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January 23, 2004

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BY HAND DELIVERY
Ms. Blanca Bayó, Director
Commission Clerk and Administrative Services
Room 110, Easley Building
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Docket No. 030438-EI

Dear Ms. Bayó:

Enclosed for filing on behalf of Florida Public Utilities Company are an original and fifteen copies of the Prehearing Statement of Florida Public Utilities Company in the above referenced docket. Also enclosed is a 3 1/2" diskette with the document on it in Microsoft Word Format 97/2000.

Due to the fact that some of the issues were received the day before the Prehearing Statement was due, Florida Public Utilities Company reserves the right to amend or expand their positions.

Please acknowledge receipt of these documents by stamping the extra copy of this letter "filed" and returning the same to me.

Thank you for your assistance with this filing.

Sincerely yours,

Norman H. Horton

Norman H. Horton, Jr.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that true and correct copies of the foregoing have been served upon the following parties by Hand Delivery (*) and/or U.S. Mail this 23rd day of January, 2004.

Jennifer Brubaker, Esq.*
Office of General Counsel
Room 370, Gunter Building
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Stephen C. Burgess*
Office of Public Counsel
111 Madison Street, Room 812
Tallahassee, FL 32399-1400

Norman H. Horton, Jr.

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: January 23, 2004

PREHEARING STATEMENT OF FLORIDA PUBLIC UTILITIES COMPANY

Florida Public Utilities Company (hereinafter "FPUC") pursuant to Order No. PSC-03-1052-PCO-EI issued on September 22, 2003, submit the following Prehearing Statement in the above-captioned dockets.

A. WITNESSES

Witness	Subject Matter	Issues
George M. Bachman and Robert J. Camfield (Panel)	Cost of Equity Capital Rate of Return Recommendation Cost Performance Award, and Consolidation	
Cheryl Martin, Mehrdad Khojasteh, and Jim Mesite, Jr. (Panel)	Revenue Requirements, NOI, Accounting Adjustments, and Consolidation	
P. Mark Cutshaw	Cost of Service, Rates, and Consolidation	
George M. Bachman and Robert J. Camfield (Panel)	Rebuttal to Daniel Lee	
George M. Bachman and Robert J. Camfield (Panel)	Rebuttal to Mark Cicchetti	

Cheryl Martin, Mehrdad Khojasteh, Jim Mesite, Jr. Mark Cutshaw, Jr. and George Bachman (panel)	Rebuttal to Donna Deronne
George Bachman Cheryl Martin, P. Mark Cutshaw, Jr. Mehrdad Khojasteh, Jim Mesite, Jr. (panel)	Rebuttal to Hugh Larkin
Cheryl Martin Mehrdad Khojasteh, Jim Mesite, Jr. P. Mark Cutshaw, Jr. and George Bachman (panel)	Rebuttal to Ruth Young and Jeffrey Small

B. EXHIBITS

Witness	Proffered By	I.D. No.	Description
(Direct)			
G. Bachman and R. Camfield	FPUC	______ GB-RC-1	Overall Rate of Return Requirements
G. Bachman and R. Camfield	FPUC	______ GB-RC-2	Cost of Common Equity and Equity Rate of Return Recommendation
G. Bachman and R. Camfield	FPUC	______ GB-RC-3	Long-Term Debt Costs
G. Bachman and R. Camfield	FPUC	______ GB-RC-4	Short Term Debt
G. Bachman and R. Camfield	FPUC	______ GB-RC-5	Preferred Stock
G. Bachman and R. Camfield	FPUC	______ GB-RC-6A	Results of First Selection Screen

G. Bachman and R. Camfield	FPUC	______ GB-RC-6B	Results of Second Selection Screen: Market Liquidity and Risk, Beta
G. Bachman and R. Camfield	FPUC	______ GB-RC-7A	Sample of Comparable Electric Utilities
G. Bachman and R. Camfield	FPUC	______ GB-RC-7B	Sample of Comparable Non-Utilities
G. Bachman and R. Camfield	FPUC	______ GB-RC-8	Discounted Cash Flow Analysis
G. Bachman and R. Camfield	FPUC	______ GB-RC-9A	Capital Asset Pricing Model Analysis
G. Bachman and R. Camfield	FPUC	______ GB-RC-9B	Capital Asset Pricing Model Analysis
G. Bachman and R. Camfield	FPUC	______ GB-RC-10	Risk Premium Analysis
G. Bachman and R. Camfield	FPUC	______ GB-RC-11A	Historical Market Returns: Sample of Comparable Electric Utilities
G. Bachman and R. Camfield	FPUC	______ GB-RC-11B	Historical Market Returns: Sample of Non-Utility Companies
G. Bachman and R. Camfield	FPUC	______ GB-RC-12A	Estimate of Resource Cost Efficiency
G. Bachman and R. Camfield	FPUC	______ GB-RC-12B	Comparison of Retail Electric Prices
G. Bachman and R. Camfield	FPUC	______ GB-RC-13	Historical Year-End Capital Structure
G. Bachman and R. Camfield	FPUC	______ GB-RC-14	Historical Interest Coverage

G. Bachman and R. Camfield	FPUC	______	MFR – Schedule C-59 (D-1a) Cost of Capital - 13-Month Average and Year End
G. Bachman and R. Camfield	FPUC	______	MFR - Schedule C-59 (D-1b) Cost of Capital - 13-Month Average and Year End
G. Bachman and R. Camfield	FPUC	______	MFR - Schedule C-59 (D-3a) Short Term Debt
G. Bachman and R. Camfield	FPUC	______	MFR - Schedule C-59 (D-4a) Long Term Debt Outstanding
G. Bachman and R. Camfield	FPUC	______	MFR - Schedule C-59 (D-7) Preferred Stock Outstanding
G. Bachman and R. Camfield	FPUC	______	MFR - Schedule C-59 (D-8) Customer Deposits
G. Bachman and R. Camfield	FPUC	______	MFR - Schedule D-1a Cost of Capital – 13 month Average and Year End
G. Bachman and R. Camfield	FPUC	______	MFR - Schedule D-2 Cost of Capital Elements – History and Projected
G. Bachman and R. Camfield	FPUC	______	MFR - Schedule D-3a Short Term Debt
G. Bachman and R. Camfield	FPUC	______	MFR - Schedule D-4a Long Term Debt Outstanding
G. Bachman and R. Camfield	FPUC	______	MFR - Schedule D-7 Preferred Stock Outstanding
G. Bachman and R. Camfield	FPUC	______	MFR - Schedule D-8 Customer Deposits
G. Bachman and R. Camfield	FPUC	______	MFR - Schedule D-9 Common Stock Data
G. Bachman and R. Camfield	FPUC	______	MFR - Schedule D-10a Financial Plans – Stocks and Bond Issues

G. Bachman and R. Camfield	FPUC	______	MFR - Schedule D-11a Financial Indicators - Summary
G. Bachman and R. Camfield	FPUC	______	MFR - Schedule F-1 Annual and Quarterly Reports to Shareholders
G. Bachman and R. Camfield	FPUC	______	MFR - Schedule F-3 SEC Reports
G. Bachman and R. Camfield	FPUC	______	MFR - Schedule F-7 Business Contracts with Officers or Directors
C. Martin, M. Khojasteh, and J. Mesite, Jr.	FPUC	______ CM-1	Schedule C-59 (C-2) Adjusted Jurisdictional Net Operating Income
C. Martin, M. Khojasteh, and J. Mesite, Jr.	FPUC	______ CM-2	Schedule C-59 (B-3) Adjusted Rate Base
C. Martin, M. Khojasteh, and J. Mesite, Jr.	FPUC	______ CM-3	Schedule C-59 (C-1) Projection Bases Factors
C. Martin, M. Khojasteh, and J. Mesite, Jr.	FPUC	______ CM-4	Schedule C-59 (C-2) Adjusted Jurisdictional Net Operating Income
C. Martin, M. Khojasteh, and J. Mesite, Jr.	FPUC	______	MFR Schedule F-9 Forecasting Models
C. Martin	FPUC	______	MFR Schedule C-10 Operating Revenues Detail
C. Martin	FPUC	______	MFR Schedule C-23 Detail of Rate Case Expenses for Outside Consultants
C. Martin	FPUC	______	MFR Schedule F-4 FERC Audit

M. Khojasteh	FPUC	______	MFR Schedule B-23b Investment Tax Credits – Annual Analysis
M. Khojasteh	FPUC	______	MFR Schedule B-24a Total Accumulated Deferred Income Taxes
M. Khojasteh	FPUC	______	MFR Schedule C-2 2002 Adjusted Jurisdictional Net Operating Income
M. Khojasteh	FPUC	______	MFR Schedule C-4 Commission and Company Net Operating Income Adjustments
M. Khojasteh	FPUC	______	MFR Schedule C-8 Report of Operation Compared to Forecast – Revenue and Expenses
M. Khojasteh	FPUC	______	MFR Schedule C-9 Jurisdictional Separation Factors – Net Operating Income
M. Khojasteh	FPUC	______	MFR Schedule C-12 Budgeted Versus Actual Operating Revenues and Expenses
M. Khojasteh	FPUC	______	MFR Schedule C-19 Operation and Maintenance Expenses – 2002 Historical Year
M. Khojasteh	FPUC	______	MFR Schedule C-21 Detail of Changes in Expenses
M. Khojasteh	FPUC	______	MFR Schedule C-25 Uncollectible Accounts
M. Khojasteh	FPUC	______	MFR Schedule C-26 Advertising Expenses

