I have reflected the adjustment to medical expense recommended by the Commission's Audit Staff in its Audit Exception 17 on my Schedule C-6. Staff's adjustment is based on more recent medical insurance invoices than available at the time of the Company's filing and reduces projected 2004 medical insurance expense recorded in Account 926.2 by $122,164. While I agree with this Staff adjustment, additional adjustments to the Company's proposed medical benefit expense may be appropriate.

<u>Stock Issuance Expense</u>

Q. WERE THERE ANY NON-RECURRING EXPENSES RECORDED BY FPU IN THE 2002 HISTORIC TEST YEAR THAT HAVE BEEN CARRIED FORWARD TO THE 2004 PROJECTED TEST YEAR THAT NEED TO BE REMOVED?

A. Yes. According to the response to Citizens Interrogatory No. 25, test year expenses recorded in Account 930 - Miscellaneous General Expenses, include $48,657 for a stock equity issuance. This is on an electric operations basis. Company MFR Schedule C-21, page 3, indicates that the stock issuance was planned, but not consummated. Stock issuances are not an annual, recurring event. Additionally, ratepayers should not be responsible for paying costs associated with a potential stock issuance that was not consummated. After application of the Company's projection factor for Account 930.2, 2004 test year expenses should be reduced by $52,160 ($48,657 x 107.2%) to remove the costs associated with the failed 2002 stock issuance.

Payroll Outsourcing Costs

Q. WHAT IS THE PURPOSE OF YOUR ADJUSTMENT ON SCHEDULE C-1 TITLED "PAYROLL OUTSOURCING COSTS"?

A. FPU's projected 2004 expenses in Account 923.3 - Outside Audit & Accounting total $111,759 on an electric operations basis. Included in the projection is $14,000 for the portion allocated to electric operations for the outsourcing of Company payroll to ADP. The Company also included costs associated with outsourcing to ADP in its 2003 projections. To date, the Company has not entered into a contract with ADP for the outsourcing of payroll services, and the Company does not know when an agreement will be entered into. The Company is still doing its payroll processing internally. As the Company still has not entered into an agreement for the payroll processing services and is still doing the processing internally using existing Company personnel, I recommend the $14,000 included in the projected test year for this new service be excluded.

Costs Associated with New Tree Trimming Crews

Q. THE COMPANY'S PROJECTED 2004 TEST YEAR INCLUDES SEVERAL ADJUSTMENTS TO INCREASE EXPENSE FOR RELIABILITY INITIATIVES. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE PROJECTED COST INCREASES?

A. Yes. The projected reliability costs include an increase of $160,000 to Account 593.2 associated with adding 1.5 tree trimming crews for Northwest Florida. This would equate to an average cost per crew of $106,667 being added ($160,000 / 1.5). According to a response to Staff Audit Request No. 43(1), less crews will now be used in

Northwest Florida than what was originally projected in the $160,000. Additionally, during the December 16, 2003 deposition of Mark Cutshaw, he indicated that in order to get the tree trimming maintenance routine to a normal level, the Company needs to add one additional crew. Consequently, I recommend the projected cost increase of $160,000 included in the filing be reduced by $53,333 to reflect only the costs associated with one additional tree-trimming crew ($160,000 - $106,667). This reduction to projected 2004 expenses in Account 593.2 is reflected on Schedule C-1.

Tax Consulting Expense

Q. ARE YOU RECOMMENDING ANY ADDITIONAL ADJUSTMENTS TO THE COMPANY'S PROJECTED 2004 OUTSIDE AUDIT AND ACCOUNTING EXPENSE?

A. Yes. I recommend that projected test year outside audit and accounting expense be reduced an additional $9,389 on an electric operation basis for tax accounting costs. During the historic 2002 test year, the Company incurred $2,500 in expenses for tax accounting services on a total Company basis. In its filing, the Company projects the cost will increase to $77,000 in 2003 and $84,000 in 2004. When asked during depositions what caused the significant increase in the projected costs, the Company indicated that it plans to outsource more tax work. The Company also indicated that the amounts were based only partially on quotes, and that there is no contract in place for 2004 for the external tax services.

Q. HOW HAS THE ACTUAL COSTS INCURRED IN 2003 TO DATE COMPARED TO THE PROJECTED 2003 AMOUNT INCLUDED IN THE COMPANY'S FILING OF

$77,000?

A. The actual costs recorded on the Company's books for 2003 through November were requested as Exhibit 2 to the December 15, 2003 Deposition of George Bachman. As of the date this testimony was finalized, the Exhibit 2 to the Deposition of George Bachman had not been provided.

Q. HAVE YOU RECEIVED ANY ADDITIONAL INFORMATION ON THIS ISSUE?

A. Yes. In its Audit Report, Commission Audit Staff recommended that the projected 2004 tax accounting costs be reduced by $26,825. This would be a $9,389 reduction on an electric operations basis. According to the Staff Audit Report, the reduction is made up of three components. The first component is the removal of $14,000 of projected costs that the Company was unable to provide support for. The second item was the removal of $20,000 associated with a property tax audit. According to the audit report, the agreement for the property tax audit is that the fees would be half of the property tax savings resulting from the audit. The Company's filing includes a projected fee of $20,000, but none of the tax savings that would result. The third component is an increase of $7,175 associated with actual costs for tax research and annual income tax work being higher than what the Company projected in 2003. The Audit Report assumes that a similar level would be incurred in 2004. The Audit adjustment is appropriate and reasonable; therefore, I have reflected the $9,389 reduction to expense on Schedule C-1.

<u>Staff Audit Exceptions</u>

Q. WHAT ADDITIONAL STAFF AUDIT EXCEPTIONS DO YOU AGREE WITH AND

ARE REFLECTING IN YOUR SUMMARY SCHEDULES ON EXHIBIT__(DD-1)?

A. As previously mentioned, the OPC agrees that many of Staff's audit exceptions are appropriate and should be reflected in the revenue requirement calculations. Citizens' witness Hugh Larkin, Jr. addresses several of the audit exceptions dealing with rate base items in his prefiled testimony. In addition to the adjustment to tax accounting/tax consulting expenses discussed above, I agree that the following Staff Audit adjustments to operation and maintenance expenses should also be reflected:

– Audit Exception 10 - Regulus Billing Service. FPU has switched vendors for the provision of printing and mailing the Company's bills. The actual costs since the new vendor was hired have declined significantly since the historic test year. This Staff adjustment reduces projected 2004 expenses in Account 903 by $39,080 and should be reflected.

– Audit Exception 11 - Leasehold Improvements Fernandina. Included in historic and projected expenses in Account 903 are costs associated with the amortization of leasehold improvements related to the Fernandina Beach Home and Hearth store. According to the Audit Report, this office is currently used for propane, merchandising & jobbing and conservation related programs. These costs should not be charged to the electric operation customers; thus, projected 2004 expense should be reduced by $8,703.

– Audit Exception 14 - Franchise Fees. The purpose of this staff adjustment is to remove non-recurring costs associated with franchise fee amounts not collected from customers during the historic test year due to billing errors. Ratepayers should not be responsible for these costs; thus, projected 2004 expense in account 921.5 should be reduced by $13,880.

– Audit Exception 15 - Miscellaneous Adjustments to Expenses. In this audit exception, the Audit Staff removed several miscellaneous costs that were either not related to electric operations, out of period or non-recurring in nature. I agree that these costs should be excluded, reducing projected 2004 expenses by $6,146.

– Audit Exception 17 - Insurance Projections. The Company's filing included estimated 2004 amounts for medical insurance, property insurance, general auto and liability insurance, directors and officers liability insurance, fiduciary insurance, commercial crime insurance and workmen's compensation. The Company has now received the actual bills for the insurance coverage from the insurance companies. Staff's adjustment replaces the estimated insurance costs included in the filing with the projected amounts. As several of the policies end September 1, 2004, Staff has also made an allowance to increase the costs subsequent to September 1, 2004 based on the percentage increase in the policies that actually occurred between 2003 and 2004. I agree that Staff's adjustment, along with the methodology, is appropriate and reasonable. This adjustment reduces projected test year expense by $203,978. As previously mentioned, an additional adjustment to medical insurance costs may be appropriate, pending further information being reviewed.

