

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate
increase by Florida Public
Utilities Company.

DOCKET NO. 030438-EI

FILED: January 23, 2004

COMMISSION'S PREHEARING STATEMENT

Pursuant to Order No. PSC-03-1052-PCO-EI, issued September 22, 2003, the Commission Staff (Staff) files its prehearing statement as follows:

A. All Known Witnesses

Ruth K. Young	Rate case audit of FPUC for Docket 030438-EI, and audit of reliability indices for FPUC issued June 3, 2003
Jeffrey A. Small	Certain exceptions and disclosures from the staff audit report of FPUC for Docket 030438-EI
Daniel Lee	Appropriateness of FPUC's request for a cost-performance award of 100 basis points added to the allowed return on common equity

B. All Known Exhibits

Staff has identified a list of exhibits which it intends to utilize at hearing which are listed below. Staff reserves the right to identify additional exhibits at the Prehearing Conference and at hearing for purposes of cross-examination.

RKY-1	Rate Case Audit Report
RKY-2	Audit Report for Audit of Reliability Indices
JAS-1	Audit Work Papers for Audit Exception 19
DQL-1	Excerpts of presentation by Sanford Berg and Paul Sotkiewicz

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

C. Staff's Statement of Basic Position

Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

D. Issues & Staff's Respective Positions

Staff's positions are preliminary and based on materials filed by the parties and on discovery. These preliminary positions are offered to apprise the parties of those positions. Staff's final positions will be based upon an analysis of the evidence presented at the hearing.

ISSUE 1: Is it appropriate for FPUC to consolidate the rates and charges of its Northeast and Northwest Electric Divisions into a single Electric Division for ratemaking purposes?

POSITION: No position at this time pending receipt and analysis of outstanding discovery.

ISSUE 2: Are the Company's adjustments for discontinued operations appropriate?

POSITION: No position at this time pending further analysis.

ISSUE 3: Should the level of Corporate Costs before allocation be reduced for reduced costs following the sale of the water system?

POSITION: No position at this time pending further analysis.

ISSUE 4: How should the gain from the sale of the water system land and water system be accounted for in the ratemaking process?

POSITION: No position at this time pending further analysis.

ISSUE 5: Is FPUC's projected test period of the 12 months ending December 31, 2004 appropriate?

POSITION: No position at this time pending further analysis.

ISSUE 6: Are FPUC's forecasts of Customers, KWH, and KW by Rate Class, for the December 2004 projected test year appropriate?

POSITION: No position at this time pending further analysis.

ISSUE 7: Is the quality of electric service provided by FPUC adequate?

POSITION: Yes.

ISSUE 8: Has the Company removed all non-utility activities from rate base?

POSITION: No position at this time pending further analysis.

ISSUE 9: Is FPUC's requested level of Plant in Service in the amount of \$65,687,844 for the December 2004 projected test year appropriate?

POSITION: No position at this time pending outstanding discovery and further development of the issues.

ISSUE 10: Is FPUC's requested level of Common Plant Allocated in the amount of \$1,721,031 for the December 2004 projected test year appropriate?

POSITION: No position at this time pending outstanding discovery and further development of the issues.

ISSUE 11: Should an adjustment be made for Plant Retirements for the projected test year?

POSITION: No position at this time pending outstanding discovery and further development of the issues.

ISSUE 12: Should an adjustment be made to Plant, Accumulated Depreciation, and Depreciation Expense for canceled and delayed projects for the projected test year?

POSITION: No position at this time pending outstanding discovery and further development of the issues.

ISSUE 13: Is it appropriate for FPUC to use an average depreciation rate for the combined Marianna and Fernandina Beach total plant balances for 2002 and 2003? If not, what are the appropriate adjustments to depreciation expense and accumulated depreciation?

POSITION: No position at this time pending outstanding discovery and further development of the issues.

ISSUE 14: Is FPUC's requested level of accumulated depreciation for Plant in Service in the amount of \$27,672,116 for the December 2004 projected test year appropriate?

POSITION: No position at this time pending outstanding discovery and further development of the issues.

ISSUE 15: Is FPUC's requested level of accumulated depreciation for Common Plant Allocated in the amount of \$455,192 for the December 2004 projected test year appropriate?

POSITION: No position at this time pending outstanding discovery and further development of the issues.

