

REBUTTAL TESTIMONY

OF

CHERYL MARTIN

MEHRDAD KHOJASTEH

JIM MESITE, JR

MARK CUTSHAW

GEORGE BACHMAN

TO

DIRECT TESTIMONY OF RUTH YOUNG AND JEFFREY SMALL

DOCKET NO. 030438-EI:

Petition of Florida Public Utilities Company For An Increase In its Rates and Charges In
Their Consolidated Electric Division

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1 **Qualifications and Experience**

2 **Q. What is your name, title, business address, and background?**

3 A. Witness Martin. My name is Cheryl Martin. I am the Controller for Florida
4 Public Utilities (FPU). My business address is 401 South Dixie Highway, West
5 Palm Beach, FL 33401. I have been employed by FPU since 1985 and performed
6 numerous accounting functions until I was promoted to Corporate Accounting
7 Manager in 1995 with responsibilities for managing the Corporate Accounting
8 Department including regulatory accounting (Fuel, PGA, conservation, rate cases,
9 Surveillance reports, reporting), tax accounting, external reports, and special
10 projects. In January 2002 I was promoted to my current position of Controller
11 where my responsibilities are the same as above with additional responsibilities in
12 the purchasing and general accounting areas and Security and Exchange
13 Commission (SEC) filings. I have been an expert witness for numerous
14 proceedings before the Florida Public Service Commission (FPSC) including rate
15 relief in Docket Numbers 881056-EI and 930400-EI for electric and 900151-GU
16 and 940620-GU for natural gas. I graduated from Florida State University in
17 1984 with a BS degree in Accounting. Also, I am a Certified Public Accountant
18 in the state of Florida.

19 Witness Khojasteh. My name is Mehrdad Khojasteh. I am the Corporate
20 Accounting Supervisor for FPU, a position I have held since June 2003. In this
21 position, I am the direct supervisor of the Senior Tax Accountant and I assist the
22 Controller with supervising the Corporate Accounting Department. I am also
23 responsible for FASB and SEC related compliance. Prior to this position I was a

1 Regulatory Accountant from November 1996 to March 1997 and a Tax
2 Accountant from April 1997 to May 2003. I received a BS degree from Florida
3 Atlantic University in 1995 with a major in Accounting.

4 Witness Mesite. My name is Jim Mesite, Jr. I am the Senior Project Accountant
5 in the Corporate Accounting department at FPU. In my present position I am
6 responsible for converting the manual continuing property records of five
7 regulated and three non-regulated operating divisions to an automated fixed asset
8 system. I am also responsible for preparation and filing of FPSC Staff assisted
9 depreciation studies for the regulated electric and gas divisions, PGA and fuel
10 filings. I am also responsible for the review and evaluation of fixed asset issues
11 involving acquisitions, dispositions, retirements, capital versus expense, and chart
12 of accounts. I joined FPU in 1995 as a Special Project Accountant and was
13 promoted to my current position in March 2002. I graduated from Northeastern
14 University in 1976 with a BS degree in Business Administration, with a major in
15 Accounting.

16 Witness Cutshaw. My name is P. Mark Cutshaw. I am the Director, Northwest
17 Florida for Florida Public Utilities (FPU). My business address is 2825
18 Pennsylvania Avenue, Marianna, Florida 32447. I joined FPU in May 1991 as
19 Division Manger in the Marianna Division. In 2001, my title was changed to
20 Director, Northwest Florida. My work experience at FPU includes all aspects of
21 budgeting, customer service, operations and maintenance in the
22 Marianna/Northwest Florida Division. In 1993, I participated in the Co st of
23 Service study for the Marianna Division Rate Case Filing and testified during the

1 proceedings. I have also been involved with other filings, audits and data requests
2 for the FPSC. I graduated from Auburn University in 1982 with a B.S. in
3 Electrical Engineering and began work with Mississippi Power Company in June
4 1982. I left Mississippi Power Co. in May, 1991 while in the position of
5 Supervisor, Electrical Operations. While at MPC, I was involved in the
6 budgeting, operations and maintenance activities in the Hattiesburg, Laurel and
7 Pascagoula Districts.

8 Witness Bachman: My name is George Bachman. I am the Chief Financial
9 Officer, Treasurer, and Corporate Secretary of Florida Public Utilities Company.
10 My business address is 401 South Dixie Highway, West Palm Beach, Florida,
11 33401.