On Schedule C-6, I provide a summary of each of the above adjustments, by account. The overall adjustment on this schedule is flowed-through to the summary of adjustments to net operating income on Schedule C-1, page 2.

Revisions to Projection Factors

Q. WHAT PROJECTION FACTORS DID THE COMPANY USE IN TRENDING THE HISTORIC TEST YEAR OPERATION AND MAINTENANCE EXPENSES?

A. Various factors were used. Some accounts used a payroll projection factor of 3% per year, or 6.1% to go from 2002 to 2004 projected. For ten expense accounts, the Company used an inflation factor based on CPI, which resulted in a factor of 3.9% to go from 2002 to 2004 projected. For twenty-four (24) expense accounts, the Company applied a factor consisting of inflation times customer growth, resulting in a projection rate of 7.2% to go from 2002 to projected 2004. For seventeen accounts, FPU applied a factor of 9.5% to go from 2002 to projected 2004 consisting of payroll times customer growth.

Q. FOR EXPENSE ACCOUNTS IN WHICH BOTH PAYROLL AND NON-PAYROLL COSTS WOULD BE RECORDED, DID THE COMPANY SEPARATE OUT THE PAYROLL AND NON-PAYROLL COSTS PRIOR TO TRENDING?

A. No, it did not. In some other recent Florida regulatory proceedings in which I've participated, the utility separated the accounts between payroll and non-payroll and would apply separate factors. For example, a payroll trend factor would be applied to the payroll related costs in the account while a non-payroll related trend factor would be applied to the non-payroll costs. FPU's application of a payroll factor or combination payroll and customer growth factor to the full balances in certain accounts would result in a higher trending to that account as the payroll factor is considerably higher than the inflation factors used in this case. For example, the Company applied the payroll trend factor to the entire balance of Account 903 - Customer Records and Collection Expense.

While this account may include some payroll costs, it is also likely that it contains non-payroll related costs.

Q. DID YOU REVISE THE COMPANY'S ESCALATION ADJUSTMENTS TO SEPARATE THE PAYROLL FROM NON-PAYROLL COSTS IN THE VARIOUS EXPENSE ACCOUNTS.

A. No, I did not. I did not have the information necessary to separate the various expense accounts between payroll and non-payroll costs in order to apply separate trend factors. Thus, for the accounts in which the Company applied a payroll trend factor or payroll times customer growth factor to the entire account balance, the projected 2004 amount would be overstated.

Q. IS THE COMPANY'S USE OF COMBINED TREND RATES APPROPRIATE?

A. No, not in this case. The use of the combined payroll and customer growth trend rate for projecting 2004 costs is not appropriate. The Company applied this combined factor to seventeen (17) separate expense accounts and its FICA expense account (Account 4080.7). The rationale for using a combined rate is that as the number of customers increase, a need for additional employees arises. However, increased productivity and cost savings measures, including the implementation of new technologies and better computer systems, would alleviate the need for additional employees. In addition, the Company is making several specific adjustments in addition to its trending adjustments for new employees it is projecting to add between 2002 and the projected 2004 test year. It is not appropriate to apply a trending rate to factor in employee increases associated with customer growth and also make specific adjustments to add projected additional employees. To do so would result in a double-counting of costs associated with hiring new employees. For the accounts in which the combined payroll and customer growth factor was applied, I recommend that the payroll only factor of 6.1% be used. The adjustment needed to reflect the lowering of the 9.5% factor used by the Company to the 6.1% payroll only factor is calculated on Schedule C-7, page 2 of 3.

As previously mentioned, the application of the payroll factor to the full 2002 amounts in these accounts likely also results in an overstatement of projected 2004 costs as several of these accounts would include both payroll and non-payroll costs. Consequently, an even larger adjustment to the trending in these accounts may be appropriate.

Q. IS THE USE OF THE COMBINED INFLATION AND CUSTOMER GROWTH TREND RATE APPROPRIATE?

A. I also disagree with the Company's use of the combined inflation and customer growth trend rates. As mentioned above, the Company applied this combined rate of 7.2% to go from 2002 to 2004 projected amounts to twenty-four (24) separate expense accounts. In its filing, the Company did not provide sufficient evidence to justify the application of the combined rate. Customer growth would have little to no impact on many of the accounts to which the Company applied the combined factor to. For example, the combined factor was applied to all of the advertising expense accounts, institutional and goodwill advertising, industry association dues and economic development costs. The Company also applied this combined factor to Account 593.2 - Maintenance of Overhead in addition to making a specific adjustment for the amount of line crews projected to be added. This would result in a double-counting of cost increases associated partially with customer growth. The Company has not demonstrated that productivity increases and cost savings resulting from improved technologies would not offset the increase associated with customer growth. In fact, in many cases in which I have participated over the last few years, the number of utility employees has been declining, with the ratio of utility employees to customers declining. In other words, the utilities have been reducing the number of employees despite customer growth.

For the accounts in which the combined inflation and customer growth factor was applied, I recommend that the inflation only factor of 3.9% to go from 2002 to projected 2004 be applied. The adjustment needed to reflect the lowering of the 7.2% factor used by the Company to the 3.9% inflation only factor is calculated on Schedule C-7, page 1 of 3.

Q. IS THERE ANY ADDITIONAL INFORMATION THE COMMISSION SHOULD CONSIDER WHEN EVALUATING THE COMPANY'S PROPOSED ESCALATION/TREND FACTORS?

A. Yes. Page 3 of Schedule C-7 provides a comparison, by account, of the Company's projected 2003 operation and maintenance expenses contained in the filing to the annualized 2003 actual costs recorded to date. In response to a Citizens' request for Production of Documents, the Company provided its trial balance for 2003 through September. On page 3 of Schedule C-7, I annualized the through September amounts. As shown on the schedule, the 2003 annualized actual expense amounts are considerably less than the projected 2003 amounts contained in the filing. On pages 1 and 2 of

Schedule C-7, for each account in which I revised the Company's proposed projection/trend factor, I provide the amount by which the 2003 projected amount exceeded the annualized 2003 actual costs.

Q. WHAT IS THE OVERALL IMPACT OF YOUR REVISIONS TO THE COMBINED TREND RATES TO REFLECT PAYROLL ONLY OR INFLATION ONLY RATES?

A. As shown on page 1 of Schedule C-7, projected 2004 operation and maintenance expense should be reduced by $76,438 and taxes other than income should be reduced by $5,007.

<u>Reduction to Storm Reserve Accrual</u>

Q. THE COMPANY HAS REQUESTED A SIGNIFICANT INCREASE IN PROPERTY INSURANCE EXPENSE RECORDED IN ACCOUNT 924 FOR AN INCREASE IN THE ANNUAL LEVEL OF STORM DAMAGE ACCRUAL. HAVE YOU MADE ANY REVISIONS TO THE COMPANY'S ADJUSTMENT?

A. Yes. In the historic test year, the Company expensed $121,620 for the annual accrual to the storm damage reserve, consistent with past Commission orders. The Company is requesting that the annual accrual be increased to $225,000. In his prefiled testimony, Citizens witness Hugh Larkin, Jr. recommends that the Company's requested increase in the annual accrual to the storm damage reserve be denied. Consistent with Mr. Larkin's recommendation, I am removing the impact on projected 2004 test year expenses associated with the Company's requested increase. As shown on Schedule C-1, test year expenses recorded in Account 924 should be reduced by $103,375.

Rate Case Expense Amortization

Q. WHAT AMORTIZATION PERIOD HAS THE COMPANY PROPOSED FOR RATE CASE EXPENSE?

A. In the current case, the Company has proposed that its projected rate case expense of $490,862 be amortized into rates over a four-year period, resulting in an annual expense level of $122,716.

Q. IS FOUR-YEARS A REASONABLE AMORTIZATION PERIOD FOR FPU'S ELECTRIC OPERATIONS?

A. No, it is not. The final decision in the last full rate case proceeding for FPU's Marianna electric operations was issued February 10, 1994, almost ten years ago. The final decision in the last full rate case proceeding for FPU's Fernandina Beach Division was issued November 27, 1989, which was over fourteen (14) years ago. Based on the significant amount of time between rate case proceedings for FPU's electric operations, I recommend that the amortization period be extended from the four-years requested by FPU to five-years.

