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pet

Public Service Commission

July 23, 2004

STAFF'S FOURTH DATA REQUEST

Norman "Doc" Horton, Jr., Esquire
Messer Law Firm
P. O. Box 1876
Tallahassee, FL 32302-1876

Re: Docket No. 040216-GU – Application for Rate Increase by Florida Public Utilities Company.

Dear "Doc":

By this letter, the Commission staff requests that Florida Public Utilities Company (FPUC or utility) provide responses to the following data requests:

BAD DEBT EXPENSE

54. Please explain in detail the methodology and the rationale FPUC uses to estimate the amount of uncollectibles to be accrued to Account 904, Uncollectible Accounts, each month?

55. For 2003 and December 2002, please provide the monthly calculations for the Provision Accruals shown on MFR Schedule C-8, p. 21.

56. Please refer to MFR Schedule C-8, p. 21. The Provision Accrual fluctuates from a negative \$172,160 in December 2002 to a positive \$299,463 in March 2003 then evens out to an average of approximately a negative \$11,000 for April through December 2003. Please explain this fluctuation.

A. Do the December 2002 through March 2003 accruals appear abnormal as compared to the monthly accruals for the other months?

B. Is the \$11,000 average amount likely to continue into 2004 and 2005? If not, what average amount does the company expect?

CMP _____
COM _____
CTR _____
ECR _____
GCL _____
OPC _____
MMS _____
RCA _____
SCR _____
SEC / _____
OTH _____

DOCUMENT NUMBER - 08046

JUL 23 2004

FPSC-COMMISSION CLERK

57. Does FPUC use customers' security deposits for nonpayment of bills?
- A. If so, are these amounts included in the Recoveries & Adjustments column on MFR Schedule C-8, p. 21?
 - B. If the amounts are not included in Recoveries & Adjustments, please provide the amounts recovered from security deposits for 1999 through 2003.
 - C. How many months/years is FPUC allowed to keep security deposits before refunding them to customers?
58. On MFR Schedule G-2 (C-5), p.78, FPUC used the revenue trend factor to project Bad Debt Expense. On Schedule G-1(B-13), p. 58, FPUC used the Inflation times Customer Growth factor to project Allowance for Uncollectibles. Please explain the rationale for using different trend factors for these accounts.
- A. Would it be appropriate to trend Allowance for Uncollectibles by the revenue factor? If not, why?
59. For all years affected, please explain in detail the impact of the Lake Worth Generation default on the Allowance for Uncollectibles, the accrual for bad debt expense, bad debt expense, revenues and any other accounts affected.
60. Please provide the schedule detailing the calculation of the 2003 bad debt rate previously provided informally. The schedule shows the beginning balance of the Allowance for Uncollectibles, write-offs net of recoveries, the accrual, ending balance, adjusted revenues, write-off rate for 1999 through 2003, and the 2003 pro forma adjustment.
61. Please refer to MFR Schedule C-3, p. 5. Please identify the revenue items that are excluded from revenues used (\$47,001,066) to calculate the bad debt rate of 0.0040 and explain why they are excluded.
62. Please provide a schedule similar to MFR Schedule C-8, p. 21, for 2004 through the most current month possible.

ODORANT COSTS

63. Regarding the cost of odorant:
- A. Explain in detail how the company accounts for the purchase of gas odorant.
 - B. What is the amount of odorant cost included in the 2003 test year and in which account is it recorded?

- C. What amount is projected for 2004 and 2005?
- D. How often and in what quantity does the company purchase odorant?
- E. How many months/years does one purchase of odorant last?
- F. What date was odorant last purchased and what was the cost?
- G. For the years 1999, 2000, 2001, 2002 and 2003, please provide a schedule by year showing the cost and number of gallons of odorant purchased and the number of gallons and amount expensed.