12 **Q. What is the purpose of your testimony?**

13 A. Witness Martin, Cutshaw, Mesite, Khojasteh, Bachman: To provide rebuttal
14 testimony in response to the Direct Testimony provided by Ruth Young and
15 Jeffrey Small who represent the PSC. Ms. Young and Mr. Small sponsored
16 portions of the Staff's audit for the rate case and Ms. Young also sponsored an
17 undocketed audit of reliability indices issued June 3, 2003. Mr. Cutshaw has
18 addressed portions of the reliability audit and Mr. Mesite, Mr. Khojasteh and I
19 have responded to the remainder.

20 **Q. Have you filed a response to the audits?**

21 A. Witness Martin: Yes. On January 15, 2004 we filed our response to the rate case
22 audit. Mr. Cutshaw can address the reliability audit. Our responses to the audits
23 are presented as Exhibit MKMCB-1.

- 1 **Q. Would you explain your Exhibit?**
- 2 A. Witness Martin: Yes. Essentially it is our response to the audit exceptions and
3 disclosures in the rate case audit. We have indicated our concurrence with several
4 of the exceptions and disclosures but there are a few we do not agree with.
- 5 **Q. Can you identify those with which you disagree?**
- 6 A. Witness Martin: Yes. We do not concur with Audit exceptions 4, 5, 15, 18, and
7 20. We had no position on No. 13 when the response was filed. As to the audit
8 disclosures we did not concur with Items 3, 4, 6, 7, 8, 9, 11, and 13 and had no
9 position on 10. On Item 11, staff had requested some information and that was
10 filed with our response.
- 11 **Q. Are your positions with respect to the exceptions and disclosures reflected in**
12 **your responses?**
- 13 A. Witness Martin: Yes
- 14 **Q. You are offering rebuttal testimony with respect to the reliability audit**
15 **performed by the FPSC?**
- 16 A. Witness Cutshaw: Yes
- 17 **Q. Have you filed a response to the reliability audit discussed in Ms. Young's**
18 **testimony?**
- 19 A. Witness Cutshaw: Yes. In January 2004 we filed our response to the reliability
20 audit as part of the staff's fourth set of interrogatories, question number 46. See
21 Exhibit MKMCB-2 for a copy of that response.
- 22 **Q. Do you agree with the findings in the reliability audit?**

1 A. Witness Cutshaw: Not completely. We generally agree with the statements
2 provided in the audit disclosures. However, it is our opinion that the current
3 manual system provides for the reasonably accurate collection of data, which
4 results in accurate reporting of the reliability indices.

5 **Q. Have improvements been initiated as a result of the audit disclosures?**

6 A. Witness Cutshaw: Yes. Comments made in the audit disclosure have been
7 incorporated into the system to the maximum extent possible. As shown in
8 Exhibit MKMCB-2, additional requirements have been incorporated into the data
9 collection process in order to satisfy the audit disclosures. However, due to the
10 manual process used at this time, complying with some of the requirements can
11 not be realized. The manual summarization of tickets for certain outages and
12 estimation of customers affected will continue.

13 **Q. Do you feel the current system provides accurate data for the reporting of**
14 **reliability indices?**

15 A. Witness Cutshaw: Yes. The current process involves the manual collection of
16 outages and outage time while using an estimate of the number of customers
17 affected. The outages are reviewed and incorporated into the data base by
18 supervisory personnel to ensure accuracy. The resulting reliability indices
19 reported each year seem reasonable when compared to the other investor owned
20 utility results. While limited errors on individual outages may exist, on the whole,
21 the overall indices reported average out to reasonable results. As indicated in Ms.
22 Young's testimony, a recalculation of the SAIDI indicator actually decreased as a
23 result of her findings.

1 **Q. What improvements are to occur regarding the collection and reporting of**
2 **reliability indices?**

3 A. Witness Cutshaw: The Northwest Florida Division is currently developing a
4 mapping system and customer outage system that will automate the collection of
5 data in order to collect outage data and the number of customers. A SCADA
6 system is also being installed so that actual outage times can be verified and
7 documented. These additional improvements will fully satisfy the audit
8 disclosures.

9 **Q. Does this conclude your testimony?**

10 A. Witness Martin, Bachman, Mesite, Khojasteh, Cutshaw: Yes

EXHIBIT AUDIT 1

AUDIT EXCEPTIONS

Audit Exception No. 1

COMMON PLANT

Response:

The Company concurs with the opinion.

Audit Exception No. 2

COMMON PLANT PROJECTED IN 2003

Response:

The Company concurs with the opinion.