Q. WHAT ADJUSTMENT IS NEEDED TO REFLECT A FIVE-YEAR AMORTIZATION PERIOD FOR THE COMPANY'S PROJECTED RATE CASE EXPENSE?

A. Based on the projected rate case costs included in the Company's filing at MFR Schedule C-23 of $490,862, the annual amortization of rate case expense should be reduced from $122,716 to $98,172. This is a reduction of $24,544, which I have reflected on Schedule C-1.

Economic Development Expense

Q. WHAT AMOUNT HAS THE COMPANY INCLUDED IN THE PROJECTED 2004 TEST YEAR FOR ECONOMIC DEVELOPMENT EXPENSE, AND HOW DOES THIS AMOUNT COMPARE WITH PRIOR PERIODS?

A. The Company's filing includes $22,641 for projected 2004 economic development donations recorded in Account 930.23. This is a 126% increase above the amount recorded on the books during 2002. During the historic test year ended December 31, 2002, the actual expense recorded on the Company's books for economic development donations was $10,000. According to the response to Citizens Interrogatory No. 32, expenses recorded in 2002 consisted of $5,000 donated to Opportunity Florida and $5,000 to Enterprise Jackson County, with apparently the full amounts allocated to the electric operations on the books.

Q. WHAT FACTORS CAUSED THE SIGNIFICANT INCREASE IN ECONOMIC DEVELOPMENT DONATIONS PROJECTED BY THE COMPANY?

A. According to the response to Citizens Interrogatory No. 32, in addition to the $5,000 donations to Opportunity Florida and Enterprise Jackson County, the Company intends to donate $15,000 to Florida's Great Northwest.

Q. SHOULD RATEPAYERS BE FORCED TO FUND DONATIONS THROUGH RATES?

A. No. I recommend that the entire amount included in the projected 2004 test year for Economic Development donations of $22,641 be removed. Ratepayers should not be forced to fund such causes through rates being paid for the provision of electric service.

These costs do not pertain to the provision of electric service and should be recorded below-the-line.

Interest Synchronization Adjustment

Q. HAVE YOU CALCULATED AN INTEREST SYNCHRONIZATION ADJUSTMENT?

A. Yes, I have. The OPC's recommended adjustments to rate base and the capital structure impact the amount of interest deduction for tax purposes. The amount of the adjustment to income taxes for interest synchronization is shown on Schedule C-8.

Income Taxes

Q. HAVE YOU REFLECTED THE IMPACT OF THE OPC'S RECOMMENDED ADJUSTMENTS TO OPERATING INCOME ON INCOME TAX EXPENSE?

A. Yes. The impact of the OPC's recommended adjustments to operating income on income tax expense is presented on Schedule C-9. The calculation uses the composite state and federal income tax rate 37.63%.

V. CAPITAL STRUCTURE - ACCUMULATED DEFERRED INCOME TAXES

Q. SHOULD ANY REVISIONS BE MADE TO THE COMPANY'S PROJECTED ACCUMULATED DEFERRED INCOME TAXES INCLUDED IN ITS CAPITAL STRUCTURE AT ZERO COST?

A. Yes. On March 9, 2002, the Job Creation and Work Assistance Act of 2002 was signed into law. The new law provides for an additional first-year depreciation deduction equal to 30% of the adjusted basis of qualified property placed into service after September

10, 2001 and before September 11, 2004. This deduction is allowed for both regular tax and alternative minimum tax purposes in the year the property is first placed into service. In addition to the 30% bonus depreciation allowed in the first year, the otherwise allowable tax depreciation rate is then also applied in the first year on the remaining balance (i.e., original amount less the 30% deduction taken). Thus, in the first year, the Company would be allowed the 30% bonus deduction and an additional deduction based on the application of the regular deprecation schedules to the remaining balance.

In 2003, the Jobs and Growth Tax Relief Reconciliation Act of 2003 was signed into law. This new law increased the bonus depreciation allowed in the 2002 Act from 30% to 50% and extended the dates in which the bonus depreciation may be applied. The new law provides for an additional first-year depreciation deduction equal to 50% of the adjusted basis of qualified property placed into service after May 5, 2003 and before January 1, 2005. In the first year, the Company would be allowed the 50% bonus deduction and an additional deduction based on the application of the regular deprecation schedules to the remaining balance.

Q. WHAT PROPERTY QUALIFIES FOR THE BONUS DEPRECIATION DEDUCTION?

A. Under the 2002 and 2003 Acts, qualified property includes: 1) properties with a tax recovery period of 20 years or less; 2) computer software; 3)water utility property; or 4) qualified leasehold improvement property. To qualify for the bonus depreciation, the property must be acquired after September 10, 2001 and before January 1, 2005, but only if no written contract for the acquisition was in effect prior to September 11, 2001. Under the provisions, for self-constructed property the requirements are met if the taxpayer begins constructing or producing the property after September 10, 2001 and before January 1, 2005.

The 30% bonus depreciation rate is increased to 50% for property in which the original use commences after May 5, 2003 and if the property is acquired by the taxpayer after May 5, 2003 and before January 1, 2005 if no written binding contract for the acquisition was in effect prior to May 6, 2003. For passenger automobiles that are qualified property, the limitation for the first year tax deduction is increased to $4,600 in the case of 30% bonus depreciation property and $7,650 for 50% bonus depreciation property.

Q. DID THE COMPANY REFLECT THE IMPACT ON ITS PROJECTED ACCUMULATED DEFERRED INCOME TAX BALANCE FROM THESE NEW LAWS?

A. No, it did not. Based on the Company's response to Citizens' Interrogatory No. 16 and information provided by the Company during depositions taken on December 15, 2003, the Company did not factor in the impact of the 30% and 50% bonus depreciation on the accumulated deferred income taxes included in the filing. In fact, the 2002 historic test year contained in the filing also does not contain the impacts of the 2002 Act as the information included in the filing was not based on the corporate tax return incorporating the impacts of the Act, but rather estimated amounts.

Q. HAVE YOU ESTIMATED THE AMOUNT OF ADJUSTMENT TO ACCUMULATED DEFERRED INCOME TAXES NECESSARY TO REFLECT THE IMPACT OF THE NEW LAWS?

A. Yes. On Schedules D-3 and D-4, I calculate the estimated additional accumulated deferred income taxes that will result from the plant additions for 2002, 2003 and 2004. Schedule D-3 reflects the impact associated with additions specific to the electric operations, while Schedule D-4 reflects the impact associated with the allocated common plant additions included in the filing. In the calculations, I also estimated the reduction in the normal annual tax depreciation resulting from the bonus depreciation allowance. As shown on Schedule D-3 and D-4, the accumulated deferred income taxes included in the capital structure calculations should be increased by $1,671,792 and $51,611, respectively, to reflect the impact of these new laws.

Q. WILL ALL OF THE COMPANY'S PROJECTED ADDITIONS QUALIFY FOR THE 30% OR 50% BONUS TAX DEPRECIATION?

A. I believe the majority of them will. However, the Company's tax department or tax consultant(s) would be more qualified to make an exact determination dependant on the project specifics. The Company was asked in Citizens' Interrogatory No. 16(a) to provide the impact on the deferred income taxes resulting from the 2002 and 2003 Acts. The information was not provided. Additionally, Company accounting witnesses Murray, Khojasteh and Mesite were asked during the December 15, 2003 deposition whether they were aware of any of the specific projected additions to plant in service included in the filing that would not qualify. The Company was not specifically aware of any. Consequently, absent better information being provided by the Company, I estimated the impact on Schedules D-3 and D-4. These new laws will have a substantial impact on the Company's 2002, 2003 and 2004 taxable income for income tax purposes, resulting in substantial impact on the accumulated deferred income tax balance that is included in the capital structure at zero cost. The results of the additional tax depreciation should not be ignored in the regulatory process in determining the Company's revenue requirement for the projected 2004 test year.

Q. ARE YOU AWARE OF ANY ADDITIONAL PROBLEMS WITH THE DEFERRED INCOME TAX LINE ITEM INCLUDED IN THE COMPANY'S PROPOSED CAPITAL STRUCTURE?

A. Yes. The Company's rate case filing includes the allocation to the electric operations of common plant balances, as well as the allocation of accumulated depreciation and depreciation expense associated with common plant. However, the filing failed to include the allocated portion of accumulated deferred income taxes in the capital structure associated with common plant.