ISSUE 16: Is FPUC's requested level of Customer Advances for Construction in the amount of \$621,462 for the December 2004 projected test year appropriate?

POSITION: No position at this time pending further analysis.

ISSUE 17: Is FPUC's requested level of Construction Work in Progress in the amount of \$620,769 for the December 2004 projected test year appropriate?

POSITION: No position at this time pending further analysis.

ISSUE 18: Should an adjustment be made to prepaid pension expense in the calculation of working capital?

POSITION: No position at this time pending further analysis.

ISSUE 19: Should an adjustment be made to rate base for unfunded Other Post-retirement Employee Benefit (OPEB) liability?

POSITION: No position at this time pending further analysis.

ISSUE 20: Should cash be reduced to reflect the lower of the 13-month average test year balance or the average of the prior five years?

POSITION: No position at this time pending further analysis.

ISSUE 21: Should Account 1430, Other Accounts Receivable, be reduced to exclude loans to employees?

POSITION: No position at this time pending further analysis.

ISSUE 22: Should Account 1430, Other Accounts Receivable, be reduced to remove the portion related to non-electric operations?

POSITION: No position at this time pending further analysis.

ISSUE 23: Should Unamortized Rate Case Expense be excluded from working capital allowance?

POSITION: Yes. Unamortized Rate Case Expense should be excluded from working capital allowance.

ISSUE 24: Should Accounts Payable be increased to correct a posting error?

POSITION: Yes. Accounts Payable should be increased by \$255,434 to correct a posting error.

ISSUE 25: Should Accounts Payable be increased to reflect the elimination of the water division?

POSITION: Yes. Accounts Payable should be increased by \$13,807 to reflect the elimination of the water division.

ISSUE 26: Should Taxes Accrued - Gross Receipts Tax be reduced to remove the portion related to non-electric operations?

POSITION: Yes. Taxes Accrued - Gross Receipts Tax be reduced by \$105,693 to remove the portion related to non-electric operations.

ISSUE 27: Is FPUC's requested level of Working Capital in the amount of \$559,995 for the December 2004 projected test year appropriate?

POSITION: No position at this time pending further analysis.

ISSUE 28: Is FPUC's requested rate base in the amount of \$39,840,869 for the December 2004 projected test year appropriate?

POSITION: No position at this time pending further analysis.

ISSUE 29: What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

POSITION: No position at this time pending further analysis.

ISSUE 30: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure?

POSITION: No position at this time pending further analysis.

ISSUE 31: Have rate base and capital structure been reconciled appropriately?

POSITION: No position at this time pending further analysis.

ISSUE 32: What is the appropriate cost rate for short-term debt for the December 2004 projected test year?

POSITION: No position at this time pending further analysis.

ISSUE 33: What is the appropriate cost rate for long-term debt for the December 2004 projected test year?

POSITION: No position at this time pending further analysis.

ISSUE 34: Is FPUC's proposed equity ratio reasonable for the December 2004 projected test year?

POSITION: No position at this time pending further analysis.

ISSUE 35: In setting FPUC's return on equity (ROE) for use in establishing FPUC's revenue requirements and FPUC's authorized range, should the Commission make an adjustment to reflect FPUC's performance?

POSITION: No position at this time pending further analysis.

ISSUE 36: What is the appropriate cost rate for common equity for the December 2004 projected test year?

POSITION: No position at this time pending further analysis.

ISSUE 37: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure?

POSITION: No position at this time pending further analysis.

ISSUE 38: Should Revenues be increased for forfeited discounts?

POSITION: No position at this time pending further analysis.

ISSUE 39: Is FPUC's projected level of Total Operating Revenues in the amount of \$14,491,924 for the December 2004 projected test year appropriate?

POSITION: No position at this time pending further analysis.

ISSUE 40: What are the appropriate inflation factors for use in forecasting the test year budget?

POSITION: No position at this time pending further analysis.

ISSUE 41: Are the trend rates used by FPUC to calculate projected O&M expenses appropriate?

POSITION: No position at this time pending further analysis.

ISSUE 42: Should an adjustment be made to remove Franchise Fees from operating revenues and taxes other than income?

POSITION: Yes. Reduce both operating revenues and taxes other than income taxes by \$1,354,781 to remove the franchise fees.