INDUSTRY ASSOCIATION DUES

- 64. Please refer to MFR Schedule C-11, p. 24. Please describe the benefit derived by ratepayers from the company's membership in FNGA.
 - A. What benefit does the company derive from membership?
 - B. What is the purpose of this organization?
 - C. Does FNGA engage in lobbying or charitable contributions? If so, please list the percent of dues attributable to those activities for 2003.
- 65. Please describe the benefit derived by ratepayers from the company's membership in the National Association of Corporate Directors.
 - A. What benefit does the company derive from membership?
 - B. What is the purpose of this organization?
 - C. Should the dues be allocated to the electric and propane operations?
- 66. Please describe the benefit derived by ratepayers from the company's membership in the Southern Gas Association.
 - A. What benefit does the company derive from membership?
 - B. What is the purpose of this organization?
 - C. Should the dues be allocated to the electric and propane operations?

- D. Does the Southern Gas Association engage in lobbying or charitable contributions? If so, please list the percent of dues attributable to those activities for 2003.
67. Please describe the benefit derived by ratepayers from the company's membership in the Volusia Home Builders Association.
- A. What benefit does the company derive from membership?
 - B. What is the purpose of this organization?
 - C. Should the dues be allocated to the electric and propane operations?
68. Please describe the benefit derived by ratepayers from the company's membership in the Sunshine Safety Council.
- A. What benefit does the company derive from membership?
 - B. What is the purpose of this organization?
 - C. Should the dues be allocated to the electric and propane operations?
69. Please describe the benefit derived by ratepayers from the company's membership in the Home Builders Association.
- A. What benefit does the company derive from membership?
 - B. What is the purpose of this organization?
 - C. Should the dues be allocated to the electric and propane operations?
70. Is FPUC a member of the American Gas Association?
- A. If so, what is the amount of dues paid in 2001, 2002 and 2003 and in what account is it recorded?
 - B. Please provide the 13-month average of AGA dues included in working capital for 2001, 2002 and 2003.

VACANCIES

71. Please refer to MFR Schedule C-3 p.3, NOI Adjustments. Please explain in detail the adjustments to various accounts for vacancies.
- A. Does the company intend to fill all of the vacancies?

- B. If so, on what date were these vacancies filled or when are they projected to be filled?
Please give the account numbers and the amounts.
- C. Were the vacancies filled at the salary level included in the MFR?
- D. If not, at what level were they filled?
- E. If the company does not intend to fill the vacancies, which positions will not be filled.
Please give the account numbers and the amounts included in the MFRs.

NEW EMPLOYEES

- 72. Refer to MFR Schedule G(C-5), Page 84, Projection Basis Factors. Please provide a schedule of the new employee positions, the number of employees requested for each position, the annual salary and benefits, and the accounts and amounts charged for 2003, 2004 and 2005. This should tie to the trend schedule.
- 73. For all new employees, which includes but is not limited to the following, please provide the requested information:
 - 1. (874) distribution line locator (2)
 - 2. (874) systems ops tech
 - 3. (878) serviceman
 - 4. (879) service technician (3)
 - 5. (880.1) assistant. engineer
 - 6. (880.2) distribution clerk
 - 7. (880.2) engineering tech
 - 8. garage mechanic
 - 9. (886) I&M manager
 - 10. (886) I&M mechanic (3)
 - 11. (887) gas utility worker
 - 12. (902) meter reader
 - 13. (903) CR trainer
 - 14. (903) 1.5 employees – lock box
 - 15. (912.1) marketing rep
 - 16. (912.1) director
 - 17. (912.1) inside marketing rep
 - 18. (912.1) analyst (make full time)
 - 19. (912.2) comm asst (make full time)
 - 20. (920) staff accountant
 - 21. (920) financial analyst
 - 22. (920) AS400 operator
 - 23. (920) business development
 - 24. (935) measurement supervisor