M. Khojasteh	FPUC	______	MFR Schedule C-27 Industry Association Dues
M. Khojasteh	FPUC	______	MFR Schedule C-28 Accumulated Provision Accounts – 228.1, 228.2, 228.3
M. Khojasteh	FPUC	______	MFR Schedule C-29 & C-30 Civic and Charitable Contributions
M. Khojasteh	FPUC	______	MFR Schedule C-31 Administrative Expenses
M. Khojasteh	FPUC	______	MFR Schedule C-32 Miscellaneous General Expenses
M. Khojasteh	FPUC	______	MFR Schedule C-33 Payroll and Fringe Benefit Increases Compared to CPI
M. Khojasteh	FPUC	______	MFR Schedule C-38a Taxes Other Than Income Taxes
M. Khojasteh	FPUC	______	MFR Schedule C-38b Revenue Taxes
M. Khojasteh	FPUC	______	MFR Schedule C-39 Federal Deferred Income Taxes
M. Khojasteh	FPUC	______	MFR Schedule C-41 Deferred Tax Adjustment
M. Khojasteh	FPUC	______	MFR Schedule C-42 State and Federal Income Taxes
M. Khojasteh	FPUC	______	MFR Schedule C-43 Reconciliation of Tax Expense

M. Khojasteh	FPUC	______	MFR Schedule C-44 Interest in Tax Expense Calculation
M. Khojasteh	FPUC	______	MFR Schedule C-45 Consolidated Return
M. Khojasteh	FPUC	______	MFR Schedule C-46 Income Tax Returns
M. Khojasteh	FPUC	______	MFR Schedule C-47 Parent(s) Debt Information
M. Khojasteh	FPUC	______	MFR Schedule C-49 Miscellaneous Tax Information
M. Khojasteh	FPUC	______	MFR Schedule C-50 Reacquired Bonds
M. Khojasteh	FPUC	______	MFR Schedule C-54 O & M Adjustments by Function
M. Khojasteh	FPUC	______	MFR Schedule C-58 Revenue Expansion Factor
M. Khojasteh	FPUC	______	MFR Schedule C-60 Transactions with Affiliated Companies
M. Khojasteh	FPUC	______	MFR Schedule C-61 Performance Indices
M. Khojasteh	FPUC	______	MFR Schedule C-65 Outside Professional Services
M. Khojasteh	FPUC	______	MFR Schedule C-66 Pension Cost
M. Khojasteh	FPUC	______	MFR Schedule C-59 (B-23b) Investment Tax Credits – Annual Analysis

M. Khojasteh	FPUC	______	MFR Schedule C-59 (B-24a) Total Accumulated Deferred Income Taxes
M. Khojasteh	FPUC	______	MFR Schedule C-59 (C-1) Projection Basis Factors
M. Khojasteh	FPUC	______	MFR Schedule C-59 (C-2) Adjusted Jurisdictional Net Operating Income
M. Khojasteh	FPUC	______	MFR Schedule C-59 (C-4) Commission and Company Net Operating Income Adjustments
M. Khojasteh	FPUC	______	MFR Schedule C-59 (C-19) Operation and Maintenance Expenses
M. Khojasteh	FPUC	______	MFR Schedule C-59 (38a) Taxes and Other Income Taxes
M. Khojasteh	FPUC	______	MFR Schedule C-59 (C-38b) Revenue Taxes
M. Khojasteh	FPUC	______	MFR Schedule C-59 (39) State Deferred Income Taxes
M. Khojasteh	FPUC	______	MFR Schedule C-59 (39) Federal Deferred Income Taxes
M. Khojasteh	FPUC	______	MFR Schedule C-59 (C-41) Deferred Income Tax Adjustment
M. Khojasteh	FPUC	______	MFR Schedule C-59 (C-42) State and Federal Income Taxes
M. Khojasteh	FPUC	______	MFR Schedule C-59 (C-43) Reconciliation of Tax Expense

M. Khojasteh	FPUC	______	MFR Schedule C-59 (C-44) Interest in Tax Expense Calculation
M. Khojasteh	FPUC	______	MFR Schedule C-59 (C-45) Consolidated Return
M. Khojasteh	FPUC	______	MFR Schedule C-59 (C-49) Miscellaneous Tax Information
M. Khojasteh	FPUC	______	MFR Schedule C-59 (C-58) Revenue Expansion Factor
M. Khojasteh	FPUC	______	MFR Schedule F-9 Forecasting Models
J. Mesite, Jr.	FPUC	______	MFR Schedule B-2ab 13-Month Average Balance Sheet – System Basis 2002
J. Mesite, Jr.	FPUC	______	MFR Schedule B-2ab 13-Month Average Balance Sheet – System Basis
J. Mesite, Jr.	FPUC	______	MFR Schedule B-3 Adjusted Rate Base
J. Mesite, Jr.	FPUC	______	MFR Schedule B-4 Rate Base Adjustments
J. Mesite, Jr.	FPUC	______	MFR Schedule B-7 Jurisdiction Separation Factors – Rate Base
J. Mesite, Jr.	FPUC	______	MFR Schedule B-8a Plant Balances by Account and Sub-Account - 2002
J. Mesite, Jr.	FPUC	______	MFR Schedule B-8b Depreciation Reserve Balances by Account and Sub-Account - 2002

J. Mesite, Jr.	FPUC	______	MFR Schedule B-9a Monthly Plant Balances Test Year – 2002- 13 Months
J. Mesite, Jr.	FPUC	______	MFR Schedule B-9b Month Reserve Balances Test Year – 2002 – 13 Months
J. Mesite, Jr.	FPUC	______	MFR Schedule B-9b Common Plant Allocation
J. Mesite, Jr.	FPUC	______	MFR Schedule B-10 Capital Additions and Retirements
J. Mesite, Jr.	FPUC	______	MFR Schedule B-12a Property Held for Future Use – 13-Month Average
J. Mesite, Jr.	FPUC	______	MFR Schedule B-12d Property held for Future Use – Cold Standby Units
J. Mesite, Jr.	FPUC	______	MFR Schedule B-13b Construction Work in Progress – 13 month Average Balance
J. Mesite, Jr.	FPUC	______	MFR Schedule B-13b Construction Work in Progress
J. Mesite, Jr.	FPUC	______	MFR Schedule B-15 Working Capital
J. Mesite, Jr.	FPUC	______	MFR Schedule B-21 Other Deferred CRETS
J. Mesite, Jr.	FPUC	______	MFR Schedule B-22 Miscellaneous Deferred Debits
J. Mesite, Jr.	FPUC	______	MFR Schedule B-26 Accounting Policy Changes Affecting Rate Base

J. Mesite, Jr.	FPUC	______	MFR Schedule B-28a Leasing Arrangements
J. Mesite, Jr.	FPUC	______	MFR Schedule B-29 Two-Year Historical Balance Sheet
J. Mesite, Jr.	FPUC	______	MFR Schedule B-30 Net Production Plant Additions
J. Mesite, Jr.	FPUC	______	MFR Schedule C-34 Depreciation Expense Computed on Plant-Balances Historic Year – 12 Months
J. Mesite, Jr.	FPUC	______	MFR Schedule C-35 Amortization/Recovery Schedule – 12 Months
J. Mesite, Jr.	FPUC	______	MFR Schedule C-37 Proposed Depreciation Rates
J. Mesite, Jr.	FPUC	______	MFR Schedule C-51 Gains and Losses on Disposition of Plant or Property
J. Mesite, Jr.	FPUC	______	MFR Schedule C-62 Non-utility Operations Utilizing Utility Assets
J. Mesite, Jr.	FPUC	______	MFR Schedule C-64 Earnings Test
J. Mesite, Jr.	FPUC	______	MFR Schedule C-59(B-2ab) 2003 13-Month Average Balance Sheet – System Basis
J. Mesite, Jr.	FPUC	______	MFR Schedule C-59 (B-2ab) 2004 13-Month Average Balance Sheet – System Basis

J. Mesite, Jr.	FPUC	______	MFR Schedule C-59 (B-3) Adjusted Rate Base
J. Mesite, Jr.	FPUC	______	MFR Schedule C-59 (B-4) Rate Base Adjustments
J. Mesite, Jr.	FPUC	______	MFR Schedule C-59 (B-8a) Plant Balances by Account and Sub-Account - 2003
J. Mesite, Jr.	FPUC	______	MFR Schedule C-59 (B-8a) Plant Balances by Account and Sub-Account – 2004
J. Mesite, Jr.	FPUC	______	MFR Schedule C-59 (B-8b) Depreciation Reserve Balances by Account and Sub-Account – 2003
J. Mesite, Jr.	FPUC	______	MFR Schedule C-59 (B-8b) Depreciation Reserve Balances by Account and Sub-Account – 2004
J. Mesite, Jr.	FPUC	______	MFR Schedule C-59 (B-8b) Depreciation Reserve Balances by Account and Sub-Account - 2003
J. Mesite, Jr.	FPUC	______	MFR Schedule C-59 (B-9a) Monthly Plant Balances Test year – 2003 – 13 Months
J. Mesite, Jr.	FPUC	______	MFR Schedule C-59 (B-9b) Monthly Reserve Balances Test Year – 2003 – 13 Months
J. Mesite, Jr.	FPUC	______	MFR Schedule C-59 (B-9b) Monthly Reserve Balances Test Year – 2004 – 13 Months
J. Mesite, Jr.	FPUC	______	MFR Schedule C-59 (B-10) Capital Additions and Retirements