Audit Exception No. 3

COMMON UTILITY DEPRECIATION EXPENSE

Response:

The Company concurs with the opinion.

Audit Exception No. 4

ACCUMULATED DEPRECIATION

Response:

The difference between the auditor's values and the Company amounts are due to rounding of the depreciation rates. In the MFR, the Company used a simple average, of the depreciation rates of the individual electric divisions, to compute depreciation. For presentation the rates were rounded to 3 decimal places, this resulted in several rates being rounded-up. The auditor used the rounded-up rates, as presented, resulting in higher depreciation. The Company feels that no adjustment is necessary for this issue.

Audit Exception No. 5

WORKING CAPITAL – EMPLOYEE ACCOUNTS RECEIVABLE

Response:

The Company does not believe that these amounts should be summarily being 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 for 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.

Audit Exception No. 6

WORKING CAPITAL – OTHER ACCOUNTS RECEIVABLE

Response:

The Company concurs with the opinion.

Audit Exception No. 7

WORKING CAPITAL – ACCRUED GROSS RECEIPTS TAX

Response:

The Company concurs with the opinion.

Audit Exception No. 8

WORKING CAPITAL – ACCOUNTS PAYABLE REVISION

Response:

The Company concurs with the opinion.

Audit Exception No. 9

COST OF CAPITAL

Response:

The Company concurs with the opinion.

Audit Exception No. 10

ACCOUNT 903 – REGULUS BILLING SERVICE

Response:

The Company concurs with the opinion.

Audit Exception No. 11

LEASEHOLD IMPROVEMENTS – FERNANDINA (ACCOUNT 903)

Response:

The Company concurs with the opinion.

Audit Exception No. 12

UNCOLLECTIBLE EXPENSE

Response:

The Company concurs with the opinion.

Audit Exception No. 13

ANALYSIS OF ACCOUNT 920 – ADMINISTRATIVE PAYROLL

Response:

The Company concurs with the opinion.

Audit Exception No. 14

FRANCHISE FEES

Response:

The Company concurs with the opinion.

Audit Exception No. 15

MISCELLANEOUS ADJUSTMENT TO EXPENSE

Response:

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.

Audit Exception No. 16

ACCOUNTING FEES FOR TAXES PROJECTED FOR 2004

Response:

The Company concurs with the opinion of \$26,000 reduction from the \$84,000 projected amount.

Audit Exception No. 17

INSURANCE PROJECTIONS

Response:

The Company concurs with the opinion.

Audit Exception No. 18

ACCOUNT 930.2 – MISCELLANEOUS EXPENSE

Response:

We agree that this is not an annual recurrence. However, we consider this to be a normal expense. This was related to the sale of water as it was only expensed since the proceeds from the sale supplied the needed working capital. Recovery should be allowed to be amortized at a maximum over five years for rate making purposes.

Audit Exception No. 19

TAXES OTHER THAN INCOME (TOTI)

Response:

The Company concurs with the opinion.

Audit Exception No. 20

DEFERRED INCOME TAX EXPENSE

Response:

The Company agrees in theory with this opinion. However, subsequent to the completion of the audit, it was determined that the excess tax depreciation for 2002 was (\$261,144) as opposed to \$261,144 reflected in the exception.

The excess tax depreciation for 2002 consists of (\$256,964) which is then adjusted for common depreciation for the sale of the water assets of (4,180) for the total of (\$261,144). The 2003 and 2004 projected amounts were erroneously calculated without the adjustment from the sale of water. The following schedule shows the correct amounts.

	<u>2002</u>		<u>2003</u>		<u>2004</u>
Excess Tax Depreciation					
As Originally filed	(256,960)	103.00%	(264,669)	106.09%	(272,609)
Sale of Water-					
Adjustment for					
Common					
Depreciation	(4,180)				
	<u> </u>				
Corrected Amount	(261,140)	103.00%	(268,974)	106.09%	(277,043)

AUDIT DISCLOSURES

AUDIT DISCLOSURE NO. 1

PROJECTED 2003 UTILITY PLANT IN SERVICE

Response:

The attached schedules (Page 51 and 52 Revised) should have been presented with this disclosure, in place of the schedules presented on Pages 51 and 52. With the inclusion of these schedules, the Company concurs with the statements expressed in this Audit Disclosure.