- A. Please provide the justification for hiring each employee. Why is this employee needed by FPUC?
 - B. Please provide a detailed job description for the above employee, the number of hours to be worked per week, and the annual salary.
 - C. Please indicate whether FPUC has included 12-months salary in expense for all new positions in 2003, 2004 and 2005. If your answer is negative, please indicate the time period for which FPUC has included salary expenses associated with these positions.
 - D. Will this employee perform any nonutility functions? If so, what percent of the duties will be nonutility? Has the company made the adjustment to remove nonutility percentages?
 - E. Has the company hired the requested employee? If so, what date was the person hired, and at what annual salary? If not, what date does the company plan to hire this employee?
 - F. Please provide a list of the company's programs and a breakdown of the time spent by each new position on each program. List the name of the program and the percentage of time worked on each program.
74. Does FPUC plan to delete any personnel positions in 2004 or 2005? If so, provide the number of positions, a description of the positions, accounts charged, and the dollar amounts which include salary and benefits in each account charged.

METER CHANGE-OUTS

75. Please describe FPUC's policy regarding the replacement of meters and service regulators during the meter change-out process.
76. Provide a description of the activities involved in meter and regulator change-outs.
77. Please describe FPUC's accounting for the meter change-out program, i.e., how are the costs recorded, capitalized or expensed, and to which accounts.
78. For 1999 through 2003, please provide the number of meters and service regulators changed out and the amount charged to Account 878 for the meter change-out program?
79. What is the projected expense for meter change-outs for 2004 and 2005?
80. Provide the number of meters expected to be changed out in 2004 and 2005.

81. What is the cost per meter to change-out meters? Please provide a breakdown of the individual costs such as labor, testing, etc.

DISCONTINUED OPERATIONS

82. Please explain the company's method of capitalizing and expensing administrative and general expense overheads.

83. Please explain in detail the rationale for increasing natural gas expenses due to discontinued operations.

84. What is the source of the amounts allocated due to discontinued operations, i.e., are these corporate salaries and expenses or what are they actually?

85. Please provide a schedule showing the source of the discontinued operations amounts, the total amount to be allocated, the percent and amount allocated to each division or corporate entity.

86. How were these allocation percentages determined? Please provide the calculation.

87. Describe the process of allocating the discontinued operations to the accounts listed below. How did the company determine the increase to each account?

88. Adjustments were made to the following accounts as a result of the sale of the water operation:

- Account 901, Customer Accounts Supervision
- Account 903, Customer Records & Collections
- Account 921, Office Supplies
- Account 923, Outside Services
- Account 924, Property Insurance
- Account 925, Injuries & Damages
- Account 926, Employee Pensions & Benefits
- Account 930, Miscellaneous General Expenses

Describe how the workload for the natural gas operation or the expenses incurred has increased in each account as a result of the sale of the water operation.

89. List the additional or increased duties that occurred as a result of the sale of the water operation.

90. Describe how the workload of corporate persons whose salaries are allocated has decreased as a result of the sale of the water operation.

91. Please list any savings and the amounts realized by the company due to the sale of the water operation.

PAYROLL TREND FACTOR

92. Provide the calculation and the support for the payroll trend factors (3.00% for 2004 and 3.50% for 2005)
93. In the company's recent electric case, 6.10% was used as the payroll trend factor for 2002-2004. The company used 6.60% for 2003-2005 in this gas case. Why is 6.10% not appropriate for the gas division?
94. Please provide a schedule similar to MFR Schedule C-33, p. 50, Wage and Salary Increases Compared to CPI, for 1999 and projected 2004 and 2005.