J. Mesite, Jr.	FPUC	______	MFR Schedule C-59 (B-13) Construction Work in Progress
J. Mesite, Jr.	FPUC	______	MFR Schedule C-59 (B-15) Working Capital
J. Mesite, Jr.	FPUC	______	MFR Schedule C-59 (C-34) 2003 Depreciation Expense Computed on Plant-Balances
J. Mesite, Jr.	FPUC	______	MFR Schedule C-59 (C-34) 2004 Depreciation Expense Computed on Plant-Balances
J. Mesite, Jr.	FPUC	______	MFR Schedule F-9 Forecasting Models
P. M. Cutshaw	FPUC	______	MFR Schedule E-1 Cost of Service Study
P. M. Cutshaw	FPUC	______	MFR Schedule E-2 Explanation of Variations From Cost of Service Study Approved in Company's Rate Case
P. M. Cutshaw	FPUC	______	MFR Schedule E-3a Cost of Service Study – Rates Of Return By Rate Schedule (Present Rates)
P. M. Cutshaw	FPUC	______	MFR Schedule E-3b Cost of Service Study – Rate Of Return By Rate Schedule (Proposed Rates)
P. M. Cutshaw	FPUC	______	MFR Schedule E-5a Cost of Service Study – Allocation of Rate Base Components to Rate Schedule

P. M. Cutshaw	FPUC	______	MFR Schedule E-5b Cost of Service Study – Allocation of Expense Components to Rate Schedule
P. M. Cutshaw	FPUC	______	MFR Schedule E-6a Cost of Service Study – Functionalization and Classification of Rate Base
P. M. Cutshaw	FPUC	______	MFR Schedule E-6b Cost of Service Study – Functionalization and Classification of Expenses
P. M. Cutshaw	FPUC	______	MFR Schedule E-7 Source and Amount of Revenues – At Present and Proposed Rates
P. M. Cutshaw	FPUC	______	MFR Schedule E-8a Cost of Service Study – Unit Costs, Present Rates
P. M. Cutshaw	FPUC	______	MFR Schedule E-8b Costs of Service Study – Unit Costs, Proposed Rates
P. M. Cutshaw	FPUC	______	MFR Schedule E-10 Development of Service Charges
P. M. Cutshaw	FPUC	______	MFR Schedule E-11 Company-Proposed Allocation of the Rate Increase By Rate Class
P. M. Cutshaw	FPUC	______	MFR Schedule E-12 Cost of Service – Load Data
P. M. Cutshaw	FPUC	______	MFR Schedule E-13 Cost of Service Study – Development of Allocation Factors

P. M. Cutshaw	FPUC	______	MFR Schedule E-14 Development of Coincident and Noncoincident Demands for Cost Study
P. M. Cutshaw	FPUC	______	MFR Schedule E-15 Adjustment to Test Year Unbilled Revenue
P. M. Cutshaw	FPUC	______	MFR Schedule E-16a Revenue From Sale of Electricity by Rate Schedule
P. M. Cutshaw	FPUC	______	MFR Schedule E-16b Revenues by Rate Schedule – Service Charges (Account 451)
P. M. Cutshaw	FPUC	______	MFR Schedule E-16c Base Revenue by Rate Schedule - Calculations
P. M. Cutshaw	FPUC	______	MFR Schedule E-16d Revenue by Rate Schedule – Lighting Schedule Calculation
P. M. Cutshaw	FPUC	______	MFR Schedule E-17 Proposed Tariff Sheets and Support for Charges
P. M. Cutshaw	FPUC	______	MFR Schedule E-17 Supplemental - Design of Unit Charges for Florida Public Utilities
P. M. Cutshaw	FPUC	______	MFR Schedule E-18a Billing Determinants – Number of Bills
P. M. Cutshaw	FPUC	______	MFR Schedule E-18b Billing Determinants – KW Demand

P. M. Cutshaw	FPUC	______	MFR Schedule E-18c Billing Determinants – MWH Sales
P. M. Cutshaw	FPUC	______	MFR Schedule E-18d Projected Billing Determinants - Derivation
P. M. Cutshaw	FPUC	______	MFR Schedule E-19 Customers By Voltage Level
P. M. Cutshaw	FPUC	______	MFR Schedule E-20 Load Research Data
P. M. Cutshaw	FPUC	______	MFR Schedule E-24 Monthly Reserve Margins and Reliability Indexes
P. M. Cutshaw	FPUC	______	MFR Schedule E-26 Monthly Peaks
P. M. Cutshaw	FPUC	______	MFR Schedule E-27a Demand and Energy Losses
P. M. Cutshaw	FPUC	______	MFR Schedule E-27b Energy Losses
P. M. Cutshaw	FPUC	______	MFR Schedule E-27c Demand Losses
P. M. Cutshaw	FPUC	______	MFR Schedule COS Cost of Service Study
P. M. Cutshaw	FPUC	______	MFR Schedule F-9 Forecasting Models
P. M. Cutshaw	FPUC	______	MFR Schedule F-10 Forecasting Models – Sensitivity of Output to Changes in Input Data
P. M. Cutshaw	FPUC	______	MFR Schedule F-11 Forecasting Models – Historical Data

P. M. Cutshaw	FPUC	______	MFR Schedule F-21 Public Notice
G. Bachman, R. Camfield, C. Martin, M. Khojasteh, J. Mesite, Jr. and P. M. Cutshaw	FPUC	______	MFR Schedule F-17 Assumptions
(Rebuttal)			
J. Mesite, Jr. (Rebuttal to Hugh Larkin)	FPUC	______ JVM-1	Southeastern Electric Exchange Mutual Assistance Guideline
J. Mesite, Jr. (Rebuttal to Hugh Larkin)	FPUC	______ JVM-2	Storm Damage Reserve 13-Month Average Computation
J. Mesite, Jr. (Rebuttal to Donna Deronne)	FPUC	______ JVM-3	Additional Plant Due to Family Dollar Warehouse Approval
P. M. Cutshaw	FPUC	______ MC-1	Paths of Tropical Storms and Hurricanes
C. Martin, M. Khojasteh, J. Mesite, Jr. P. M. Cutshaw, and G. Bachman	FPUC	______ MKMCB-1	Response to Rate Case Audit
C. Martin, M. Khojasteh, J. Mesite, Jr. P. M. Cutshaw, and G. Bachman	FPUC	______ MKMCB-2	Response to Reliability Audit

C. BASIC POSITION

The current rates and charges are not adequate to provide FPUC an opportunity to earn a fair rate of return and provide service that is reasonable, sufficient, adequate and efficient. In order for FPUC to have the opportunity to earn a fair rate of return and provide services at a level required to be provided, it is necessary to increase its rates and charges by approximately $4.1 million on an annual basis.

The Company's jurisdictional rate base for the calendar year 2004, the test period for this request, is projected to be $39,840,870; and the jurisdictional adjusted net operating income is projected to be $1,088,574 using the rates currently in effect. The resulting adjusted jurisdictional rate of return on average rate base is projected to be 2.73%. Such a return is so low that it severely jeopardizes the ability of the Company to maintain its financial integrity and finance future operations.

FPUC has not sought a rate increase in its Northeast Division since 1989 and in the Northwest Division since 1994 and its current rates and charges are among the lowest in the state. That the rates are so low and rate relief has not been sought is attributable to the efforts of management and the employees to control costs and provide services in the most efficient manner possible. The Company has sought to increase productivity and efficiency in all of its programs and will continue to do so. However, despite the successful efforts of management and employees of FPUC, the Company now faces increased expenses associated with providing utility service that makes this request necessary.

FPUC proposes in this proceeding to consolidate the two divisions and operate as one. This would enhance efficiencies and be beneficial to both the customers and Company and be consistent with the operational structure of other utilities. Consolidation will provide the

Company with the flexibility and ability to continue to increase productivity and manage costs, which FPUC has historically done.

FPUC is committed to providing electric service in a reasonable, "sufficient adequate and efficient" manner," just as it is obligated to do by statute. There is also an obligation to provide shareholders with a reasonable and adequate return on their investment. Customers benefit if FPUC can provide a reasonable return but without rate relief both customers and shareholders will suffer. FPUC has presented testimony and support that adequately supports an increase in rates and charges to produce additional annual revenue of approximately $4.1 million and that request should be approved.

D. ISSUES

CONSOLIDATION

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?

FPUC: Yes, FPUC's proposal to consolidate the rates and charges of its two electric divisions into one consolidated set of electric rates and charges should be approved. The consolidation will provide both long term and short term benefits to all of its electric customers through cost reductions and other related benefits described in detail in the response to the staff's fifth interrogatory, question 47 & 49 on this same issue. (MARTIN/CUTSHAW/BACHMAN)

WATER DIVISION SALE

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

FPUC: Yes, with the small exception of shared common expenses, the adjustments for retained overheads from the discontinued operations are appropriate. All retained expenses are reasonable, prudent and necessary for the operation of our company. The majority of the adjustments to the expenses are at the local level, relate to our Fernandina Beach division and represent overheads shared at that level. The retained expenses are all reasonable and necessary to the operations of our division. The office building and inventory warehouse were already reaching over capacity at the time of the sale, as well as needing additional staff at our divisions. Accordingly, we have avoided adding additional buildings and personnel (KHOJASTEH)

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

FPUC: Yes, the retained corporate costs are all necessary and fully utilized; however, there was a small allocation change necessary related to the costs that would be shared by our Nature Coast division. Since most of these adjustments were at the local level, the inclusion of Nature Coast (located outside of our electric service area) would not have had any effects on most of the retained overheads. Recalculation of the amount for common using allocation factors which included Nature Coast resulted in an insignificant adjustment. (KHOJASTEH)

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

FPUC: The gain from the sale of the water system land and water system is not in the jurisdiction of electric regulation and should not be considered as part of the electric ratemaking process. (BACHMAN)