AUDIT DISCLOSURE NO. 2

PROJECTED 2004 UTILITY PLANT IN SERVICE

Response:

One revised project was the sub-station rebuilding including 138KV Motorized Load/Break switches. In the MFR, the total amount budgeted was \$395,000 with expenditures of \$70,000 and \$325,000 in 2003 and 2004, respectively. The total for this project was revised to \$487,500 with expenditures of \$62,000 and \$425,500 in 2003 and 2004, respectively.

The other revised project was rebuilding the J L Terry Sub-station. In the MFR, the total amount budgeted was \$1,309,500 with expenditures of \$609,500 and \$700,000 in 2003 and 2004, respectively. The total for this project has been revised to \$1,367,000 with expenditures of \$132,000 and \$1,235,000 in 2003 and 2004, respectively.

The Company concurs with the statements expressed in this Audit Disclosure.

Subsequent to the filing of the MFR and the preparation of this Audit Disclosure, Jackson County and the City of Marianna, disclosed the approval of a 907,000 square foot Family Dollar distribution center that would be built in the Northwest Florida Division's service area. This project will require additional distribution facilities to be built by FPU during 2004 in the amount of \$1,166,000: \$60,000 per month, January through September 2004, for poles and conductors; \$202,000 per month, July through September 2004, for constructions of a sub-station; with an additional \$20,000 in May 2004, for transformers. FPUC requests that the Commission also consider the addition of this major distribution project to our original projected rate base per the MFR filing when considering the Company's request for rate relief.

AUDIT DISCLOSURE NO. 3

WORKING CAPITAL – UNAMORTIZED RATE CASE EXPENSE

Response:

The Company feels 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.

AUDIT DISCLOSURE NO. 4

WORKING CAPITAL – CASH

Response:

As stated in the Direct Testimony of Cheryl Martin, Mehrdad Khojasteh, and Jim Mesite, Jr., in the filing, FPUC believes that 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.

AUDIT DISCLOSURE NO. 5

SHORT-TERM DEBT

Response:

The Company concurs with the opinion.

AUDIT DISCLOSURE NO. 6

COST OF CAPITAL PRESENTATION

Response:

Removing non-regulated propane entirely from equity is an arbitrary method with no financial theory basis. The capital structure of FPUC is consolidated for all operations.

Proper financial theory is to allocate all components proportionally to every expenditure and investment made by the Company. Propane does benefit and uses a portion of debt to finance its operations. It is appropriate to use the same overall capital structure for all operations of FPUC.

AUDIT DISCLOSURE NO. 7

FORFEITED DISCOUNTS

Response:

The Company feels that the projections are accurate.

AUDIT DISCLOSURE NO. 8

ADJUSTMENT TO FILING FOR INCREASING RELIABILITY

Response:

The Company feels that the projections are accurate.

AUDIT DISCLOSURE NO. 9

ADJUSTMENTS TO SALARIES IN FILING C-59(C-19)

Response:

We do not agree with this opinion and feel 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 to determine where the employee starts in the range. It is possible to bring a new employee over the range of a replaced employee.

AUDIT DISCLOSURE NO. 10

2002 ADJUSTED FOR DISCONTINUED OPERATIONS.

Response:

The Company has no position at this time.

AUDIT DISCLOSURE NO. 11

ACCOUNT 921.5 – TEMPORARY STAFF

Response:

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.

AUDIT DISCLOSURE NO. 12

EXPENSE PROJECTION FACTORS

Response:

The Company concurs with the opinion.

AUDIT DISCLOSURE NO. 13

DEPRECIATION RATES USED FOR 2003 AND 2004

Response:

The Company used a simple average of existing depreciation rates for computing depreciation since it was felt that this method was inline with the combining of certain other data for the presentation of the projected years. Also, mathematically, using the average rate verses the individually applied rates would produce immaterial differences.

On December 16, 2003, the Commission approved new Consolidated Electric Depreciation Rates to be effective January 1, 2004, which will necessitate the recalculation of the depreciation for 2004 as presented in the MFR.

AUDIT DISCLOSURE NO. 14

DEPRECIATION ON TRAINING PROGRAMS

Response:

The Company concurs with the opinion.

AUDIT DISCLOSURE NO. 15

SUTA TAX RATE

Response:

The Company concurs with the opinion.

