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March 2, 1995

Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32399-0850

HAND DELIVERY

Re: Docket No. 940620-GU
Application for a rate increase by FLORIDA PUBLIC UTILITIES COMPANY.

Dear Ms. Bayo:

Enclosed for filing in the above docket on behalf of Florida Public Utilities Company are an original and 15 copies of its Prehearing Statement, together with a 3 1/2" high density diskette containing this document. The software used to prepare this document is Word Perfect 5.1.

Please acknowledge receipt of the foregoing by stamping the enclosed extra copy of this letter and returning same to my attention. Thank you for your assistance.

Sincerely,

Wayne L Schiefelbein

Wayne L. Schiefelbein

WLS/ldv
Enclosures

ACK ✓
AFA 4
APP
CAF 1
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CTR
EAG Jenkins
LEG Palecki
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a rate increase by FLORIDA PUBLIC UTILITIES COMPANY	Docket No. 940620-GU Filed: March 2, 1995

PREHEARING STATEMENT OF FLORIDA PUBLIC UTILITIES COMPANY

Florida Public Utilities Company (FPUC or the Company), by and through its undersigned counsel, hereby submits its prehearing statement, in accordance with the requirements of Order No. PSC-94-1485-PCO-GU and Rule 25-22.038(3), Florida Administrative Code.

a) Witnesses

At this time, FPUC intends to call the following witnesses.

Witness	Subject Matter
George M. Bachman	Operating expenses and resulting operating income; working capital.
Cheryl M. Martin	Rate base (except working capital); income taxes; and cost of capital (except common equity cost).
Robert S. Jackson	Cost of common equity.
William L. Pence	Assessment and remediation of former manufactured gas plant sites.
Charles L. Stein	Service charge rate development; certain operating and maintenance payroll expense increases.
Marc L. Schneidermann	Base case projections of customers and therm sales; cost-of-service study.
Robert L. Smith	Market conditions within FPUC gas service areas,

estimates of future growth; proposed staffing and expanded marketing programs.

All of the foregoing witnesses' sponsor prefiled direct testimony, as filed by FPUC with the Commission on September 23, 1994. In addition, Mr. Schneidermann sponsors prefiled supplemental direct testimony, as filed with the Commission on February 16, 1995. Pursuant to a motion filed with the Commission February 24, 1995, FPUC intends to submit prefiled supplemental direct testimony of Mr. Bachman and/or Ms. Martin, by March 3, 1995.

Staff and intervenor direct testimony is scheduled to be filed on March 3, 1995. Having no information as to the content of such testimony, at this time, FPUC is unable to identify the witnesses and subject matter of any rebuttal testimony which it may sponsor.

b) Exhibits

At this time, FPUC intends to use the following exhibits.

Exhibit No.	Exhibit Title	Sponsoring Witness
1 (Composite)	Volume 2, Minimum Filing Requirements Section A - Executive Summary Schedules Section G - Projected Test Year Schedules	Bachman, Martin, Schneidermann, Stein, Smith, Jackson
2 (Composite)	Volume 3, Minimum Filing Requirements Section B - Rate Base Schedules Section C - Net Operating Income Schedule	Bachman, Martin Schneidermann, Stein, Smith, Jackson

	Section D - Cost of Capital Schedules Section F - Interim Rate Relief Schedules	
3 (Composite)	Volume 4, Minimum Filing Requirements Section E - Cost-of-Service Schedules (including tariffs) Section H - Cost of Service Program Section I - Engineering Schedules	Schneidermann, Stein, Bachman
4 (GMB-1)	List of MFR Schedules Sponsored by George M. Bachman	Bachman
5 (CMM-1)	List of MFR Schedules Sponsored by Cheryl M. Martin	Martin
6 (RSJ-1) Composite	Analysis and Detail on Cost of Equity Calculation (Schedules 1 - 8, Appendices A - F)	Jackson
7 (WLP-1)	Exhibit A - Current Resume of William L. Pence Exhibit B - Excerpts of EPA Survey Exhibit C - March 25, 1986, FDEP letter to Public Service Commission Exhibit D - October 5, 1990, FDEP Letter to Florida Public Utilities Company Composite Exhibit E - Status Reports from William L. Pence to Public Service Commission	Pence
8 (CLS-1)	List of MFR Schedules Sponsored by Charles	Stein

	L. Stein	
9 (MLS-1)	List of MFR Schedules Sponsored by Marc L. Schneidermann	Schneidermann
10 (RLS-1)	List of MFR Schedules Sponsored by Robert L. Smith	Smith
11 (MLS-2)	List of Supplemental MFR Schedules Sponsored by Marc L. Schneidermann; Supplemental MFR Schedules E-1 (p. 3); E-2 (pp. 1 & 2); E-5 (p. 1 - 6; E-8 (p. 1); E-9 (pp. 4 - 8); H-1 (pp. 1 - 6); H-2 (pp. 1 - 5)	Schneidermann

All of the foregoing exhibits were prefiled by FPUC with the prefiled direct and supplemental direct testimony noted above. Pursuant to its February 24, 1995 motion, Mr. Bachman and/or Ms. Martin are expected to submit exhibits with their intended supplemental direct testimony. Further, FPUC may submit additional exhibits with its potential prefiled rebuttal testimony. None of the additional supplemental direct or rebuttal exhibits can be identified at this time.