TEST PERIOD

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

FPUC: Yes, the projected test year of 12 months ending, December 31, 2004 is appropriate to represent the company's financial operations. This period reflects typical operations and it represents the period that the new rates will go into effect. The historic year 2002 was used as a basis to project the 2004 test year and results of this projection are valid to be used as a basis to set rates. (MARTIN)

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

FPUC: Yes. The forecasts were prepared using a 10-year trend analysis of customer growth and a 10-year weather normalized trend analysis for all KWH and KW amounts by rate class. Actual amounts were analyzed for the 1993 through 2002-time period and then projections were prepared for 2003 and 2004 based on these trends. (CUTSHAW)

QUALITY OF SERVICE

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

FPUC: Yes. FPUC has provided some of the lowest rates in the state for many years and has accomplished this with reliable service to our customers. This excellent customer service is confirmed by the low number of customer complaints filed with the FPSC. FPUC will remain as one of the lowest cost providers of electrical service after the completion of this rate proceeding and will strive to continually improve the overall reliability. (CUTSHAW)

RATE BASE

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

FPUC: Yes, with the exception of a small number of non-utility items inadvertently included with the historical test year 2002 data and trended to the projected 2004 test year. The following non-utility items should be removed from working capital: Non-Utility Accounts Receivable (Accounts 1420.2, 1420.21, and 1420.22) 2002 - $52,203, 2004 - $55,961; A portion of Deferred Debits (Account 1860.1) 2002 - $31,300, 2004 – $33,554; A portion of Employee Accounts Receivables (Account 1430.1)2002 - $405, 2004 - $434. (MESITE)

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?

FPUC: Yes, the projected test year 2004 Plant account balances are appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues which are still under consideration. At this time we do not know the effects of all of these adjustments.

In addition, the 2004 rate base should be increased by $624,013 to reflect the inclusion of the Family Dollar construction project. The 2004 Plant in Service relating to this project is $395,333. This significant project materialized at the end of 2003 and was not known at the time of the filing. (MESITE)

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?

FPUC: Yes, the projected test year 2004 Common Plant allocated is appropriate, with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues still under consideration. At this time we do not know the effects of all of these adjustments. (MESITE)

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

FPUC: **Yes,** the projected test year 2004 Plant retirements are appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues which are still under consideration. At this time we do not know the effects of all of these adjustments. (MESITE)

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

FPUC: Yes, adjustments to the projected test year 2004 Plant, Accumulated Depreciation and Depreciation expense are appropriate for effects of agreed upon adjustments contained within the FPSC audit findings, revised projects, and some agreed upon issues which are still under analysis. At this time we do not know the effects of all of these adjustments.

Also, 2004 plant and CWIP should be increased by $625,834 to reflect the inclusion of the effects of the Family Dollar construction project. Also, 2004 Depreciation expense and accumulated depreciation should be increased $10,435 and $1,821, respectively. This significant project materialized at the end of 2003 and was not known at the time of the filing. (MESITE)

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?

FPUC: FPUC: Yes, depreciation rates were applied appropriately for 2002 and 2003. The 2002-year was based on actual historical results; the rates used were actual separate depreciation rates as approved in our last depreciation studies. The Depreciation rates for 2003 were combined using a simple average rate for each shared account. For the transmission accounts, the full Fernandina Beach rate was applied to the transmission account balances. The results of this combination materially represent the same results had separate rates been used and accordingly, no adjustment is necessary. (MESITE)

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?

FPUC: **Yes,** the projected test year 2004 Accumulated Depreciation is appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues, which are still under consideration. At this time we do not know the effects of all of these adjustments.

Also, 2004 accumulated depreciation should be increased by $1,821 to reflect the inclusion of the effects of the Family Dollar construction project. This significant project materialized at the end of 2003 and was not known at the time of the filing. (MESITE)

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?

FPUC: Yes, the projected test year 2004 accumulated depreciation for common plant is appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues, which are still under consideration. At this time we do not know the effects of all of these adjustments. (MESITE)

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?

FPUC: Yes, this 2004 amount is appropriate. (MESITE)

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?

FPUC: Yes, the construction work in progress for 2004 is appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues which are still under consideration. At this time we do not know the effects of all of these adjustments.

In addition, the 2004 CWIP should be increased by $230,500 to reflect the inclusion of the affects of the Family Dollar construction project. The existence of this project was not known at the time of the filing. (MESITE)

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

FPUC: No. Prepaid pension expense is a valid working capital component as approved by the Florida Public Service Commission in prior rate proceedings. A prepaid pension represents, in essence, shareholder contributions in excess of the required funding and increases the invested working capital. (BACHMAN)

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

FPUC: No. This is included in working capital along with the medical insurance liability. (BACHMAN)

20. Has the Company used an appropriate methodology for projecting its 2004 cash working capital needs? (OPC)

FPUC: Yes, the appropriate methodologies were used for projecting 2004 working capital. (MESITE/BACHMAN)

21. Does the Company's 2004 working capital projection properly allocate for the discontinuation of water operations? (OPC)

FPUC: Yes, the working capital has been properly allocated considering the discontinuation of water operations. (MESITE)

22. Is the Company's inclusion of Special Deposits (Acct. 1340.1) in working capital appropriate? (OPC)

FPUC: Yes, Special deposits were properly included in working capital. These funds represent shared resources and are used to fund our consolidated company operations. (MESITE/BACHMAN)

23. Should the Project Fund-Restricted (Acct. 1340.3) balance be removed from the calculation of working capital? (OPC)

FPUC: No, the project fund-restricted represents funds that will be available for use by our consolidated company operations. The physical transfer of funds does not occur until there is gas construction performed, but the actual use of this cash and funds is shared by all divisions and utilities. (MESITE/BACHMAN)

24. Should the balance in Accounts 1310.4 through 1310.44 be removed from the calculation of working capital? (OPC)

FPUC: No, the balance in Accounts 1310.4 and 1310.44 are properly included in working capital. (MESITE)

25. Should the cash account balance increase that was attributable to the sale of the water operations be removed from the working capital calculation? (OPC)

FPUC: No. This cash represents funds that are properly included in working capital. It does not matter, from a financing viewpoint, where the source of cash originated. Whether cash is received from debt, equity, an asset sale, or a contribution, is irrelevant, since the cash is part of invested working capital. **(MESITE/BACHMAN)**

26. Has the Company properly escalated the balances for customer accounts receivable? (OPC)

FPUC: Yes, the customer accounts receivable for the projected test year 2004 is appropriate. (MESITE)

27. Has the Company properly estimated its accumulated provision for uncollectibles? (OPC)

FPUC: Yes, the accumulated provision for uncollectibles for the projected test year 2004 is appropriate. **(MESITE)**

28. Is the balance for prepaid insurance which is allocated to the electric operations based on an appropriate allocation methodology? (OPC)

FPUC: Yes, the allocation for property insurance was based on utility plant balances. Liability insurance was allocated on a revenue basis. Workman's compensation insurance is allocated based on payroll and the experience modification. These are appropriate because they are consistent with the way premiums are determined and the way past allocations have been made. To change the insurance allocation basis from previous filings would result in an over or under allocation of costs between divisions. **(BACHMAN)**

29. Does the balance for prepaid insurance which is allocated to the electric operations properly reflect the discontinuation of the water operations? (OPC)

FPUC: Yes, the allocation of prepaid insurance to the electric operations is correct. There is an adjustment to the amount, not the allocation, to be made from FPSC audit exception #17. No other adjustments are needed due to the fact that audit exception #17 is based on the new policy period's actual invoices that excluded water components. The allocation factors used were calculated correctly as the premiums for insurance excluded the water division. **(BACHMAN)**

30. Does the balance in prepaid pension cost represent an investment that has been made by FPU's investors? (OPC)

FPUC: Yes. Pension costs designated as prepaid represent past contributions by shareholders to pension trust funds whose value now exceeds the net periodic pension cost and therefore result in a prepaid pension asset. The pension plan became effective as of January 1, 1960. Payments began under the plan in 1960 and were made yearly thereafter, as the company policy was to fund for all accrued pension costs. By the time of the electric rate proceeding in 1975 for the Marianna electric division, the company's stockholders had been funding over $100,000 a year. Marianna's rates were effective December 17, 1975 and in Fernandina Beach electric division the first rate proceeding was in 1989. The prepaid pension represents shareholder contributions in excess of the required funding. (BACHMAN)

31. Should the balance in prepaid pension costs be removed from the working capital calculation? (OPC)

FPUC: No. A prepaid pension represents shareholder contributions in excess of the required funding and thereby increases invested working capital. The past practice of including prepaid pension expense in working capital by the Florida Public Service Commission is correct. **(BACHMAN)**

32. Has the Company properly escalated the balance for unbilled revenue? (OPC)

FPUC: The Company believes that it has used proper escalation factors to project the balance for unbilled revenue. (KHOJASTEH)

33. Should the "Reimbursable Hurricane Assistance Entergy Louisiana" receivables be removed from the working capital calculation? (OPC)

FPUC: No, this receivable is appropriately included in working capital. It represents a receivable due from a associate member of the Southeast Electric Exchange and represents reimbursable amounts incurred during mutual assistance by FPU when render storm assistance to Entergy Louisiana. The company would be the beneficiary of this same assistance from other companies if they were hit by a storm. (CUTSHAW/MESITE)

34. Should the deferred debit for the Fernandina Office Addition be removed from the working capital calculation? (OPC)

FPUC: Yes, the deferred debit for the Fernandina Office Addition for $33,554 should be removed from 2004 working capital. (MESITE)

35. Is the Company's target level for its storm damage reserve based on a reasonable methodology? (OPC)

FPUC: Yes. The storm reserve was determined using a Maximum Historical Event model similar to the model used by Gulf Power Company in its 1996 study in determining the appropriate Storm Reserve. The Maximum Historical Event was an actual recorded hurricane event. FPU did not use the Stochastic Hurricane Event, which consists of modeling for the projected worst-case theoretical event. The modeling process involved identifying facilities in both divisions and using loss rates used in the Gulf Power Study. These models indicated a storm reserve amount in 2014 should be set at $4,413,839.