Q. HAVE YOU ESTIMATED THE IMPACT ON THE ACCUMULATED DEFERRED INCOME TAXES INCLUDED IN THE CAPITAL STRUCTURE FOR THE ALLOCATION TO ELECTRIC OPERATIONS OF THE COMMON BALANCES?

A. Yes. On Schedule D-5, I estimated the allocation to electric operations for common accumulated deferred income taxes. In order to estimate the appropriate amount, I first determined the ratio of deferred income taxes included in the 2004 capital structure by FPU in its filing to the Company's projected 13-month average 2004 depreciable plant in service balance. I then applied the resulting factor of 5.26% to FPU's projected average 2004 depreciable common plant in service balance allocated to the electric operations. This resulted in $90,477 of additional accumulated deferred income taxes for common allocated.

Q. HAVE YOU PREPARED A SCHEDULE SUMMARIZING ALL OF YOUR RECOMMENDED ADJUSTMENTS TO FPU'S PROPOSED DEFERRED TAX BALANCE IN THE CAPITAL STRUCTURE?

A. Yes. As shown on Schedule D-2, the accumulated deferred income taxes included by FPU in its capital structure at zero cost should be increased from $3,449,838 to $5,263,718. This is an increase of $1,813,880.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes, it does. As previously mentioned, I had not received the exhibits to the December 15 and 16, 2003 depositions of Company witnesses prior to finalizing this testimony. Consequently, additional adjustments to the Company's filing may be necessary upon review of the exhibits.

Exhibit__(DD-1)

FLORIDA PUBLIC UTILITIES
Docket No. 030438-EI

Exhibits of Donna DeRonne

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FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2004

Docket No. 030438-EI
Exhibit__(DD-1)
Schedule A-1

Revenue Requirement

Line No.	Description	Per Company Amount (A)	Per OPC Amount (B)	Col. (B) Reference:
1	Adjusted Rate Base	39,840,869	34,741,040	Schedule B-1
2	Required Rate of Return	9.00%	7.14%	Schedule D
3	Income Required	3,585,678	2,480,510	Line 1 x Line 2
4	Adjusted Net Operating Income	1,088,574	1,897,157	Schedule C-1
5	Income Deficiency (Sufficiency)	2,497,104	583,353	Line 3 - Line 4
6	Earned Rate of Return	2.732%	5.461%	Line 4 / Line 1
7	Gross Revenue Conversion Factor	1.64876	1.64876	MFR Sch. C-59(C-2)
8	Revenue Deficiency (Sufficiency)	4,117,125	961,809	Line 5 x Line 7

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2004

Adjusted Rate Base

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Exhibit__(DD-1)
Schedule B-1
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Line No.	Rate Base Components	Adjusted Total Amount per Company	OPC Adjustments	Adjusted Total Amount per OPC
		(A)	(B)	(C)
	Utility Plant			
1	Plant Closed & In Service	65,687,844		65,687,844
2	Common Plant Allocated	1,721,031	(84,300)	1,636,731
3	1140 Acquisition Adjustment	3,691		3,691
4	1070 Construction WIP	620,769	(620,769)	-
5	Total	68,033,335		67,328,266
	Deductions			
6	Accumulated Depreciation Utility Plant	(27,672,116)		(27,672,116)
7	Accumulated Depreciation Common Plant	(455,192)	(14,699)	(469,891)
8	1150 Accum. Amort. Acquisition Adjustment	(3,691)		(3,691)
9	2520 Cust. Advances for Construction	(621,462)		(621,462)
10	Total	(28,752,461)		(28,767,160)
11	Utility Plant - Net	39,280,874		38,561,106
	Allowance for Working Capital			
12	Working Capital - Balance Sheet Method	559,995	(4,380,060)	(3,820,066)
13	Total Rate Base	39,840,869		34,741,040

Source/Notes:
Col. (A): MFR Sch. C-59(B-3)
Col. (B): See page 2

Line No.	Adjustment Title	Reference	Amount
	Common Plant Allocated Adjustments:		
1	Reflects Staff audit adjustments to Common Plant Allocated	Larkin Schedule 2	(84,300)
2	*Total Common Plant Allocated*		(84,300)
	Construction Work in Progress:		
3	Remove Construction Work in Progress from Rate Base	Testimony	(620,769)
	Accumulated Depreciation Adjustments Common Plant:		
4	Reflects Staff audit adjustments to Common Plant Allocated	Larkin Schedule 2	(14,699)
5	*Total Accumulated Depreciation Common Plant*		(14,699)
	Working Capital Adjustments:		
6	Reduction to Working Capital	Larkin Schedule 1	(4,380,060)

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2004

Adjusted Net Operating Income

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Exhibit__(DD-1)
Schedule C-1
Page 1 of 2

Line No.	Description	Adjusted Total per Company	OPC Adjustments	Adjusted Total per OPC
		(A)	(B)	(C)
	Operating Revenues:			
1	Base Revenue (incl. Buried GR)	11,361,793	122,937	11,484,730
2	Gross Receipts Revenue	1,217,311		1,217,311
3	Franchise Fees	1,354,781		1,354,781
4	Other Operating Revenues	558,039	103,852	661,891
5	Total Operating Revenues	14,491,924		14,718,713
	Operating Expenses:			
6	Operation & Maintenance	7,684,194	(1,107,500)	6,576,694
7	Depreciation & Amortization	2,708,403	(1,584)	2,706,819
8	Taxes Other Than Income	675,961	(48,833)	627,128
9	Gross Receipt & Franchise Taxes	2,572,092		2,572,092
10	Current Income Taxes	(106,570)	576,122	469,552
11	Deferred Income Taxes	(83,668)		(83,668)
12	Investment Tax Credits	(47,062)		(47,062)
13	Total Operating Expenses	13,403,350		12,821,556
14	Net Operating Income	1,088,574		1,897,157

Source/Notes:
Col. (A): MFR Sch. C-59(C-2)
Col. (B): See Page 2

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2004

Net Operating Income - Summary of Adjustments

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Exhibit__(DD-1)
Schedule C-1
Page 2 of 2

Line No.	Adjustment Title	Reference	Amount
	Operating Revenue Adjustments:		
1	Forfeited Discounts	Testimony of Hugh Larkin	103,852
2	Addition of New Large Customer	Testimony	Note (A)
3	Additional Residential Customers in Marianna	Schedule C-2	122,937
4	*Total Operating Revenue*		226,789
	Operating Expense Adjustments:		
	Operation & Maintenance:		
5	Reverse Discontinued Operations Adjustment	Schedule C-3	(429,133)
6	Reverse Garbage & Sewer Adjustment	Schedule C-4	(29,862)
7	Retiree Medical Expense - Remove Double Count	Schedule C-5	(20,836)
8	Remove Stock Issuance Costs	Testimony	(52,160)
9	Payroll Outsourcing Costs	Testimony	(14,000)
10	Reduction to Projected New Tree Trimming Crew(s) Costs	Testimony	(53,333)
11	Reduction to Tax Consulting Expense	Testimony	(9,389)
12	Staff Audit Exceptions 10, 11, 14, 15, 17	Schedule C-6	(271,789)
13	Revisions to Company Projection Factors	Schedule C-7	(76,438)
14	Reduction to Storm Reserve Accrual	Testimony	(103,375)
15	Rate Case Expense - 5 Year Amortization	Testimony	(24,544)
16	Remove Economic Development Expense	Testimony	(22,641)
17	*Total Operation and Maintenance*		(1,107,500)
	Depreciation and Amortization:		
18	Reflects Staff audit adjustments to Common Plant Allocated	Larkin Schedule 2	2,596
19	Reverse Discontinued Operations Adjustment	Schedule C-3	(4,180)
20	*Total Depreciation and Amortization*		(1,584)
	Taxes Other Than Income:		
21	Reverse Discontinued Operations Adjustment	Schedule C-3	(43,825)
22	Revisions to Company Projection Factors - FICA	Schedule C-7	(5,007)
23	*Total Taxes Other Than Income*		(48,833)
24	Interest Synchronization Adjustment	Schedule C-8	55,058
	Income Taxes:		
25	Impact of Other Adjustments	Schedule C-9	521,064
26	*Total Income Tax*		521,064

Source/Notes:

Note (A): The projected annual base revenues (excluding fuel) to be received from the Family Dollar facility was not received as of the date this schedule was finalized. See the testimony of Donna DeRonne for further details.