OUTSIDE PROFESSIONAL SERVICES

95. Please refer to MFR Schedule C-31, p. 47, Outside Professional Services.
 - A. On lines 5 and 6 are \$719 and \$500 in expenses for audit predecessor, which are identified as one time charges. Should these costs be removed as nonrecurring? If not, please explain why.
 - B. Legal expenses are described as "various". Please provide a list, in general, of the legal matters contained in this schedule. In particular, what does the \$20,966 charge on line 18 pertain to?
 - C. On line 39, there is listed a 2002 equity issuance of \$836. Should this be removed from expenses because it is a component of the effective interest cost? If not, please explain why.
 - D. On line 43, there is listed a Lake Worth Generation Project of \$68,365. This appears to be a one-time charge and therefore should be removed from expenses as nonrecurring. If not, please explain why. What amounts are included in Account 923.2 and Account 186 for this item?
 - E. On lines 66 and 67, please describe the E-strategy services provided by DPI.
 - F. On line 72, what is the correct amount for permit assistance?
 - G. On line 73, what do the geological services of Jacques Whitford pertain to?
 - H. On line 75, should the unamortized debt expense be removed from working capital and included in the cost of long term debt? If not, please explain why.

ALLOCATION OF EXPENSES

96. Please identify all of the operating divisions and departments of FPUC and explain how each is included in the allocation process. In your response, please explain how allocation percentages are calculated for each operating division and department and provide a sample calculation.
97. How often does FPUC update its allocation factors?
98. When were the allocation factors last updated?
99. Please explain in detail how the allocation factors in MFR Schedule C-6, p. 17, were derived and include the calculation of the factors based on payroll, customers, utility plant, gross profit and allocated common plant.
100. Please provide the clearing account allocation factors for 2004 and describe their derivation.
101. Please explain why a particular factor was used to allocate each account, i.e., explain the relationship between the factor and the account that makes it appropriate to use that factor to allocate.
102. For 2003, please indicate whether FPUC allocated any corporate expenses to the gas division that the Florida Public Service Commission has previously disallowed for recovery, including, but not limited to, lobbying expenses, charitable contributions, social dues, and image building advertising. If your response is affirmative, please identify each expense allocated, the amount allocated, and the account charged.

MISCELLANEOUS

103. For 2002 and 2003, describe all employee activities such as picnics, awards, flowers, gifts, parties, or similar social activities, etc. provided by the company, the cost of each activity, and the account to which it was charged.
104. Does the company offer to executives or management employees any special compensation packages or fringe benefits not available to other employees? If so, please provide the following:
 - A. A detailed description of each special compensation package or fringe benefit.
 - B. The amount expended and account charged in 2002 and 2003 for each benefit.
105. Did the company include in 2003 and trend to 2005 any costs for recruiting new employees? If so, please provide costs incurred for moving expenses, mortgage payments, job searches, etc.

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106. Please indicate whether relocation expenses for any existing employees or employees projected to be hired in the years 2003, 2004, and 2005 were included in expenses. If your response is affirmative, please provide the amount of any such expenses and identify the accounts charged.
107. For 2003, 2004 and 2005, please provide a detailed schedule of the positions filled, supporting the relocation expense incurred or projected, reasons for the move, and the dollar relocation amount for each.
108. For 2003 through 2005, please provide the amount of relocation expenses allocated to nonutility operations, the basis for the allocation, and any of the positions which were 100% non-regulated.
109. Please provide the dollar amount of employee relocation expenses for the years 1999 through 2003 and the projected test years ending December 31, 2004 and 2005.
110. For 2003, has the company hired temporary help associated with vacancies or new positions the company has included in expenses?
 - A. If so, please provide the accounts to which the temporary help and commission fees were charged in 2003.
111. Please explain the basis for compensation of FPUC's directors.
112. Please provide a breakdown of the \$45,625 for director fees and expenses included in expenses on MFR Schedule C-14, p. 27, Miscellaneous General Expenses.
113. Please indicate whether FPUC has any employee/directors. If so, please provide the amount of compensation paid to the employee/directors during 2003, the amount allocated to the gas division, and the account charged.
114. For 2004, please provide actual year to date amounts for revenues and expenses by account.
115. Has FPUC included costs in any test year for outsourcing payroll?
 - A. If so, in which years, accounts, and amounts was it allocated to the gas division?
 - B. What is the effective date of the contract?
 - C. What is the total annual contract amount?
116. For 1999 through 2003, please provide the amounts related to training, by type of training, that were charged to gas division expenses.