This modeling process is appropriate in order to protect assets without adversely impacting customer rates should an event occur. As stated in Mr. Hugh Larkin's testimony, the annual storm reserve accrual amount was exceeded in 1995 due to Hurricane Opal. The track of this storm was approximately 110 miles west of Marianna and still impacted Marianna to the extent that the annual accrual amount was exceeded by $21,225. If the track of the storm had been closer to Marianna, the storm damage would have been significant which is contrary to the statement in Mr. Larkin's testimony that "any storm would more than likely dissipate significantly by the time it reached the Marianna service territory". Numerous occurrences over the years have illustrated that major hurricanes are still capable of causing severe damage to distribution and transmission facilities after traveling up to 100 miles inland. Marianna is located approximately 50 miles inland from the coast.

Fernandina Beach (Northeast Florida Division) is located on an island directly along the eastern coast of Florida. Although we have not had recent historical storms significantly affecting this location, we have had several storms that have come in close proximity. If this island were to receive a direct or close impact, there would be significant damage and cost. It would not be prudent or responsible as a company to not provide for the possibility of a major storm in this area; it is a possibility. We cannot use the assumption that we expect that this location will never be hit by a major storm since recent history has not shown this as an actual event. (CUTSHAW)

36. Has the Company properly estimated the amount of storm damage reserve that will be available for 2004? (OPC)

FPUC: Yes. The information for the proper amount of storm damage reserve has been provided but was not accurately reflected in the MFR schedules provided in the rate proceeding. The correct amount available for storm damage reserve for 2004 is estimated to be $2,216,781. (CUTSHAW)

37. Is the Company's re-allocation of working capital (resulting from the discontinuation of water operations) based on a reasonable methodology? (OPC)

FPUC: Yes, the methodology used was accurate and reasonable. (MESITE)

38. Is the Company's working capital treatment of over and under recovery of fuel and conservation costs appropriate? (OPC)

FPUC: No, although the appropriate adjustment was made to remove all of the effects from the income statement related to the cost recovery clause; there should be an adjustment made to working capital to remove the effects of both over and under recoveries of fuel and conservation costs. These are handled through separate dockets and provide for interest in those separate proceedings. The over and under recoveries should be removed since interest has been provided and accumulated on these balances and will either be returned to customers or paid to the company as appropriate. The purpose of the fuel and conservation cost recovery clauses is to allow for the direct pass thru of costs, and to be revenue neutral to the company. Accordingly, it is appropriate that all of these components be removed for determining base rates. (MESITE)

39. Should cash be reduced to reflect the lower of the 13-month average test year balance or the average of the prior five years? (AD#4)

FPUC: The treatment of cash should be the same as other typical balance sheet accounts when computing Working Capital: 13-month average. FPUC has continually demonstrated responsible cash management practices.

Requiring the lower of the 5-year 13-month average, or the current 13-month average, is inconsistent and is not valid in computing actual working capital. The Company questions the appropriateness of using a 5 year average compared to a 13 month average. A 13 month average should be used for computing working capital.

If this 13 month average is not applied consistently to all working capital components, the balance sheet would not balance. Adhering to double entry accounting and a proper balance sheet, if an adjustment is made to reduce (credit) one account, it is necessary and proper accounting treatment to increase (debit) another account.

To use a reduced 5 year average of cash as the normal balance, would require an offsetting adjustment for the same amount to an account such as accounts payable; thus negating any effect to working capital. (MARTIN/KHOJASTEH/MESITE)

40. Should Account 1430, Other Accounts Receivable, be reduced to exclude loans to employees? (AE#5)

FPUC: Yes, However these amounts should not be summarily removed from Working Capital as non-utility functions. The amounts represented by this account are not employee loans, but rather amounts due to the Company from retirees and employees from employment related transactions in the normal course of business. Such transactions are the individual's share of Company paid medical, health and disability insurance, the individual's share of Company required uniforms and equipment; garnishment of wages as required by various governmental authorities; and prepaid expense advances to employees for business trips, etc. The reimbursement of these amounts to the Company is from direct repayment by employees, or by payroll deduction and is in the normal course of business.

The Company does concur that a portion should be removed as non-utility, and that the computation of the amount to be removed as non-utility is correct. These amounts are: $405, $422, and $434 for 200, 2003, and 2004, respectively. (Mesite)

41. Should Account 1430, Other Accounts Receivable, be reduced to remove the portion related to non-electric operations? (AE#6)

FPUC: FPUC did not take issue with the audit exception to reduce working capital by $7,782 for 2002, $8,105 for 2003 and $8,345 for 2004. (MESITE)

42. Should Unamortized Rate Case Expense be excluded from working capital allowance? (AD#3)

FPUC: No. It is appropriate to include unamortized rate case expense in working capital as it is a reasonable and normal component of working capital. The offset to working capital for this item is cash and it has been removed. Excluding unamortized rate case expense from working capital would unfairly penalize the Company and does not follow appropriate working capital computations. (MARTIN)

43. Should Accounts Payable be increased to correct a posting error? (AE#8)

FPUC: To reflect the 2002 posting error, Accounts Payable should be increased by

$255,434, $266,162, and $273,922 for the years 2002, 2003, and 2004 respectively. (Mesite)

44. Should Accounts Payable be increased to reflect the elimination of the water division? (AE#8)

FPUC: To reflect the 2002 posting error, the water elimination will increase Accounts Payable by $13,807, $14,387, and $14,806 for the years 2002, 2003, and 2004 respectively. (Mesite)

45. Should Taxes Accrued - Gross Receipts Tax be reduced to remove the portion related to non-electric operations? (AE#7)

FPUC: FPUC agrees with the audit exception that working capital should be increased by 63% or $98,560 of the amount for 2002 to remove the non-utility portion. The amounts related to 2003 and 2004 are $102,662 and $105,693, respectively. (KHOJASTEH)

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

FPUC: Yes, the projected test year 2004 Working Capital level is appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues, which are still under consideration. At this time we do not know the effects of all of these adjustments. (MESITE)

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

FPUC: Yes, the projected test year 2004 requested rate base is appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues which are still under consideration. At this time we do not know the effects of all of these adjustments.

In addition, the 2004 rate base should be increased by $624,013 to reflect the inclusion of the Family Dollar construction project. This significant project materialized at the end of 2003 and was not known at the time of the filing. (MESITE)

COST OF CAPITAL

48. What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

FPUC: Our position at this time is that the $3,449,838 as filed on schedule D-1a, page 3 of 4 is appropriate for inclusion in the capital structure. Adjustments may be necessary to reflect the income tax true up associated with the 2002 income tax return. (BACHMAN/KHOJASTEH)

49. What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure?

FPUC: The appropriate balance amounts and cost rate for the unamortized investment tax credits, including zero cost and overall cost elements, are the balances shown for the year-end '04. These balances are $2,308 and $182,409, respectively. The cost rate for overall ITC cost element is 10.00%. (BACHMAN/CAMFIELD)

50. Have rate base and capital structure been reconciled appropriately?

FPUC: Yes. The reconciliation of the rate base and the year-end '04 capital structure are appropriately balanced. Please note that there is a change to the balance for common equity made subsequent to the filing as the amount filed for common equity was inadvertently understated. Please reference FPUC's response to the Staff's fifth Interrogatory, Number 51. (BACHMAN/CAMFIELD)

51. What is the appropriate cost rate for short-term debt for the December 2004 projected test year?

FPUC: The appropriate cost rate for short-term debt is 3.21%. (BACHMAN/CAMFIELD)

52. What is the appropriate cost rate for long-term debt for the December 2004 projected test year?

FPUC: the appropriate cost rate for long-term debt is 8.00%. (BACHMAN/CAMFIELD)

53. Is the Company's 2004 projection for stock issuance expense appropriate? (OPC)

FPUC: Yes, stock issuance cost expense is appropriate as a recurring and prudent expense and the company should be allowed recovery on this type of item through its base rates.

Although the 2002 planned stock issuance was never consummated, the expense is prudent, valid and represents potential recurring periodic expenses. The company should be allowed to recover these types of expenditures through its base rates. This directly benefits the Company's customers by providing the necessary protection of being able to raise capital in order to fund its operations as needed.

This particular stock issuance was delayed due to the 2003 water division sale. However, the company was prudent in its pursuit of the stock issuance at the time to provide protection for its financing requirements had the water sale not taken place and the company had to raise capital funds.
(KHOJASTEH)

54. Does the Company's 2004 projected capital structure properly account for the Job Creation and Work Assistance Act of 2002? (Staff's issue 17 addresses, accumulated deferred taxes, but each of OPC's 3 capital structure issues are distinct) (OPC)

<u>FPUC:</u> No. At the time of the rate case filing, the Company had not filed its 2002 tax return. The amounts in the filing are based on the Company's best estimate at the time; however, no adjustment is necessary.

Although the deferred tax may be understated, the effects will be theoretically revenue neutral since it will result in offsetting amount to current tax payable thus increasing working capital by the same amount.
(BACHMAN/KHOJASTEH)

55. Does the Company's 2004 projected capital structure properly account for the Jobs and Growth Tax Relief Reconciliation Act of 2003? (OPC)

<u>FPUC:</u> No. The Company has not filed its tax 2003 tax return. The amounts represent Company's best estimates; however, no adjustment is necessary.