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2004

Docket No. 030438-EI
Exhibit__(DD-1)
Schedule C-2
Witness: Donna DeRonne

Additional Residential Revenues - Marianna
- Additional Customers Resulting from Family Dollar Facility

	Description	Amount	
1	Additional New Residential Customers	450	
2	Monthly Base Customer Charge - Marianna	$ 8.30	MFR Sch. E-16c
3	Additional Base Customer Charge	44,820	L.1 x L.2 x 12
4	Average kWh per Marianna Residential Customer	14,311	Line A.3
5	Additional kWh	6,439,950	L.1 x L.4
6	Base Rate per kWh	$ 0.01213	MFR Sch. E-16c
7	Additional Revenues for Usage	78,117	
8	Increase in Residential Revenues	122,937	L.3 + L.7
	Calculation of Average kWh per Marianna Residential Customer		
A.1	2004 kWh for Marianna Residential Customers in Filing	141,466,583	MFR Sch. E-16c
A.2	2004 Residential Customers for Marianna in Filing	9,885	MFR Sch. E-16c
A.3	Average 2004 kWh per Marianna Residential Customer	14,311	Line A.1 / Line A.2

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2004

Docket No. 030438-EI
Exhibit__(DD-1)
Schedule C-3
Witness: Donna DeRonne

Reversal of Company Adjustment for Discontinued Water Operations

Line No.	Account	Description	Company Adj. (2002)	Company Projection Factor	2004 Amount
1	562	Station Expenses	367	103.9%	381
2	566	Misc. Transmisson Expenses	210	107.2%	225
3	580	Operation Supervision	26,008	106.1%	27,594
4	581	Load Dispatching	6	107.2%	6
5	582	Station Expenses	3,827	106.1%	4,060
6	5831	Operation of Overhead Lines	5,069	109.5%	5,551
7	5832	Removing & Resetting	3,899	109.5%	4,269
8	5841	Underground Line Expenses	2,225	106.1%	2,361
9	5842	Underground Line Expenses	2,033	106.1%	2,157
10	585	Street Light & Signal System Expenses	2,967	109.5%	3,249
11	586	Meter Expenses	23,093	109.5%	25,287
12	5871	Area Light Expenses	4,090	109.5%	4,479
13	5872	Other Customer Installation	6,243	109.5%	6,836
14	5881	Distribution Maps &	4,398	109.5%	4,816
15	5882	Other Distribution Office Supplies	10,065	109.5%	11,021
16	5883	Misc. Distribution office labor	3,374	109.5%	3,695
17	589	Rents	2,616	103.9%	2,718
18	901	Supervision	11,521	106.1%	12,224
19	902	Meter Reading Expenses	25,204	109.5%	27,598
20	903	Customer Records/Collection Expenses	87,569	106.1%	92,911
21	904	Uncollectible Accounts	2,523	103.9%	2,621
22	905	Misc. Customer Accounts Expenses	11,575	107.2%	12,408
23	908	Customer Assistance	764	Direct	764
24	909	Informational & Instructional Ad Expenses	480	Direct	480
25	910	Misc. Customer Service & Info Expenses	227	Direct	227
26	9134	Other Info/Instr/Con	144	107.2%	154
27	920	Administrative & General - Salaries	79,613	106.1%	84,469
28	9211	Office Supplies and Expense	2,121	103.9%	2,204
29	9212	Office Supplies & Mai	156	103.9%	162
30	9213	Office Computer Supplies & Expense	2,530	103.9%	2,629
31	9214	Office Utility Expense	1,120	103.9%	1,164
32	9215	Misc. Office Expense	3,838	103.9%	3,988
33	9216	Company Training Expense	103	103.9%	107
34	9231	Outside Services - Operation	981	FPUC	-
35	9232	Legal Fees & Expense	304	103.9%	316
36	9233	Outside Audit & Accounting Expense	4,520	FPUC	-
37	924	Property Insurance	3,320	FPUC	-
38	9251	Injuries and Damages Expense	12,574	FPUC	-
39	9261	Employee Pensions	(1,375)	FPUC	-
40	9262	Employee Benefits	10,160	FPUC	-
41	9263	Retiree Benefits - Pos	1,297	FPUC	-
42	9302	Misc. General Expense	4,010	107.2%	4,299
		MAINTENANCE EXPENSES			
43	570	Maintenance of Station Equipment	302	107.2%	324
44	571	Maintenance of Overhead Lines	136	107.2%	146
45	590	Maintenance Supervision & Engineering	3,318	106.1%	3,520
46	591	Maintenance of Structures	591	107.2%	634
47	592	Maintenance of Station Equipment	5,002	107.2%	5,362
48	5931	Maintenance of Poles/Towers	1,465	107.2%	1,570
49	5932	Maintenance of Overhead Co	28,476	107.2%	30,526
50	5933	Maintenance of Services	7,190	107.2%	7,708
51	5941	Maintenance of Underground Lines	456	109.5%	499
52	5942	Maintenance of Underground Lines	6,896	109.5%	7,551
53	5951	Maintenance of Line Transformers	2,383	109.5%	2,609
54	5952	Maintenance of Line Transformers	163	109.5%	178
55	5953	Maintenance of Line Transformers	2,009	109.5%	2,200
56	596	Maintenance of Street Lighting/Signal Sys.	1,074	109.5%	1,176
57	597	Maintenance of Meters	2,318	109.5%	2,538
58	598	Maintenance of Misc. Distribution Plant	2,746	107.2%	2,944
59	935	Maintenance of General Plant	2,068	107.2%	2,217
60	Adjustment to 2004 O&M Expense		432,362		(429,133)
61	Adjustment to 2004 Depreciation Expense		4,180		(4,180)
62	Adjustment to 2004 Property Taxes		42,180	103.9%	(43,825)

Source:
Response to Citizens Interrogatory No. 18 for the Company breakdown of the adjustment by account. The projection factors are from MFR Sch. C-59(C-19).

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2004

Docket No. 030438-EI
Exhibit__(DD-1)
Schedule C-4
Witness: Donna DeRonne

Reversal of Company Adjustment for Discontinued Garbage & Sewer Operations

Line No.	Account	Description	Company Adj. (2002)	Company Projection Factor	2004 Amount
1	580	Operation Supervision	93	106.1%	99
2	901	Supervision	2,084	106.1%	2,211
3	903	Customer Records/Collection Expenses	25,941	106.1%	27,523
4	905	Misc. Customer Accounts Expenses	27	107.2%	29
5	925.1	Injuries & Damages	4	FPUC	-
6		Total	28,149		29,862
7		Reduction to 2004 Expense			(29,862)

Source:
Response to Citizens Interrogatory No. 20 for the Company breakdown of the adjustment by account. The projection factors are from MFR Sch. C-59(C-19).

FLORIDA PUBLIC UTILITIES
Projected Test Year Ending December 31, 2004

Retiree Medical Expense

Docket No. 030438-EI
Exhibit__(DD-1)
Schedule C-5
Witness: Donna DeRonne

	Description	Amount
1	Company Estimated 2003 Retiree Medical Cost	76,043
2	Percentage Capitalized (Line A.3)	12.32%
3	Estimated 2003 Retiree Medical - Amount Expensed	66,675
4	25% Increase Used by Company to Determine 2004 Expense	83,343
5	Percentage Allocated to Electric Operations	25%
6	Reduction to Expense - Account 923.2	(20,836)

	Calculation of Effective Capitalization Rate:	
A.1	Projected 2003 Medical Insurance Costs Prior to Capitalization	1,584,445
A.2	2003 Capitalized Amount - Projected	195,180
A.3	Percentage Capitalized (Line A.2 / Line A.1)	12.32%

Source:

Response to Citizens POD 36, Attachment 36.1, pages 7 and 8

FLORIDA PUBLIC UTILITIES
Projected Test Year Ending December 31, 2004

Staff Audit Adjustments

Docket No. 030438-EI
Exhibit__(DD-1)
Schedule C-6
Witness: Donna DeRonne

Line No	Description	Account	2002 Amount	2004 Amount
1	Regulus Billing Service - Audit Exception 10	903	(37,905)	(39,080)
2	Leasehold Improvements Fernandina - Audit Exception 11	903	(8,202)	(8,703)
3	Franchise Fees - Audit Exception 14	921.5	(13,359)	(13,880)
4	Miscellaneous Adjustments to Expense - Audit Except. 15	921.3	(1,814)	(1,885)
5	Miscellaneous Adjustments to Expense - Audit Except. 15	921.5	(1,162)	(1,207)
6	Miscellaneous Adjustments to Expense - Audit Except. 15	921.6	(1,088)	(1,130)
7	Miscellaneous Adjustments to Expense - Audit Except. 15	923.2	(540)	(561)
8	Miscellaneous Adjustments to Expense - Audit Except. 15	930.2	(1,313)	(1,364)
9	Insurance Projections - Audit Exception 17	924		(3,726)
10	Insurance Projections - Audit Exception 17	925.1		(78,089)
11	Insurance Projections - Audit Exception 17	926.2		(122,164)
12	Reduction to Projected 2004 O&M Expense			(271,789)

Source/Notes:
Amounts from Staff Audit Report, Audit Control No. 03-274-4-1

FLORIDA PUBLIC UTILITIES
Projected Test Year Ending December 31, 2004

Revision to Company Projection Factors

Docket No. 030438-EI
Exhibit__(DD-1)
Schedule C-7
Witness: Donna DeRonne

	Description	Company Adj. 2002 Amount	OPC Adjustments to 2002 Amount	Adjusted Amount	Reduction to Proj. Factor	Adjustment to 2004 Expense	Comparison of FPU '03 Proj. w/Actual Thru Sept. Annualized
		(A)	(B)	(C)	(D)	(E)	(F)
Accounts Projected Using Inflation X Customer Growth							
566	Miscellaneous Transmission Expense	7,751	(210)	7,541	-3.30%	(249)	5,941
581	Load Dispatching	303	(6)	297	-3.30%	(10)	69,917
905	Miscellaneous Customer Accounting	88,475	(11,602)	76,873	-3.30%	(2,537)	7,558
9131	Promotional Advertising Expenses	179		179	-3.30%	(6)	186
9132	Conservation Advertising Expenses	240		240	-3.30%	(8)	97
9133	Safety Advertising Expenses	774		774	-3.30%	(26)	806
9134	Other Info/Instr/Con	1,879	(144)	1,735	-3.30%	(57)	868
9135	Community Affairs Advertising Expenses	55		55	-3.30%	(2)	57
9136	Other Advertising	213		213	-3.30%	(7)	222
916	Misc. Sales Expense	189		189	-3.30%	(6)	(2,194)
9301	Institutional Goodwill	713		713	-3.30%	(24)	508
9302	Misc. General Expense	119,184	(57,483)	61,701	-3.30%	(2,036)	57,004
93022	Industry Association	4,498		4,498	-3.30%	(148)	(1,514)
93023	Economic Development	8,990		8,990	-3.30%	(297)	22,364
570	Maintenance of Station Equipment	20,800	(302)	20,498	-3.30%	(676)	7,674
571	Maintenance of Overhead Lines	23,720	(136)	23,584	-3.30%	(778)	22,995
591	Maintenance of Structures	8,964	(591)	8,373	-3.30%	(276)	7,025
592	Maintenance of Station Equipment	81,123	(5,002)	76,121	-3.30%	(2,512)	41,771
5931	Maintenance of Poles/Towers	26,877	(1,465)	25,412	-3.30%	(839)	23,991
5932	Maintenance of Overhead Co	668,221	(28,476)	639,745	-3.30%	(21,112)	16,533
5933	Maintenance of Services	149,138	(7,190)	141,948	-3.30%	(4,684)	(2,108)
598	Maintenance of Misc. Distribution	55,172	(2,746)	52,426	-3.30%	(1,730)	967
935	Maintenance of General Plant	40,088	(2,068)	38,020	-3.30%	(1,255)	(17,477)
Subtotal		1,307,546	(117,421)	1,190,125		(39,274)	263,191
Reduction To Replace Inflation x Customer Growth with Inflation Only (Page 1)						(39,274)	
Reduction To Replace Payroll x Customer Growth with Payroll Only (Page 2)						(37,163)	
Adjustment to Expense for Projection Factors						(76,438)	
Adjustment to FICA to Replace Payroll x Customer Growth with Payroll Only				147,279	-3.40%	(5,007)	

Notes/Source:

Column (A): MFR Sch. C-59(C-19)

Column (B): See other Citizens Schedules.

Column (D): Company requested projection factor of 107.2% less inflation only factor of 103.9%.

Column (F): This column is provided for informational purposes. It shows a comparison of the Company's projected 2003 amounts, which used projection factors, with the September 2003 actual amounts (as recorded) annualized. As is evident from above, the projected amounts included in the MFRs, for the most part, exceed the actual year to date annualized amounts for each of these accounts. See Page 3 for calculations.

	Description	Company Adj. 2002 Amount	OPC Adjs. to 2002 Amount	Adjusted Amount	Reduction to Proj. Factor	Adjustment to 2004 Expense	Comparison of FPU '03 Proj. w/Actual Thru Sept. Annualized
		(A)	(B)	(C)	(D)	(E)	(F)
Accounts Projected Using Payroll X Customer Growth							
5831	Operation of Overhead	56,109	(5,069)	51,040	-3.40%	(1,735)	26,117
5832	Removing & Resetting	42,321	(3,899)	38,422	-3.40%	(1,306)	13,694
585	Street Light & Signal System Expenses	31,874	(2,967)	28,907	-3.40%	(983)	16,329
586	Meter Expenses	232,834	(23,093)	209,741	-3.40%	(7,131)	19,268
5871	Area Light Expenses	45,869	(4,090)	41,779	-3.40%	(1,420)	4,550
5872	Other Customer Installation	64,235	(6,243)	57,992	-3.40%	(1,972)	9,419
5881	Distribution Maps &	50,950	(4,398)	46,552	-3.40%	(1,583)	(17,051)
5882	Other Distribution Office Supplies	91,056	(10,065)	80,991	-3.40%	(2,754)	11,529
5883	Misc. Distribution of	40,113	(3,374)	36,739	-3.40%	(1,249)	21,005
902	Meter Reading Expense	245,865	(25,204)	220,661	-3.40%	(7,502)	31,178
5941	Maintenance of Underground Lines	11,074	(456)	10,618	-3.40%	(361)	5,144
5942	Maintenance of Underground Lines	132,914	(6,896)	126,018	-3.40%	(4,285)	64,937
5951	Maintenance of Line Transformers	57,867	(2,383)	55,484	-3.40%	(1,886)	11,226
5952	Maintenance of Line Transformers	3,958	(163)	3,795	-3.40%	(129)	1,002
5953	Maintenance of Line Transformers	29,542	(2,009)	27,533	-3.40%	(936)	(22,877)
596	Maintenance of Street Lighting/Signal Sys.	19,481	(1,074)	18,407	-3.40%	(626)	(3,738)
597	Maintenance of Meters	40,681	(2,318)	38,363	-3.40%	(1,304)	11,392
		1,196,743	(103,701)	1,093,042		(37,163)	203,124

Notes/Source:

Column (A): MFR Sch. C-59(C-19)

Column (B): See other Citizens Schedules.

Column (D): Company requested projection factor of 109.5% less payroll only factor of 106.1%.

Column (F): This column is provided for informational purposes. It shows a comparison of the Company's projected 2003 amounts, which used projection factors, with the September 2003 actual amounts (as recorded) annualized. As is evident from above, the projected amounts included in the MFRs, for the most part, exceed the actual year to date annualized amounts for each of these accounts. See Page 3 for calculations.