A. What amounts are included in the 2004 and 2005 projected test years for training?

117. Please provide a detailed analysis of Account 903, Customer Records and Collection Expenses, for 2002 and 2003.

118. Please provide a detailed analysis of Account 909, Informational & Instructional Expenses, for 2002 and 2003.

A. A comparison of FPUC's 2002 and 2003 Annual Reports revealed a 281% increase for Account 909. Please explain this increase.

119. Please provide a detailed analysis of Account 910, Miscellaneous Customer Service & Informational Services, for 2002 and 2003. What caused the increase in 2004?

120. Please provide a detailed analysis of Account 923, Outside Services, for 2002 and 2003.

A. A comparison of FPUC's 2002 and 2003 Annual Reports revealed a 67% increase in Account 923. Please explain this increase.

121. Please refer to MFR Schedule C-5, p. 13, line 57. What caused the increase from \$362 to \$117,144 in December 2003 in Account 913.4, Other Information, Instruction, Conservation/Advertising?

122. A comparison of FPUC's 2002 and 2003 Annual Reports revealed a 120% increase in Account 913, Advertising. Please explain this increase.

123. A comparison of FPUC's 2002 and 2003 Annual Reports revealed a 73% increase in Account 910, Miscellaneous Customer Service & Informational Expenses. Please explain this increase.

124. A comparison of FPUC's 2002 and 2003 Annual Reports revealed a 36% increase in Account 924, Property Insurance. Please explain this increase.

125. A comparison of FPUC's 2002 and 2003 Annual Reports revealed a 101% increase in Account 926, Employee Pensions & Benefits. Please explain this increase.

126. Please refer to MFR Schedule G-2 (C-5), p. 78, O&M Expenses. For 2004 and 2005, please provide a breakdown and description of all amounts in Column 15, 2004 Other, and Column 21, 2005 Other.

ACQUISITION ADJUSTMENT

127. Was the purchase price paid by Florida Public Utilities (FPUC) for the assets of South Florida Natural Gas (SFNG) a result of a competitive bidding process?

128. Please provide any worksheets, accounting schedules, or any other books and records which would support the purchase price paid by FPUC.
129. Please explain how including the acquisition adjustment in rate base will benefit the ratepayers of SFNG and FPUC in the following areas: (a) lower rates on an on-going basis, (b) ability to comply with Florida or Federal governmental standards, where such was not possible before, or (c) more professional or experienced management.
130. The proposed rate schedules included in the present case indicate that all classes of New Smyrna Beach ratepayers, excepting a very small reduction for residential customers, will be higher than the existing rates. Considering the higher proposed rates, how does the inclusion of the acquisition adjustment benefit ratepayers?
131. Please provide any documents, work papers, independent appraisals or investigations that indicate that SFNG was unable to meet environmental standards or lacked a qualified management team?
132. Is there any reason or reasons to believe that the purchase of the assets of SFNG was anything more than a prudent business decision by FPUC to expand its market share?
133. Please refer to Ms. Cheryl Martin's Exhibit No. CM8-2, FPU's Acquisition of SFNG-Rate Base Justification. According to Title 18 of the Code of Federal Regulations (18 CFR), page 546, an acquisition account ... "shall include the difference between (a) the cost to the accounting utility..., and (b) the original cost, estimated if not known ...".
- A. Why should this acquisition adjustment be allowed based on the methodology developed in Exhibit CM8-2, rather than the more restrictive standards listed in 18 CFR?
 - B. On page 2 of 2 of Exhibit CM8 it is stated that ...[C]ustomers are not detrimentally affected by allowing all of goodwill in our rate base associated with this acquisition." Why should "Goodwill" be included in rate base when the inclusion would increase FPUC's revenue requirement and in turn increase rates?
134. For each of the following rate base justifications listed in Exhibit CM8-2, please provide all work papers, industry estimates, forecasts, notes, or other calculations used to develop the "justifiable increases to rate base":
- A. Expense Reduction on Estimated Synergies Realized
 - B. SFNG & FPU Rate Differential Adjustment

WORKING CAPITAL

135. On page 113 of the Accounting Panel's direct testimony, Ms. Martin states that the Company agrees with the Commission that it is not logical that adjusted working capital reflect a negative

balance due to Commission mandated adjustments. However, Attachment 1-A of Order No. PSC-95-0518-FOF-GU, FPUC's last gas rate case, indicates that working capital was positive and staff's adjustments increased it further.