Although the deferred tax may be understated, the effects will be theoretically revenue neutral since it will result in offsetting amount to current tax payable thus increasing working capital by the same amount.
(KHOJASTEH/BACHMAN)

56. Does the Company's 2004 projected capital structure reflect deferred taxes resulting from common plant? (OPC)

<u>FPUC:</u> No. The past practice in rate proceedings included the allocated common plant deferred taxes only to the gas divisions. This is because the common plant items are located within the South Florida gas division of the Company.

To allocate common plant deferred taxes to electric would result in double allocation since they were already included in the prior natural gas proceeding.
(KHOJASTEH/BACHMAN)

57. Is FPUC's proposed equity ratio reasonable for the December 2004 projected test year?

FPUC: Yes, we believe that equity participation level, as shown for the year end 2004 capital structure is appropriate. We have elaborated on this issue considerably. To reiterate, we believe that equity participation, stated on a traditional basis, should be near 50%, and on a regulated basis near 46%.

However, we are not opposed to using other approaches to obtain these appropriate participation levels, such as a prospective and/or hypothetical capital structure. (BACHMAN/CAMFIELD)

58. 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?

FPUC: Yes. There is clear and unambiguous evidence showing that FPU has achieved exceptionally good overall price and cost performance. The recommended performance allowance is a positive 1.00 percentage point addition to the cost rate of common equity. (BACHMAN/CAMFIELD/CUTSHAW)

59. What is the appropriate cost rate for common equity for the December 2004 projected test year?

FPUC: The rate of return for common equity is 12.00%, which would be increased by any performance award. (BACHMAN/CAMFIELD)

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

FPUC: The overall cost of capital for regulatory purposes is 9.11%, which would be increased by any performance award. (BACHMAN/CAMFIELD)

NET OPERATING INCOME

61. Has the Company properly estimated the amount of forfeited discounts in calculating the revenue for 2004? (OPC)

FPUC: Yes. Although the decrease expected in 2003 was not realized, a significant decrease is expected during 2004 in accordance with the original intent of the forfeited discount tariff. The decrease shown in 2003 still is appropriate for purposes of projecting 2004 amounts to allow for the realization of expected improvements in customer's payment habits; however, it will take customers an estimated period of one year to experience a late payment and then to take corrective action in the future to ensure they make their future payments on time. Thus the reduction of late fees for the most part will have the largest impact in the second year following the implementation of the increased late fee.

The original intent of the change in forfeited discounts was to provide customers with the incentive to pay electric bills prior to the due date. In October 2000 a late fee provision was added in the amount of 1.5%, which did not have the desired effect. In November 2002 the commission granted a change to include a $5.00 minimum or 1.5%, whichever is greater. This amount was included to provide additional incentive. We relied on the high number of calls from customers concerned with this change to make the assumption that over time customers will pay bills by the due date to avoid this penalty. Forfeited discounts were determined based on the logical conclusion that customers would begin prioritizing payment of the electrical bills along with other bills that included a late fee provision rather than postponing payment.

Forfeited discount revenues in the amount of $351,368 were collected in 2003. However, based on the continuation of the forfeited discount policy and a time lag associated with customer making payments of electric bills a priority in order to avoid the late fee, we expect a decrease of approximately one third during 2004 which will make the 2004 projection of $255,104 a reasonable amount. (CUTSHAW)

62. Should Revenues be increased for forfeited discounts? (AD#7)

FPUC: No. The projections are accurate and no adjustment is necessary.

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

FPUC: Yes, Revenue of $14,491,294 projected for the December 2004 test year is appropriate. (CUTSHAW/KHOJASTEH)

64. What are the appropriate inflation factors for use in forecasting the test year budget?

FPUC: The inflation factors used in schedule C59 (C-19) are appropriate because they provide a reasonable basis to project actual expected expenditures. (CUTSHAW/KHOJASTEH)

65. Are the trend rates used by FPUC to calculate projected O&M expenses appropriate?

FPUC: Yes. The trend rates are appropriate as used. The results after application of these factors produced anticipated and expected results for our 2004 operation and maintenance expenses, and accordingly the end results of the applied factors are reasonable. Annualizing the 2003 expenses or reviewing the results compared to the trended numbers, does not necessarily produce an accurate picture of the expected expenses as they relate to the 2004 projected amounts. We had some budgetary delays in 2003 as well as personnel shortages that contributed to abnormal results in 2003. (Khojasteh)

66. Should an adjustment be made to remove Franchise Fees from operating revenues and taxes other than income?

FPUC: Yes. Franchise fee is a pass-through item and should be removed from both operating revenues and taxes other than income.
(KHOJASTEH)

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

FPUC: Yes. Gross Receipt Tax is a pass-through item and should be removed from both operating revenues and taxes other than income.
(KHOJASTEH)

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

FPUC: Yes, with exception of the agreed upon adjustments suggested by the staff in their audit report, the 2004 projected test year O&M expenses are appropriate.
(CUTSHAW/KHOJASTEH)

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

FPUC: Yes, FPUC has properly removed the effects of fuel revenues and expenses that are recoverable through the Fuel Adjustment Clause in both the historic year 2002 and projected test year 2004. The appropriate adjustments to remove fuel are shown on schedule C-59 (C-4). This is consistent with the Commission's treatment in prior rate cases and is appropriate since the fuel is regulated through a separate docket that allows for regulating and setting fuel rates. The purpose of the fuel recovery is to allow the pass through of actual costs to the customers. We also feel it is appropriate to remove the corresponding balance sheet effects of over and under recoveries as well. Any temporary over and under recovery of those costs provides a fair return through the interest that is accumulated on those short term differences or balances as provided by those special fuel dockets and is returned to the customer or company as appropriate. (MARTIN)

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

FPUC: Yes, FPUC has properly removed the effects of conservation revenues and expenses that are recoverable through the Conservation Cost Recovery Clause. The appropriate adjustment to remove conservation is shown on schedule C-59 (C-4). This is consistent with the Commission's treatment in prior rate cases and is appropriate since the conservation is regulated through a separate docket that allows for regulating and setting conservation rates. The purpose of the conservation cost recovery is to allow the pass through of actual costs to the customers. Any temporary over and under recovery of those costs provides a fair return through the interest that is accumulated on those short-term differences or balances and is returned to the customer or company as appropriate. (MARTIN)

71. Should an adjustment be made to advertising expenses for the December 2004 projected test year?

FPUC: No. The 2004 projected test year amount of advertising expense is appropriate, valid and therefore, no adjustment is needed. (KHOJASTEH)

72. Has FPUC made the appropriate adjustments to remove lobbying expenses from the December 2004 projected test year?

FPUC: Yes. Lobbying expenses were not included in the December 2004 projected test year and no adjustment is necessary. (KHOJASTEH)

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

FPUC: No. The projected level of salaries and benefits for the December 2004 projected test year is appropriate as filed with the exception of certain agreed upon adjustments in the FPSC audit report. (KHOJASTEH)

74. Has the Company's 2004 projections double counted for costs for retiree medical benefits? (OPC)

FPUC: Yes, FPUC has inadvertently included the expense of $20,386 for retiree's medical benefits in two accounts. An adjustment is necessary and will result in a reduction to account 9262 for $20,386. (BACHMAN/KHOJASTEH)

75. Is the Company's 2004 projection for medical expense appropriate? (OPC)

FPUC: No, the projection of medical expenses needs to be adjusted by the $20,386 for retirees' medical benefits. It also needs to be reduced by $122,164 as discussed in PSC audit exception #17. This is due to a revised estimated premium because of changing to a fully insured medical insurance program. (KHOJASTEH/BACHMAN)

76. Should an adjustment be made to Other Post Employment Benefits Expense for the December 2004 projected test year?

FPUC: No adjustment is needed for Other Post-Retirement Employee Benefits liability (9263). The amount that was used in 9263 was projected by the actuary and is the amount of liability that we will incur in the projected test year of 2004. However, an adjustment to Employee Benefits Other (9262) is needed. This is due to inadvertently including $20,386 of retiree's medical cost in both accounts 9263 and 9262. (BACHMAN/KHOJASTEH)

77. Should an adjustment be made to Pension Expense for the December 2004 projected test year?

FPUC: Yes, a slight adjustment is needed for the projected test year 2004 pension expense. The consolidated amount that was filed in the rate case was $960,820 and 25% of that was allocated to electric $240,205. The adjusted consolidated amount (based on updated actuary figures as of Jan 12, 2004) is $919,280 and 25% of that is allocated to electric $229,820. The total of this adjustment will be a decrease of $10,385 to the pension 2004 projection. (KHOJASTEH/BACHMAN)

78. Should an adjustment be made to the accrual for property damage for the December 2004 projected test year?

FPUC: Yes, there is one adjustment that should be made to our original projections. An adjustment to the property insurance premium was discussed in audit exception 17 and was agreed to by the company. This adjustment is a result of knowledge of the actual premiums. (KHOJASTEH/BACHMAN)

79. Is the Company's 2004 projection for Insurance costs appropriate? (OPC)

FPUC: Yes, the projections are appropriate with the exception of agreed upon adjustments related to audit exception #17 and the adjustment for retirees' medical expenses. The total amount of the adjustment from Audit Exception #17 to insurance premiums is $203,977.80 and the amount of the adjustment for retirees medical expense if $20,386. (BACHMAN/KHOJASTEH)

80. Should an adjustment be made to the accrual for the Injuries & Damages reserve for the December 2004 projected test year?