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2004

Docket No. 030438-EI
Exhibit_(DD-1)
Schedule C-7
Pages 3 of 3

Revision to Company Projection Factors
- Comparison of 2003 Actuals to Filing

Line No.	Account	Description	Marianna 2003 Actual Thru Sept.	Fernadina 2003 Actual Thru Sept.	Total	2003 Annualized Total	Projected 2003 in MFR's	Difference
		OPERATION EXPENSES	(A)	(B)	(C)	(D)	(E)	(F)
1	562	Station Expenses	-	11,374	11,374	15,165	13,259	(1,906)
2	566	Misc. Transmisson Expenses	-	1,600	1,600	2,133	8,074	5,941
3	580	Operation Supervision	111,622	76,945	188,567	251,423	321,340	69,917
4	581	Load Dispatching	-	-	-	-	316	316
5	582	Station Expenses	7,971	23,379	31,350	41,800	39,767	(2,033)
6	5831	Operation of Overhead	24,371	3,088	27,459	36,612	62,729	26,117
7	5832	Removing & Resetting	21,151	1,801	22,952	30,603	44,297	13,694
8	5841	Underground Line Expenses	1,349	21,750	23,099	30,799	24,178	(6,621)
9	5842	Underground Line Expenses	-	4,863	4,863	6,484	18,912	12,428
10	585	Street Light & Signal System Expenses	6,438	6,337	12,775	17,033	33,362	16,329
11	586	Meter Expenses	109,147	59,182	168,329	224,439	243,707	19,268
12	5871	Area Light Expenses	26,968	5,628	32,596	43,461	48,011	4,550
13	5872	Other Customer Installation	12,284	31,078	43,362	57,816	67,235	9,419
14	5881	Distribution Maps &	34,578	18,207	52,785	70,380	53,329	(17,051)
15	5882	Other Distribution Office Supplies	11,424	51,410	62,834	83,779	95,308	11,529
16	5883	Misc. Distribution of	11,188	4,548	15,736	20,981	41,986	21,005
17	589	Rents	695	10,000	10,695	14,260	16,100	1,840
18	901	Supervision	40,183	48,751	88,934	118,579	113,321	(5,258)
19	902	Meter Reading Expenses	108,513	61,113	169,626	226,168	257,346	31,178
20	903	Customer Records/Collection Expenses	240,306	304,921	545,227	726,969	842,952	115,983
21	904	Uncollectible Accounts	34,714	16,584	51,298	68,397	81,204	12,807
22	905	Misc. Customer Accounts Expenses	21,230	42,219	63,449	84,599	92,157	7,558
23	907	Supervision	32,102	23,365	55,467	73,956	86,338	12,382
24	908	Customer Assistance	75,196	53,551	128,747	171,663	229,628	57,965
25	909	Informational & Instructional Ad Expenses	37,418	40,826	78,244	104,325	125,330	21,005
26	910	Misc. Customer Service & Info Expenses	5,551	3,279	8,830	11,773	13,324	1,551
27	912	Demonstrating & Selling Expenses	-	151	151	201	-	(201)
28	9131	Promotional Advertising Expenses	-	-	-	-	186	186
29	9132	Conservation Advertising Expenses	-	115	115	153	250	97
30	9133	Safety Advertising Expenses	-	-	-	-	806	806
31	9134	Other Info/Instr/Con	817	-	817	1,089	1,957	868
32	9135	Community Affairs Advertising Expenses	-	-	-	-	57	57
33	9136	Other Advertising	-	-	-	-	222	222
34	916	Misc. Sales Expense	7	1,786	1,793	2,391	197	(2,194)
35	920	Administrative & General - Salaries	262,890	342,946	605,836	807,781	972,144	164,363
36	9211	Office Supplies and Expense	3,933	7,761	11,694	15,592	20,937	5,345
37	9212	Office Supplies & Mai	2,426	2,644	5,070	6,760	4,472	(2,288)
38	9213	Office Computer Supplies & Expense	30,855	29,828	60,683	80,911	75,560	(5,351)
39	9214	Office Utility Expense	6,021	6,345	12,366	16,488	31,928	15,440
40	9215	Misc. Office Expense	26,498	26,156	52,654	70,205	109,816	39,611
41	9216	Company Training Expense	992	3,363	4,355	5,807	5,703	(104)
42	9231	Outside Services - Operation	386	386	772	1,029	35,000	33,971
43	9232	Legal Fees & Expense	7,494	(4,548)	2,946	3,928	6,425	2,497
44	9233	Outside Audit & Accounting Expense	51,399	53,230	104,629	139,505	116,869	(22,636)
45	924	Property Insurance	88,070	33,570	121,640	162,187	163,739	1,552
46	9251	Injuries and Damages Expense	124,666	313,157	437,823	583,764	677,024	93,260
47	9261	Employee Pensions	45,126	34,187	79,313	105,751	191,500	85,749
48	9262	Employee Benefits	102,099	80,151	182,250	243,000	345,077	102,077
49	9263	Retiree Benefits - Pos	20,605	20,145	40,750	54,333	58,000	3,667
50	928	Regulatory Commission Expense	2,913	3,205	6,118	8,157	5,578	(2,579)
51	9301	Institutional Goodwill	-	176	176	235	743	508
52	9302	Misc. General Expense	24,336	26,019	50,355	67,140	124,144	57,004
53	93022	Industry Association	1,711	2,938	4,649	6,199	4,685	(1,514)
54	93023	Economic Development	-	-	-	-	22,364	22,364
55	931	Rents	1,824	1,733	3,557	4,743	4,141	(602)
56		**Total Operating Expenses less Fuel**	1,779,467	1,911,243	3,690,710	4,920,947	5,953,034	1,032,087
57		**MAINTENANCE EXPENSES**						
58	554	Maintenance of Misc. Power	-	-	-	-	7	7
59	570	Maintenance of Station Equipment	-	10,494	10,494	13,992	21,666	7,674
60	571	Maintenance of Overhead Lines	-	1,284	1,284	1,712	24,707	22,995
61	590	Maintenance Supervision & Engineering	19,117	39,386	58,503	78,004	66,302	(11,702)
62	591	Maintenance of Structures	-	1,734	1,734	2,312	9,337	7,025
63	592	Maintenance of Station Equipment	4,186	27,860	32,046	42,728	84,499	41,771
64	5931	Maintenance of Poles/Towers	(1,952)	4,955	3,003	4,004	27,995	23,991
65	5932	Maintenance of Overhead Co	401,898	107,724	509,622	679,496	696,029	16,533
66	5933	Maintenance of Services	70,397	47,692	118,089	157,452	155,344	(2,108)
67	5941	Maintenance of Underground Lines	4,278	557	4,835	6,447	11,591	5,144
68	5942	Maintenance of Underground Lines	953	54,685	55,638	74,184	139,121	64,937
69	5951	Maintenance of Line Transformers	36,705	302	37,007	49,343	60,569	11,226
70	5952	Maintenance of Line Transformers	2,356	-	2,356	3,141	4,143	1,002
71	5953	Maintenance of Line Transformers	-	40,349	40,349	53,799	30,922	(22,877)
72	596	Maintenance of Street Lighting/Signal Sys.	6,612	11,485	18,097	24,129	20,391	(3,738)
73	597	Maintenance of Meters	9,482	13,910	23,392	31,189	42,581	11,392
74	598	Maintenance of Misc. Distribution Plant	23,474	18,902	42,376	56,501	57,468	967
75	935	Maintenance of General Plant	26,861	20,264	47,125	62,833	45,356	(17,477)
76		**Total Maintenance Expenses**	604,367	401,583	1,005,950	1,341,267	1,498,028	156,761
77		**Total Operating & Maintenance Exp.**	2,383,834	2,312,826	4,696,660	6,262,213	7,451,062	1,188,849

Source: Col (A) and Col. (B) from Company trial balance through Septebmer 2003. Col. (E) from MFR Sch. C-59(C-19)
Col. (D) calculated as Col.(C) / 9 x 12.

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2004

Docket No. 030438-EI
Exhibit__(DD-1)
Schedule C-8

Interest Synchronization Adjustment

Line No.	Description	Amount	
1	Rate Base, per OPC	34,741,040	Schedule B-1
2	Weighted Cost of Debt (debt plus customer deposits)	3.484%	Schedule D-1
3	Interest Deduction	1,210,432	
4	Interest Deduction in filing	1,356,745	MFR Sch. G-2, p. 30
5	Difference	(146,313)	
6	Consolidated Tax Rate	37.630%	
7	Increase (Decrease) to Income Tax Expense	55,058	

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2004

Docket No. 030438-EI
Exhibit__(DD-1)
Schedule C-9

Income Tax Expense

Line No.	Description	Amount
1	Adjustments to Operating Income (1)	1,384,705
2	Composite Income Tax Rate (2)	37.630%
3	Adjustment to Income Tax Expense	521,064

Source:
(1) Schedule C-1, p. 2
(2) Composite of State Tax Rate of 5.50% and Federal Tax Rate of 34%.