EXHIBIT 2

Excerpt from the

RESPONSES OF FLORIDA PUBLIC UTILITIES COMPANY

To

COMMISSION STAFF'S FOURTH SET OF INTERROGATORIES NOS. 35-46

DOCKET NUMBER 030438-EI

- 46. For each audit disclosures stated in the PSC audit report dated June 3, 2003 for 2002 reliability indices,**
- a. What specific actions has your company taken to respond to each audit disclosure?**

Response:

With the audit results being released in June 2003, very little could be done for our year 2003 outage reporting system as it was mid year and would require extensive modifications to our manual system and the computer data base. In preliminary discussions with the PSC staff in a June 9, 2003 IOU reliability meeting at Florida Progress, staff indicated that FPU performed fairly well in the audit. We have not had any further discussions with the PSC staff on the Statement of Facts or Opinions brought forth in the audit disclosures. While we generally agree with the Statement of Facts, we have many questions and concerns with the auditors' opinions as to their applicability to Rules 25-6.044 and 25-6.045. We are in the planning stages of a GIS Mapping System and Automated Outage Management System as well as a SCADA System for the Northwest Florida Division. As the project is implemented, the audit disclosures will be addressed and incorporated when possible.

Audit Disclosure 1

Subject: Number of Outages in 2002

Response:

We believe that the auditors meant to use the term outage summaries in place of outage tickets. In the 2003 outage data, each outage summary was sequentially numbered to correspond to the numbered data base entry. The existing data base already notes (1) loss of service (the point of) and reason and (6) any other explanation that might be necessary. It will be further expanded in 2004 to include (4) PSC exclusions including planned outages and (5) problems in customers homes.

It is our understanding of the automated Outage Management System (OMS) that we are looking to implement, that each outage call will be input in to the OMS and be summarized into one outage based on the point of interruption and cause just as our manual system does. It is our intention to incorporate into the design of the OMS a method to ensure that all outages reported are included in the data base in which the indices are calculated. We anticipate the OMS will be in operation in the Northwest Florida Division for the reporting year 2005. Implementation of this system in our Northeast Florida Division will take place at some later date not yet determined and until then the existing manual system will be used.

Audit Disclosure 2

Subject: Exclusions

Response:

See response to Audit Disclosure 1.

Audit Disclosure 3

Subject: Duration of Outages

Response:

Rule 25-6.044 1.1 defines outage duration as the time interval, in minutes, between the time when the utility first becomes aware of an outage event and the time of restoration of service. In most of FPU's outage cases, we first become aware when a customer calls in reporting loss of service. We believe that this is the case for most companies. Like them, we have some equipment with event recorders that can determine the actual time service is lost but it is limited and requires field retrieval of data. We feel that manually logging the restoration time on every outage ticket under one outage summary is redundant as long as the initial outage time recorded on the first outage ticket. This will continue to be done on our manual systems.

The OMS will help with this audit disclosure. The Northwest Florida Division plans to complete the installation of a SCADA system in our substations in 2004 and expand this system to line equipment (reclosers) at some point in the future. This will assist us in getting actual times for outages involving the point of interruption at the substation breaker in 2005. It will also allow the Northwest Florida Division to provide the MAIFEE reliability indices information. It has not yet been determined when the SCADA will be installed in the Northeast Florida Division.

Audit Disclosure 4

Subject: Number of Customers Affected by Outages

Response:

In the year 2003, the number of customers continued to be based on engineering or field estimates. The GIS Mapping System and OMS System, which will be tied into the billing system, will provide the actual number of customers affected by outages. This is

scheduled to be implemented in the Northwest Florida Division in 2004 and be completely operational for the year 2005. Implementation in Northeast Florida Division has not been determined.

Audit Disclosure 5

Subject: Comparison of Information on Data Base to Original Outage Tickets

Response:

See response to Audit Disclosures 1 – 4.

- a. What specific activities or programs taken to respond to each audit disclosure are included in the projection of the test year?**

Response - See previous response in 46a.

- b. What specific amounts have been included in the capital expenditures and O&M expenses in the test year for these specific activities or programs?**

Response:

The specific amounts that have been included in the test year for addressing these issues are as shown below.

Specific Capital Expenditures:

GIS Mapping System and OMS	\$380,000
SCADA System	\$400,000

Specific Expenses:

Engineering Technician Position	\$50,000
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This position will perform duties in the Northwest Florida Division associated with the mapping, outage management system and SCADA system.

c. Please provide an estimated impact to the reported indices by these programs.

Response:

Based on the results from the Audit Disclosures of estimated data that is used for the current method in calculating indices, we do not anticipate a significant change in the reported indices. The benefit will be greater accuracy of data regarding the individual outage event and improved documentation of outages. This will provide the necessary documentation for auditing all reliability indices to determine performance level and for comparison to other IOU's.