In addition, FPUC and Staff have informally agreed that the Staff Audit Report (with heretofore unidentified selected workpapers), the Staff Engineering Report, and FPUC's Response to the Staff Audit Report will be stipulated into the record. At or after the preliminary prehearing conference between Staff and FPUC, scheduled for March 15 - 16, 1995, FPUC will identify specific witnesses who are responsible for any matters presented by the FPUC Response to Staff Audit Report which have not been stipulated, to facilitate witness examination.

At this time, the deposition of Mr. Jackson has been completed. Depositions of Messrs. Bachman, Schneidermann and Smith and Ms. Martin have been scheduled during the week beginning March 6, 1995. FPUC may use any exhibits submitted in connection with said depositions.

FPUC may also use any of its interrogatory answers and document request responses submitted in this proceeding.

FPUC may also schedule depositions of any Staff or intervenor rebuttal witnesses, and may therefore use any deposition exhibits submitted in that connection.

Finally, FPUC may also be required to submit responses to customer testimony that may be offered at the two service hearings scheduled in this proceeding, and may offer such responses as exhibits.

c) Basic Position

FPUC achieved an overall rate of return of 6.89% for the twelve-month period ended December 31, 1993. Based on Company projections, absent any rate relief, the overall rate of return is expected to drop to (approximately) 5.18% by December 31, 1994 and to (approximately) 3.74% by December 31, 1995. The Company's existing gas rates and charges cannot produce a fair return on its property used and useful in serving the public. FPUC therefore seeks approval to permanently increase its gas rates and charges so as to generate increased annual revenues of $2,079,120, which amount will permit the Company an opportunity to earn a fair and reasonable rate of return of (approximately) 8.61 percent, including a return on equity of 12.30 percent, on a projected 1995 average rate base of (approximately) $26,437,934.

d), e) and f) Issues and Positions

FPUC hereby responds to Staff's revised preliminary list of issues provided on February 27, 1995. The only change thereto by FPUC is the addition of Issue 32A regarding short-term debt.

TEST YEAR AND FORECASTING

ISSUE 1: Is FPUC's request for permanent rate relief based on a historical test period of calendar year 1993 and a projected test period of calendar year 1995 appropriate?

FPUC: Permanent rate relief should be based on a projected test period of calendar year 1995. See Petition for Increased Rates and Changes, paragraph 8, (MFR Volume No. 1, page 2). (BACHMAN)

ISSUE 2: Are the Company's business-as-usual test year forecasts for customers and therm sales by revenue categories appropriate?

FPUC: Yes. See, generally, answers to Interrogatories Nos. 1 through 27, (SCHNEIDERMANN/SMITH) and responses to Requests for Production Nos. 1 through 12. (SCHNEIDERMANN/BACHMAN)

ISSUE 3: Is FPUC's test year forecast associated with new connections, disconnections, and reconnections appropriate?

FPUC: Yes. See MFR Schedules E-1, p. 3 and E-3, pp. 2 through 6. (STEIN)

RATE BASE

ISSUE 4: Should an adjustment be made to the Company's proposed level of plant additions in the projected test year?

FPUC: The projected plant additions for the projected test year are shown in MFR Volume No. 2, pages 19 and 28. FPUC intends to file supplemental testimony and exhibits which will change the additions for this period. This change is due to omitted blanket construction projects and a revised common plant building addition calculation. All other items remain the same with respect to additions. (MARTIN)

ISSUE 5: Should rate base and expenses be increased to include blanket construction projects omitted from 1995 projections? (Audit Disclosure No. 11)

FPUC: The Company is in agreement with Audit Disclosure No. 11. The Company's forthcoming supplemental filing of rate base testimony and exhibits will include the omitted 1995 blanket construction projects. (MARTIN)

ISSUE 6: Should the Commission require the Company to include all gas plant under construction in rate base?

FPUC: Yes. All construction work in progress should be included in rate base. The construction work does not qualify for AFUDC funds due to a less than one year completion date on individual projects. This approach is also consistent with that taken in the Company's last gas rate case, Docket No. 900151-GU. (MARTIN)

ISSUE 7: What is the appropriate projected test year Plant-In-Service?

FPUC: The appropriate amount of test year Plant in Service is $39,649,435, as shown on MFR Schedule G-1(b-2), subject to changes to be reflected by the Company's forthcoming supplemental rate base testimony and exhibits. (MARTIN)

ISSUE 8: What is the appropriate amount of Construction Work in Progress for the projected test year?

FPUC: Construction work in progress is $0, as shown on Schedule G-1(b-2). All construction work in progress for the projected test year was closed out to Plant in Service on a monthly basis. See FPUC position on Issue No. 6. (MARTIN)

ISSUE 9: What are the appropriate depreciation rates to be used?