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2004

Docket No. 030438-EI
Exhibit__(DD-1)
Schedule D-1

Overall Cost of Capital, per OPC

Line No.	Description	Capital Structure	Ratio	Cost Rate	Weighted Cost
1	Common Equity	13,852,357	39.87%	9.00%	3.59%
2	Preferred Stock	169,539	0.49%	4.75%	0.02%
3	Long Term Debt	14,197,577	40.87%	7.87%	3.22%
4	Short Term Debt	643,706	1.85%	3.21%	0.06%
5	Customer Deposits	1,207,004	3.47%	6.00%	0.21%
6	Tax Credits - Zero Cost	2,013	0.01%	0.00%	0.00%
7	Tax Credits - Overall Cost	180,701	0.52%	8.41%	0.04%
8	Deferred Taxes	4,488,144	12.92%	0.00%	0.00%
9	Total Capital Structure	34,741,041	100.00%		7.14%

Source/Reference:

The above amounts are sponsored by Citizens' witness Mark Cicchetti and are provided here for ease of reference.

FLORIDA PUBLIC UTILITIES
Projected Test Year Ending December 31, 2004

Summary of Adjustments to Accumulated Deferred Income Taxes
included in Capital Structure

Docket No. 030438-EI
Exhibit__(DD-1)
Schedule D-2

Witness: Donna DeRonne

Line No.	Description	Amount	
1	Accumulated Deferred Income Taxes in Filing - 13-Month Average Basis	3,333,003	MFR Sch. C-59(D-1a), p.2
2	Additional ADIT for Bonus Depreciation - Electric Operations	1,671,792	Schedule D-3
3	Additional ADIT for Bonus Depreciation - Allocated Common Operations	51,611	Schedule D-4
4	Estimate of Additional Deferred Income Taxes for Common Allocated	90,477	Schedule D-5
5	Adjusted Deferred Taxes for Capital Structure	5,146,883	

FLORIDA PUBLIC UTILITIES
Projected Test Year Ending December 31, 2004

Docket No. 030438-EI
Exhibit__(DD-1)
Schedule D-3

Additional Accumulated Deferred Income Taxes - Bonus Depreciation
- Electric Operations

Witness: Donna DeRonne

Line No.	Description	Amount	
1	Company Additions to Depreciable Plant in Service - 2002	4,858,074	MFR Sch. B-8a, p.2
2	Company Additions to Depreciable Plant in Service - January - April 2003	1,638,835	(a)
3	Estimate of 2002 and 2003 Plant Additions to which 30% Bonus Rate Applies	6,496,909	
4	Bonus Tax Depreciation @ 30%	1,949,073	
5	Company Additions to Plant in Service - May - December 2003	3,277,671	(a)
6	Company Additions to Plant in Service - ' 50% of 2004	2,480,700	(b)
7	Estimate of 2003 and 2004 Plant Additions to which 50% Bonus Rate Applies	5,758,371	
8	Bonus Tax Depreciation @ 50%	2,879,186	Line 7 x 50%
9	Less Estimated Impact on Normal Tax Depreciation in 2002	(56,910)	Line 1 x 30% x Line A.5
	Less Estimated Impact on Normal Tax Depreciation in 2003	(140,102)	(L. 4 +(L.5 x 50%)) x Line A.5
10	Less Estimated Impact on Normal Tax Depreciation in 2004	(188,536)	(Line 4 + Line 8) x Line A.5
11	Estimated Additional Tax Depreciation	4,442,710	
12	Federal and State Combined Income Tax Rate	37.63%	
13	Estimated Additional Deferred Income Tax - Electric Operations	1,671,792	
	Estimate of Average Tax Depreciation Rate:		
A.1	2002 Depreciation Expense, per Company	2,187,524	MFR Sch. C-2
A.2	2002 Excess Tax Depreciation, per Company	261,144	MFR Sch. C-39, p. 38
A.3	Subtotal	2,448,668	
A.4	Projected 2002 Average Depreciable PIS, per Company	56,020,798	MFR Sch. B-8a, p. 14
A.5	Average Tax Depreciation Rate - 2002	3.90%	

Notes/Source:

(a) Amount calculated from total projected 2003 plant additions on MFR Schedule C-59(B-8a - 2003), p.2. Total amount of $4,916,506 x 4/12ths for January - April and remaining balance applied to May - December.

(b) A factor of 50% was applied to the projected 2004 plant additions on MFR Sch. C-59(B-8a - 2004), p.2, of $4,961,400 to determine the impact on average test year accumulated deferred income taxes.

FLORIDA PUBLIC UTILITIES
Projected Test Year Ending December 31, 2004

Docket No. 030438-EI
Exhibit__(DD-1)
Schedule D-4

Additional Accumulated Deferred Income Taxes - Bonus Depreciation
- Allocated Common Operations

Witness: Donna DeRonne

Line No.	Description	Amount	
1	Allocated Company Additions to Depreciable Plant in Service - 2002	12,858	MFR Sch. B-8a, p.3
2	Allocated Common Adds to Depreciable PIS - January - April 2003	86,353	(a)
3	Estimate of 2002 and 2003 Plant Additions to which 30% Bonus Rate Applies	99,211	
4	Bonus Tax Depreciation @ 30%	29,763	
5	Company Additions to Plant in Service - May - December 2003	172,705	(a)
6	Company Additions to Plant in Service - ' 50% of 2004	62,946	(b)
7	Estimate of 2003 and 2004 Plant Additions to which 50% Bonus Rate Applies	235,651	
8	Bonus Tax Depreciation @ 50%	117,826	Line 7 x 50%
9	Less Estimated Impact on Normal Tax Depreciation in 2002	(150)	Line 1 x 30% x Line A.1
	Less Estimated Impact on Normal Tax Depreciation in 2003	(4,529)	(L. 4 +(L.5 x 50%)) x Line A.1
10	Less Estimated Impact on Normal Tax Depreciation in 2004	(5,756)	(Line 4 + Line 8) x Line A.1
11	Estimated Additional Tax Depreciation	137,154	
12	Federal and State Combined Income Tax Rate	37.63%	
13	Estimated Additional Deferred Income Tax - Allocated Common Plant	51,611	
A.1	Average Tax Depreciation Rate - 2002	3.90%	Sch. D-3, Line A.5

Source/Notes:

(a) Amount calculated from total projected 2003 plant additions on MFR Schedule C-59(B-8a - 2003), p.2. Total amount of $259,058 x 4/12ths for January - April and remaining balance applied to May - December.

(b) A factor of 50% was applied to the projected 2004 plant additions on MFR Sch. C-59(B-8a - 2004), p.2, of $125,902 to determine the impact on average test year accumulated deferred income taxes.

FLORIDA PUBLIC UTILITIES
Projected Test Year Ending December 31, 2004

Additional Accumulated Deferred Income Taxes - Allocated Common

Docket No. 030438-EI
Exhibit__(DD-1)
Schedule D-5

Witness: Donna DeRonne

Line No.	Description	Amount	
1	Accumulated Deferred Income Taxes in Capital Structure, per FPU	3,449,838	MFR Sch. C-59 (D-1a), p.2
2	Average 2004 Depreciable Plant in Service - Electric Operations, per FPU	65,621,769	MFR Sch. C-59(B-8a - 2004), p.2
3	Ratio of ADIT to Average Depreciable Plant	5.26%	Line 1 / Line 2
4	Average 2004 Depreciable Plant in Service - Allocated Common	1,721,031	MFR Sch. C-59 (D-1a), p.3
5	Estimate of Additional Deferred Income Taxes for Common Allocated	90,477	

CERTIFICATE OF SERVICE
DOCKET NO. 030438-EI

I HEREBY CERTIFY that a true and exact copy of the above and foregoing Direct Testimony of Donna DeRonne has been furnished by hand delivery* or U.S. Mail to the following parties of record this 29th day of December, 2003.

Jennifer Brubaker, Esquire*
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