FPUC: Yes, there is one adjustment that should be made to our original projections. Audit exception 17 had an adjustment for the updated data on the actual policy premiums paid. We do not feel that any other adjustment is necessary for this account. (KHOJASTEH/BACHMAN)

81. Is the Company's 2004 projection for payroll outsourcing costs appropriate? (OPC)

FPUC: No, the cost was slightly overstated for payroll outsourcing. The annual cost of payroll outsourcing company wide is expected to be $ 40,000, effective early 2004. The consolidated electric portion of this expenditure is $13,200. A reduction to its 2004 projected test year expenses is necessary in the amount of $800. (MARTIN)

82. Is the Company's 2004 projection for tree-trimming expense appropriate? (OPC)

FPUC: Yes. The additional $160,000 for tree-trimming activities identified in MFR Schedule C-59 (C-19) item N is appropriate. FPU is currently utilizing 2.5 tree trimming crews in the Northwest Florida Division and 1 tree trimming crew in the Northeast Florida Division. The 2.5 tree trimming crews in Northwest Florida requires that 2 crews be utilized for 6 months and 3 tree trimming crews be used for 6 months. FPU plans to add 1.5 tree-trimming crews in the Northwest Florida Division in order to have 4 crews in Northwest Florida and 1 crew in Northeast Florida. The will allow both divisions to complete tree trimming activities at an acceptable level. The Northwest Florida Division used three (3)-tree trimming crews at the end of 2003 in order to complete the yearly complement of 2.5 tree-trimming crews. This makeup will allow FPU to provide a four (4) year trim cycle on overhead distribution lines and improve overall system reliability. (CUTSHAW/KHOJASTEH)

83. Is the Company's 2004 projection for tax consulting expense appropriate? (OPC)

FPUC: No, an adjustment is needed relating to staff's audit exception 16 on tax consulting expense. The 2004 test year expense should be reduced by $9,389, which is the electric allocated portion of the common expense reduction of $26,000. (KHOJASTEH)

84. Is the Company's 2004 projection for the expense associated with Regulus Billing Service appropriate? (Audit Exception 10) (OPC)

FPUC: Yes, an adjustment should be made to reduce expenses by $39,080 in 2004, as recommended in the FPSC Audit Exception No. 10. (KHOJASTEH)

85. Should the Company be allowed to charge its customers for the projected economic development donations? (OPC)

FPUC: Yes. The requirements for the recovery of economic development expenses are included in FPSC Rule 25-6.0426. Amounts shown in this rate proceeding meet the requirements of this rule and should be included. (CUTSHAW/KHOJASTEH)

86. Is the amount projected for 2004 economic development donations reasonable? (OPC)

FPUC: Yes. The requirements for the recovery of economic development expenses are included in FPSC Rule 25-6.0426.

Rule 25-6.0426 states that a utility may recover "90 percent of the expenses incurred for the reporting period so long as such expenses do not exceed the lesser of 0.15 percent of gross annual revenues or $3 million".

Amounts shown in this rate proceeding meet the requirements of this rule and should be included.
(CUTSHAW/KHOJASTEH)

87. Is the level of accounting and auditing expenses for the December 2004 projected test year appropriate?

FPUC: Yes, with the exception of the adjustment in FPSC audit exception 16, the level of accounting and auditing expenses for December 2004 test year is appropriate. The appropriate audit exception 16 adjustment to the 2004 test year expense is a reduction of $9,389, which is the electric allocated portion of the common expense reduction of $26,000.
(KHOJASTEH)

88. Is the level of overhead cost allocations for the 2004 projected test year appropriate?

FPUC: Yes. The level of overhead cost allocation for the 2004 projected test year is appropriate.
(KHOJASTEH)

89. Is the level of plant maintenance expenses for the 2004 projected test year appropriate?

FPUC: Yes. The level of plant maintenance expense for the December 2004 projected test year is appropriate.
(KHOJASTEH)

90. Should Account 588.1, Distribution Maps & Records, be reduced for the salary of an engineering technician? (AD#8)

FPUC: No. The projections are accurate and no adjustment is necessary. Although we delayed the start of this position, we have begun interviewing for this position and expect to fill by early 2004. This position is necessary in the operation of our mapping, customer outage and Scada systems. All of these systems are to improve the monitoring of system reliability, which was noted as a deficiency in our recent PSC reliability audit. (Cutshaw)

91. 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? (AD#8)

FPUC: No. The projections are accurate and no adjustment is necessary. Due to budgetary concerns in 2003, some maintenance and construction projects were delayed; however, as we continue to improve our system reliability, we expect to be fully operational with this system in 2004. (Cutshaw)

92. Should Account 590.0, Maintenance Supervision and Engineering, be reduced for the transformer maintenance contract? (AD#8)

FPUC: No. The projections are accurate and no adjustment is necessary. Although this particular item is periodic and not annual, we have other recurring maintenance that is scheduled between these types of projects. The overall level of maintenance expense which includes this item is recurring and necessary, perhaps just not the specific item or type of maintenance. (Cutshaw)

93. Should Account 920, Administrative and General Salaries, be reduced to reflect the hiring of a replacement person at the advertised low range of the salary? (AD#9)

FPUC: No adjustment is necessary for this item. The person selected for this position is not necessarily brought in at the lowest point of the salary range. Experience is taken into account tot determine where the employee starts in the range. It is possible to bring a new employee over the range of a replaced employee. (KHOJASTEH)

94. Should payroll expense be adjusted for discontinued operations? (AD#10)

FPUC: No, payroll should not be adjusted for discontinued operations. All retained payroll that resulted after the sale of our water operations, is necessary and fully utilized in our remaining operations. At the time of the sale we were in need of adding staff and the retained employees helped offset some of those needed positions. (Khojasteh)

95. 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? (AE#10)

FPUC: Yes, FPUC does not take issue to the findings in Audit Exception 10 to reduce expenses in Account 903 by $39,080. (Khojasteh)

96. Should Account 903, Customer Records and Collection Expenses, be reduced to remove costs related to propane, merchandising and jobbing, and conservation? (AE#11)

FPUC: Yes, FPUC does not take issue to the findings in Audit Exception 11 to reduce expenses in Account 903 by 8,702.56. (KHOJASTEH)

97. Is the Company's 2004 projection for leasehold improvements for its Home and Health store appropriate? (AE#11) (OPC)

FPUC: No, FPUC does not take issue to the finding in Audit Exception 11 to reduce expenses in Account 903 by 8702.56. (KHOJASTEH)

98. Should Account 903, Customer Records and Collection Expenses, be increased for payroll related to discontinued operations that was charged to Account 904? (AE#12)

FPUC: FPUC agrees with the audit report that the adjusted balance should be $92,261 and the company only included $82,820. The result is company expense understated the amount by $9,441. In addition, $2,523 adjustment needs to be added to account 903 so expenses should be increased by and additional $2,523. (KHOJASTEH)

99. Should Account 920, Administrative and General Salaries, be reduced to correct the allocation factor? (AE#13)

FPUC: No position at this time.

100. Should Account 921.5, Miscellaneous Office Expense, be reduced for costs related to temporary staff? (AD#11)

FPUC: No. All temporary help used for rate case would have been charged to rate case expense. The Company uses temporary help for many different reasons. Peaks in workload, loss of employees, temporary projects are all valid reasons for the use of temporary employees. Therefore, this is a normal part of operating expense and no adjustment is necessary. (KHOJASTEH)

101. Should Account 921.5, Miscellaneous Office Expense, be reduced to remove the uncollected franchise fees? (AE#14)

FPUC: FPUC concurs with the adjustment proposed in the audit report. (KHOJASTEH)

102. Should Account 921.5, Miscellaneous Office Expense, be reduced to remove non-utility and out-of-period costs? (AE#15)

FPUC: Yes, the company does not take exception to the findings in audit exception 15 as they relate to the out of period and non-utility costs. Expenses should be reduced by 1207.05. (Khojasteh)

103. Should Account 921.3, Office Computers and Supplies, be reduced to remove non-recurring training costs? (AE#15)

FPUC: No. Training is an ongoing activity. Although the Company may not be involved with the specific types of training provided by ORCOM Solutions, Akerman Senterfit, and SEC on a recurring basis, there are different training seminars in which we may participate. Also, the fact that New Horizons, a vendor which provided computer related training is out of business does not mean that the Company will not use another firm to provide this service. The Company uses various vendors to supply computer related training and this is a valid recurring expenditure. (KHOJASTEH)

104. Should Account 921.6, Company Training Expense, be reduced to remove non-recurring training costs? (AE#15)

FPUC: No. Training is an ongoing activity. Although the Company may not be involved with the specific types of training provided by ORCOM Solutions, Akerman Senterfit, and SEC on a recurring basis, there are different training seminars in which we may participate. Also, the fact that New Horizons, a vendor which provided computer related training is out of business does not mean that the Company will not use another firm to provide this service. The Company uses various vendors to supply computer related training and this is a valid recurring expenditure. (KHOJASTEH)

105. Should Account 923.2, Legal Fees and Expenses, be reduced to remove bond issuance costs? (AE#15)

FPUC: No. Although this may not be an annual expenditure, the Company should be allowed recovery of this prudent expenditure over an amortization period of four years. (Khojasteh)

106. Should Account 923.3, Outside Audit and Accounting, be reduced certain tax-related accounting fees? (AE#16)

FPUC: FPUC agrees with the audit report to reduce the fees by $26,000. (KHOJASTEH)

107. Should Account 924, Property Insurance, be reduced to reflect the current property insurance premium? (AE#17)

FPUC: FPUC agrees with the audit report recommendation to reduce operating expenses by $3,725.88. (KHOJASTEH)