ISSUE 43: Should an adjustment be made to remove the gross receipts tax from operating revenues and taxes other than income?

POSITION: Yes. Reduce both operating revenues and taxes other than income taxes by \$1,217,311 to remove the gross receipts tax.

ISSUE 44: Is FPUC's requested level of O&M Expense in the amount of \$7,684,194 for the December 2004 projected test year appropriate?

POSITION: This position is based upon the decisions in other O&M issues.

ISSUE 45: Has FPUC made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Adjustment Clause?

POSITION: Yes. The utility made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Adjustment Clause.

ISSUE 46: Has FPUC made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Conservation Cost Recovery Clause?

POSITION: Yes. The utility made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Conservation Cost Recovery Clause.

ISSUE 47: Should an adjustment be made to advertising expenses for the December 2004 projected test year?

POSITION: No. No adjustment should be made to advertising expense for the December 2004 projected test year.

ISSUE 48: Has FPUC made the appropriate adjustments to remove lobbying expenses from the December 2004 projected test year?

POSITION: No position at this time pending further analysis.

ISSUE 49: Should an adjustment be made to FPUC's requested level of Salaries and Employee Benefits for the December 2004 projected test year?

POSITION: This is dependent upon the decisions made in other issues.

ISSUE 50: Should an adjustment be made to Other Post Employment Benefits Expense for the December 2004 projected test year?

POSITION: No position at this time pending further analysis.

ISSUE 51: Should an adjustment be made to Pension Expense for the December 2004 projected test year?

POSITION: No position at this time pending further analysis.

ISSUE 52: Should an adjustment be made to the accrual for property damage for the December 2004 projected test year?

POSITION: No position at this time pending further analysis.

ISSUE 53: Should an adjustment be made to the accrual for the Injuries & Damages reserve for the December 2004 projected test year?

POSITION: No position at this time pending further analysis.

ISSUE 54: Is the level of accounting and auditing expenses for the December 2004 projected test year appropriate?

POSITION: No position at this time pending further analysis.

ISSUE 55: Is the level of overhead cost allocations for the 2004 projected test year appropriate?

POSITION: No position at this time pending further analysis.

ISSUE 56: Is the level of plant maintenance expenses for the 2004 projected test year appropriate?

POSITION: No position at this time pending further analysis.

ISSUE 57: Should Account 588.1, Distribution Maps & Records, be reduced for the salary of an engineering technician?

POSITION: No position at this time pending further analysis.

ISSUE 58: Should Account 588.2, Other Distribution Office Supplies, be reduced for the portion of an employee's salary related to work on a new relay protection system?

POSITION: No position at this time pending further analysis.

ISSUE 59: Should Account 590.0, Maintenance Supervision and Engineering, be reduced for the transformer maintenance contract?

POSITION: No position at this time pending further analysis.

ISSUE 60: Should Account 920, Administrative & General Salaries, be reduced to reflect the hiring of a replacement person at the advertised low range of the salary?

POSITION: No position at this time pending receipt and analysis of outstanding discovery.

ISSUE 61: Should payroll expense be adjusted for discontinued operations?

POSITION: Yes. Payroll Expense should be reduced by \$109,820 for discontinued operations.

ISSUE 62: Should Account 903, Customer Records and Collection Expenses, be reduced to reflect a change in vendor cost for the printing and mailing of company bills?

POSITION: Yes. Account 903 should be reduced by \$39,080 to reflect a change in vendor cost for the printing and mailing of company bills.

ISSUE 63: Should Account 903, Customer Records and Collection Expenses, be reduced to remove costs related to propane, merchandising and jobbing, and conservation?

POSITION: Yes. Account 903 should be reduced by \$8,702.56 to remove costs related to propane, merchandising and jobbing, and conservation.

ISSUE 64: Should Account 903, Customer Records and Collection Expenses, be increased for payroll related to discontinued operations that was charged to Account 904?

POSITION: Yes. Account 903 should be increased by \$2,523 for payroll related to discontinued operations that was charged to Account 904.

ISSUE 65: Should Account 920, Administrative and General Salaries, be reduced to correct the allocation factor?

POSITION: Yes. Account 920 should be reduced by \$147,446.32 to correct the allocation factor.