- A. Please refer to MFR Schedule B-13. Isn't it true that FPUC's adjusted net working capital balance per 13-month average gas utility prior to any adjustments is negative?
- B. And, that the Commission adjustments indicated in the filing have the effect of increasing working capital?

136. Please refer to page 113 of the direct testimony. Why should the Commission make adjustments to working capital based on Docket Nos. 940620-GU and 900151-GU, when the orders in these dockets were issued 10 and 14 years ago, respectively?

137. In Docket No. 880558-EI, FPUC's request for a rate increase for its Marianna Division, the Commission stated that a zero working capital might be appropriate in certain circumstances if (1) a negative allowance would have the effect of penalizing a utility for subsidization received from its parent, or (2) large accumulated losses have resulted in a balance sheet which is not typical of a going concern.

- A. Would a negative working capital balance penalize FPUC for any subsidization received from its parent?
- B. If so, when was the subsidization received, and in what amounts?
- C. Does FPUC have any large accumulated losses that have resulted in a balance sheet which puts the utility in a position that is not representative of a going concern?
- D. If so, when did the losses occur, and in what amounts?

138. Are there any economic factors particular to FPUC that would be unsustainable on a stand alone basis, or that would result, if working capital had a negative balance?

139. By Order No. PSC-03-0038-FOF-GU, Docket No. 020384-GU, Peoples Gas' last rate case, net working capital was negative. Why should the accounting treatment for FPUC in this case be different than the Commission's treatment of working capital in the Peoples Gas rate case?

140. Why should working capital be set at \$0 in the present case when to do so would be inconsistent with the treatment of working capital in FPUC's recent electric rate case, Docket No. 030438-EI, where working capital was set at (\$3,083,353)?

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141. Please provide copies of all materials, including analysis, spreadsheets, studies or reports used in determining the Company adjustment to the 13-month average of cash discussed on page 113 of the Panel direct testimony.
142. Please provide a listing detailing all items in the Plant & Operations Material & Supplies Account over \$1,000 each year for the period 2001-2003.

OTHER RATE BASE

143. Please provide the work papers or any other materials used to determine the \$188,772 adjustment to the bare steel replacement program. Also, please describe in detail the accounting treatment for this program.

O&M EXPENSE

144. Please provide one copy of every advertising flyer, insert, or newspaper advertisement that was mailed or published in the 2003 test year and the cost associated with each advertisement, including all sub accounts of Accounts 913 and 930.
 - A. Please detail the \$18,000 adjustment in Account 913.4 on Schedule G-2(C-5) of the MFRs.
 - B. Are any advertising expenses expensed to any accounts other than Accounts 913 and 930? If so, please give the same information for each account as requested in (1) above.

Please provide the original and four copies of this requested information to me by the close of business on August 23, 2004. If you have any questions, or if you need any assistance please call me at (850) 413- 6234, or Sam Merta at (850) 413-6427.

Sincerely,



Ralph R. Jaeger
Senior Attorney

RRJ:jb

cc: Division of Economic Regulation (Willis, Baxter, Colson, Draper, Gardner, Haff, Hewitt, Kenny, Kummer, Lester, Maurey, Merta, Rendell, Revell, Springer, Stallcup, Wheeler, Vandiver, Welch, Winters)
Division of Regulatory Compliance and Consumer Assistance (Witman, Fletcher, Hicks)
Division of the Commission Clerk and Administrative Services
Cheryl Martin - Florida Public Utilities Company