108. Should Account 925.1, Injuries and Damages, be reduced to reflect current insurance premiums? (AE#17)

FPUC: FPUC agrees with the audit report recommendation to reduce operating expenses by $78,087.76. (Khojasteh)

109. Should Account 926.2, Employee Benefits - Other, be reduced to reflect the current medical insurance premium? (AE#17)

FPUC: FPUC agrees with the audit report recommendation to reduce operating expenses by $22,164. (KHOJASTEH)

110. Should Account 930.2, Miscellaneous General Expense, be reduced for costs related to a non-recurring Security Exchange Commission fee? (AE#15)

FPUC: No. (KHOJASTEH)

111. Should Account 930.2, Miscellaneous General Expenses, be reduced for the write-off of stock offering costs? (AE#18)

FPUC: No. Even though this is not an annual recurrence, we consider this to be normal expense. This was related to the sale of water as it was only expensed since the proceeds from the sale supplies the needed working capital. Recovery should be allowed to be amortized at a maximum over five years for rate making purposes. (KHOJASTEH)

112. Should an adjustment be made to Rate Case Expense for the December 2004 projected test year?

FPUC: Yes, Rate Case Expense should be adjusted to reflect the latest projection. A large component of the rate case expense relates to consulting fees, and since the original estimate was made and reflected in the original MFR filing, there have been significant increases made in the scope of that original engagement. The Consultants are being used to assist with the preparation of additional testimony, document requests and interrogatory responses. The estimated cost for consulting work has increased $40,000 and accordingly it is appropriate to increase the overall rate case expense to $530,000 or $132,500 annually as amortization expense of this cost. This amortization period of four years is appropriate as it represents the expected time before our next electric rate proceeding, it is a reasonable period for amortization and is consistent with past commission practice. (MARTIN)

113. What is an appropriate period for the amortization of rate case expense? (OPC)

FPUC: The appropriate period for amortization of rate case expense is four years as it represents the expected time before our next electric rate proceeding, it is a reasonable period for amortization and is consistent with past commission practice. (MARTIN)

114. Should an adjustment be made to Account 904, Uncollectible Accounts, for the 2004 projected test year? (AE#12)

FPUC: See Issue 98. (KHOJASTEH)

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

FPUC: Depreciation expense for projected test year 2004 should be recalculated to reflect the effects of the updated depreciation rates as a result of Docket No. 020853-EI which was effective 1/1/04. Based on the projected 2004 electric plant in service balances shown in the MFR, the 2004 electric depreciation expense recomputed using the recently approved rates, would be $2,516,795. This represents a reduction of $90,966 from the $2,607,761 shown in the MFR. In addition to these changes, consideration should be given to the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues, which are still under consideration. At this time we do not know the effects of all of these adjustments.

In addition, adjustments from this docket, depreciation expense should be increased by $10,435 to reflect the inclusion of the effects of the Family Dollar construction project. The existence of this project was not known at the time of the filing or Depreciation study. (MESITE)

116. Should an adjustment be made to Depreciation Expense for the December 2004 projected test year?

FPUC: Yes, depreciation expense for projected test year 2004 should be recalculated to reflect the affects of the updated depreciation rates, effective 1/1/04. Also, adjustments should be made as a result of agreed upon adjustments contained within the FPSC audit findings, and other issues which are still under consideration. At this time we do not know the effects of all of these adjustments. Also, the expense should increase by $10,435 to reflect the inclusion of the affects of the Family Dollar construction project. The existence of this project was not known at the time of the filing. (MESITE)

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

FPUC: Yes. An adjustment was made, shown on schedule C-59 (C-4 and C-10), from revenue and taxes other than income taxes, for the portion of Fernandina Beach division's gross receipt tax (1.5%) that is currently still embedded in its base rates and fuel rates. The base revenue gross receipt adjustment was made to its historic year 2002 and accordingly, there is no gross receipts tax in the projected 2004 base revenues. An adjustment was also made to remove gross receipts buried in fuel revenues in both the historic 2002 and projected test year 2004. These are appropriate adjustments to allow the total gross receipt tax to be shown as a separate line item on the customer's bill and provide consistency in the treatment of the gross receipt tax between regulated divisions. In the last Marianna Rate Proceeding, Docket No. 930400-EI, a portion of gross receipts tax buried in base and fuel rates was removed and currently that division shows the total 2.5% gross receipt tax as a separate line item on its bills to customers. (MARTIN)

118. Should an adjustment be made to Taxes Other Than Income Taxes for the December 2004 projected test year?

FPUC: Yes. An adjustment should be made to increase taxes other than income tax expense as disclosed in the Staff's Audit Exception No. 19, which indicates that the Company's projected 12-month period ended December 31, 2004 TOTI balance is understated by $85,617.
(KHOJASTEH)

119. Should an adjustment be made to Income Tax expense for the December 2004 projected test year?

FPUC: Yes. The effect on income taxes for all of the agreed upon adjustments should be made. At this time we do not know the effects of all of these adjustments.
(KHOJASTEH)

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

FPUC: Yes, the projected test year 2004 net operating income is appropriate with exception to the effects of other agreed upon adjustments in other issues and within the FPSC audit findings. At this time we do not know the effects of all of these adjustments.
(KHOJASTEH)

REVENUE REQUIREMENTS

121. What is the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for FPUC?

FPUC: The appropriate revenue expansion factor is 1.64876 for 2002 and 2004.
(MARTIN)

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

FPUC: Yes, the appropriate 2004 base revenue increase is $ 4,117,121 as shown on schedule C-59 (c-2); adjusted for any effects of changes from our other issues recommended and agreed upon herein. At this time we do not know the effects of those adjustments. (MARTIN)

COST OF SERVICE AND RATE DESIGN

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

FPUC: Yes. The estimated revenues from the Sales of Electricity at the present rates are correct as filed for the test year 2004. (CUTSHAW)

124. What is the appropriate cost of service methodology to be used in designing FPUC's rates?

FPUC: The methodology of using a fully allocated embedded cost of service study is appropriate and was performed in order to determine the appropriate rates for each rate class. The FPSC requirement concerning the maximum increase to any rate class of 1.5 times the system average increase was also considered in the development of the rates by rate class. (CUTSHAW)

125. If a revenue increase is granted, how should it be allocated among the rate classes?

FPUC: The revenue increase granted should be allocated to the rate classes using the factors determined in the cost of service study. (CUTSHAW)

126. What are the appropriate customer charges?

FPUC: The appropriate customer charges should be approved as shown in MFR Schedule A-5. (CUTSHAW)

127. What are the appropriate demand charges?

FPUC: The appropriate demand charges should be approved as shown in MFR Schedule A-5. (CUTSHAW)

128. What are the appropriate energy charges?

FPUC: The appropriate energy charges should be approved as shown in MFR Schedule A-5. (CUTSHAW)

129. What are the appropriate service charges?

FPUC: The appropriate service charges should be approved as shown in MFR Schedule A-5. (CUTSHAW)

130. What are the appropriate transformer ownership discounts?

FPUC: The appropriate transformer ownership discount should be $0.74 per KW/month as recommended in the initial filings. A calculation of the transformer discount was prepared in response to FPSC Interrogatory #21 which indicated that a discount amount of $0.42 per KW/month was appropriate. The existing transformer ownership discount to customers is $0.74/kw in Northwest Florida and $O.44/kw in Northeast Florida. The majority of customers who receive a transformer discount are located in Northwest Florida. Based on this information and in order to avoid a significant change in demand cost to these customers, we propose to utilize the transformer ownership discount of $0.74/kw. (CUTSHAW)

131. What are the appropriate Street and Outdoor Lighting rates?

FPUC: The appropriate Street and Outdoor Lighting rates should be approved as shown in MFR Schedule A-5. (CUTSHAW)

132. Should FPUC's transitional rate for non-profit sports fields be eliminated?

FPUC: Yes. We agree that the transitional rate of non-profit sports fields can be eliminated. (CUTSHAW)

133. What are the appropriate standby service rates?

FPUC: The appropriate standby service rates should remain as currently filed with the exception of the Local Facilities Charge. This charge was calculated in response to FPSC Interrogatory #23 and as shown below.

a. Local Facilities Charge for customers who have contracted for standby service capacity of less than 500 kW - $1.89 per KW/month

b. Local Facilities Charge for customers who have contracted for standby service capacity of 500 kW or greater - $0.50 per KW/month (CUTSHAW)

134. What is the appropriate adjustment to account for the increase in unbilled revenues due to the recommended rate increase

FPUC: The Company believes that the adjustment to account for the increase in unbilled revenues would be insignificant and immaterial, as an offsetting entry would also be needed to increase working capital for the effects of this same entry on the unbilled revenue receivable account and the amount of the adjustment would not be material.
(KHOJASTEH)

135. What is the appropriate effective date for FPUC's revised rates and charges?

FPUC: The appropriate effective date for FPUC's revised rates and charges are on the date of the commission vote approving the new rates and reflected in billings for meters read on or after the date of the commission vote. (MARTIN)

OTHER ISSUES

136. Should FPUC be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return

reports, and books and records which will be required as a result of the Commission's findings in this rate case?

FPUC: Yes, the company should file a description of all entries and adjustments that will be required as a result of findings in this case. (MARTIN)

137. Should this docket be closed?

FPUC: Yes. (MARTIN, BACHMAN, MESITE, KHOJASTEH, CUTSHAW)

E. STIPULATED ISSUES

There are no stipulated issues.

F. PENDING MOTIONS

Florida Public Utilities Company's Request for Confidential Treatment of Audit Workpapers

G. OTHER MATTERS

There are no other matters.

RESPECTFULLY SUBMITTED this 23rd day of January 2004.

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