ISSUE 66: Should Account 921.5, Miscellaneous Office Expense, be reduced for costs related to temporary staff?

POSITION: Yes. Account 921.5 should be reduced by \$17,054.87 for costs related to temporary staff.

ISSUE 67: Should Account 921.5, Miscellaneous Office Expense, be reduced to remove the uncollected franchise fees?

POSITION: Yes. Account 921.5 should be reduced by \$13,879.75 to remove the uncollected franchise fees.

ISSUE 68: Should Account 921.5, Miscellaneous Office Expense, be reduced to remove non-utility and out-of-period costs?

POSITION: Yes. Account 921.5 should be reduced by \$1,207 to remove non-utility and out-of-period costs.

ISSUE 69: Should Account 921.3, Office Computers and Supplies, be reduced to remove non-recurring training costs?

POSITION: Yes. Account 921.3 should be reduced by \$1,885 to remove non-recurring training costs.

ISSUE 70: Should Account 921.6, Company Training Expense, be reduced to remove non-recurring training costs?

POSITION: Yes. Account 921.6 should be reduced by \$1,130 to remove non-recurring training costs.

ISSUE 71: Should Account 923.2, Legal Fees and Expenses, be reduced to remove bond issuance costs?

POSITION: Yes. Account 923.2 should be reduced by \$561 to remove bond issuance costs.

ISSUE 72: Should Account 923.3, Outside Audit and Accounting, be reduced certain tax-related accounting fees?

POSITION: Yes. Account 923.3 should be reduced by \$26,825 for certain tax-related accounting fees.

ISSUE 73: Should Account 924, Property Insurance, be reduced to reflect the current property insurance premium?

POSITION: Yes. Account 924 should be reduced by \$3,726 to reflect the current property insurance premium.

ISSUE 74: Should Account 925.1, Injuries and Damages, be reduced to reflect current insurance premiums?

POSITION: Yes. Account 925.1 should be reduced by \$78,087.78 to reflect current insurance premiums.

ISSUE 75: Should Account 926.2, Employee Benefits - Other, be reduced to reflect the current medical insurance premium?

POSITION: Yes. Account 926.2 should be reduced by \$122,164 to reflect the current medical insurance premium.

ISSUE 76: Should Account 930.2, Miscellaneous General Expense, be reduced for costs related to a non-recurring Security Exchange Commission fee?

POSITION: Yes. Account 930.2 should be reduced by \$1,364 for costs related to a non-recurring Security Exchange Commission fee.

ISSUE 77: Should Account 930.2, Miscellaneous General Expenses, be reduced for the write-off of stock offering costs?

POSITION: Yes. Account 930.2 should be reduced by \$43,587 for the write-off of stock offering costs.

ISSUE 78: Should an adjustment be made to Rate Case Expense for the December 2004 projected test year?

POSITION: Yes. Rate Case Expense should be updated for the latest development in actual costs and projected costs.

ISSUE 79: Should an adjustment be made to Account 904, Uncollectible Accounts, for the 2004 projected test year?

POSITION: Yes. Account 904 should be a calculation based on the four-year average of net write-offs to Revenues.

ISSUE 80: What adjustments, if any, should be made to the depreciation expense to reflect the Commission's decision in Docket No. 020853-EI?

POSITION: No position at this time pending outstanding discovery and further development of the issues.

ISSUE 81: Should an adjustment be made to Depreciation Expense for the December 2004 projected test year?

POSITION: No position at this time pending outstanding discovery and further development of the issues.

ISSUE 82: Should the total amount of Gross Receipts tax be removed from base rates and shown as a separate line item on the bill?

POSITION: No position at this time pending further analysis.

ISSUE 83: Should an adjustment be made to Taxes Other Than Income Taxes for the December 2004 projected test year?

POSITION: No position at this time pending further analysis.

ISSUE 84: Should an adjustment be made to Income Tax expense for the December 2004 projected test year?

POSITION: No position at this time pending further analysis.

ISSUE 85: Is FPUC's projected Net Operating Income in the amount of \$1,088,574 for the December 2004 projected test year appropriate?

POSITION: No. Staff's position is dependent upon preceding issues.

ISSUE 86: What is the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for FPUC?

POSITION: No position pending determination of the bad debt factor in Issue 79.

ISSUE 87: Is FPUC's requested annual operating revenue increase of \$4,117,121 for the December 2004 projected test year appropriate?

POSITION: Staff's position is dependent upon preceding issues.

ISSUE 88: Are FPUC's estimated revenues from sales of electricity by rate class at present rates for the projected 2004 test year appropriate?

POSITION: No position pending receipt of discovery responses.

ISSUE 89: What is the appropriate cost of service methodology to be used in designing FPUC's rates?

POSITION: No position pending receipt of discovery responses.

ISSUE 90: If a revenue increase is granted, how should it be allocated among the rate classes?

POSITION: The increase should be allocated to the rate classes in a manner that moves the class rate of return indices as close to parity as practicable based on the approved cost allocation methodology, subject to the following constraints: (1) no class should receive an increase greater than 1.5 times the system average percentage increase in total, and (2) No class should receive a decrease.

ISSUE 91: What are the appropriate customer charges?

POSITION: No position at this time pending further analysis.

ISSUE 92: What are the appropriate demand charges?

POSITION: No position pending receipt of discovery responses.

ISSUE 93: What are the appropriate energy charges?

POSITION: This is a fallout issue that depends upon the Commission vote on other issues.

ISSUE 94: What are the appropriate service charges?

POSITION: No position pending receipt of discovery responses.

ISSUE 95: What are the appropriate transformer ownership discounts?

POSITION: No position pending receipt of discovery responses.

ISSUE 96: What are the appropriate Street and Outdoor Lighting rates?

POSITION: No position pending receipt of discovery responses.

ISSUE 97: Should FPUC's transitional rate for non-profit sports fields be eliminated?

POSITION: No position pending receipt of discovery responses.

ISSUE 98: What are the appropriate standby service rates?

POSITION: No position pending receipt of discovery responses.

ISSUE 99: What is the appropriate adjustment to account for the increase in unbilled revenues due to the recommended rate increase

POSITION: No position at this time pending further analysis.

ISSUE 100: What is the appropriate effective date for FPUC's revised rates and charges?

POSITION: The revised rates and charges should become effective for meter readings on or after 30 days following the date of the Commission vote approving the rates and charges.

ISSUE 101: Should FPUC be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?

POSITION: No position at this time pending further analysis.

ISSUE 102: Should this docket be closed?

POSITION: No position at this time pending further analysis.

E. Stipulated Issues

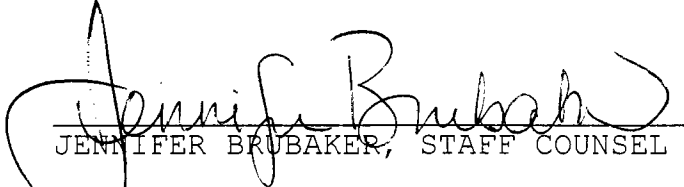
There are no issues that have been stipulated at this time.

F. Pending Matters

Staff is aware of two pending matters: 1) request for temporary protective order for Document No. 12336-03; and 2) request for confidential treatment of Document No. 00551-04.

G. Requirements That Cannot Be Complied With

There are no requirements of Order No. PSC-03-1052-PCO-EI that cannot be complied with at this time.



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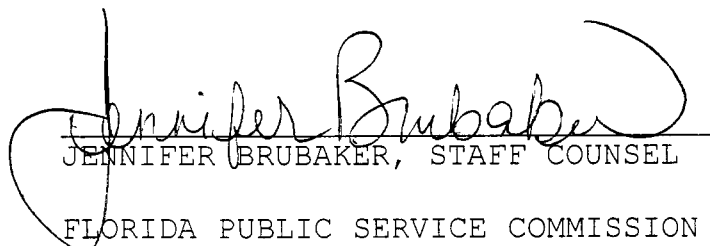
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing COMMISSION'S PREHEARING STATEMENT was furnished to **Norman H. Horton, Jr.**, Messer, Caparello & Self, P.A., P.O. Box 1876, Tallahassee, Florida 32302-1876, and that true and correct copies of same were furnished to **Mr. John T. English and Ms. Cheryl Martin**, Florida Public Utilities Company, P. O. Box 3395, West Palm Beach, Florida 33402-3395, and **Stephen C. Burgess, Esquire**, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400, by U.S. Mail, on this 23rd day of January, 2004.


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