FPUC: The Company's forthcoming supplemental rate base testimony and exhibits will reflect the new depreciation rates established by Order No. PSC-94-1539-FOF-GU, Docket No. 940374-GU. (MARTIN)

ISSUE 10: What adjustments, if any, should be made to the projected test year forecasted retirements?

FPUC: No adjustments should be made to the projected year forecasted retirements. The appropriate projected retirements are shown in the MFR filing, Volume 2, Schedule G-1(b-7c), page 30. (MARTIN)

ISSUE 11: What is the appropriate projected test year Depreciation Reserve?

FPUC: The projected test year Depreciation Reserve is $14,450,739, as shown in MFR Volume 2, Schedule G-1(b-9), pages 32 and 34. The Company's forthcoming supplemental rate base testimony and exhibits will adjust this calculation. (MARTIN)

ISSUE 12: What is the appropriate amount of Customer Advances for Construction for the projected test year?

FPUC: The appropriate amount of Customer Advances for Construction for the projected test year is $267,798, as shown in MFR Volume 2, Schedule G-1(b-1), page 10. The Company's forthcoming supplemental rate base testimony and exhibits will adjust this calculation. (MARTIN)

ISSUE 13: What is the appropriate amount of cash to be included in working capital?

FPUC: The appropriate amount of cash, excluding working funds, is $219,550. See MFR Schedule G-1(b-13). (BACHMAN)

ISSUE 14: Should rate base be reduced to remove inactive service lines that have been inactive for more than five years? (Audit Disclosure No. 1; Engineering Report p. 5)

FPUC: No. See response to Audit Disclosure No. 1, and answers to Interrogatories Nos. 64, 66 through 68, 70 and 71. (SCHNEIDERMANN)

ISSUE 15: Should an adjustment be made to reduce plant, accumulated depreciation, and depreciation expense to remove non-utility operations? (Audit Disclosure No. 6; Engineering Report p. 3)

FPUC: Non-utility operations have been removed from 13 month average rate base. See the response to Audit Disclosure No. 6; MFR Schedule B-3 and Schedule G-1(b-3). The Company's forthcoming supplemental rate base testimony and exhibits may adjust this calculation. (MARTIN)

ISSUE 16: Has the Company properly recorded the Gun Club Estates conversion from LP to natural gas? (Audit Disclosure No. 13)

FPUC: Yes. See Company response to Audit Disclosure No. 13, and the answers to Interrogatories Nos. 86 and 108. (STEIN/BACHMAN)

ISSUE 17: Has the Company properly recorded the IBIS conversion from LP to natural gas?

FPUC: Yes. See the answers to Interrogatories Nos. 86 and 107. (STEIN/BACHMAN)

ISSUE 18: Should an adjustment be made for the addition to the general office, which will not be completed in 1995?

FPUC: Staff has advised that this issue will be consolidated with Issue 19.

ISSUE 19: Should an adjustment be made for common plant additions which will not be completed in 1995?

FPUC: The common plant additions are reflected in MFR Volume 2, Schedule G-1(b-5). The Company's forthcoming supplemental rate base testimony and exhibits will adjust this calculation. (MARTIN)

ISSUE 20: Should unamortized rate case expense be included in working capital?

FPUC: Unamortized rate case expense should be included in working capital. Rate case expense is no different than other allowed prepaid expense and should follow with the same treatment as other balance sheet items that are included in working capital. In addition, unamortized rate case expense was allowed in working capital in the Company's last rate case proceeding for its Marianna electric division. (Order No. PSC-94-0170-FOF-EI, Docket No. 930400-EI) (MARTIN)

ISSUE 21: Should an adjustment be made to working capital for the allocation of non-utility operations?

FPUC: No. The working capital items shown on MFR Schedule G-1(b-1) reflect the consolidated gas division's allocated portion of working capital. See answer to Interrogatory No. 78. (BACHMAN)

ISSUE 22: Should an adjustment be made to reduce Accounts Receivable-Gas to remove non-utility related receivables from working capital?

FPUC: Staff has advised that this issue has been withdrawn.

ISSUE 23: Should an adjustment be made to working capital and expenses to remove a portion of American Gas Association (AGA) dues?

FPUC: Staff has advised that this issue has been withdrawn.

ISSUE 24: Should the net gas cost underrecovery be excluded from working capital?

FPUC: No. The overrecovery and underrecovery of purchased gas costs affect working capital. See MFR Schedule G-1(b-1). (BACHMAN)

ISSUE 25: What is the appropriate projected test year working capital allowance?

FPUC: The appropriate allowance is $289,871. See MFR Schedule G-1(b-13). (BACHMAN)

ISSUE 26: Was fuel properly removed from rate base and NOI?

FPUC: Staff has advised that this issue has been withdrawn.

ISSUE 27: Should an adjustment be made to accrued taxes payable such that the rate base effect of adjustments discussed in Audit Disclosure No. 3 is revenue neutral, and if so, what is the appropriate adjustment?

FPUC: Yes. FPUC agrees with Audit Disclosure No. 4. Accrued income tax liability as projected in working capital should be reduced by the amount of $36,557 for 1994 and $37,471 for 1995. (BACHMAN)

ISSUE 28: What is the appropriate projected test year rate base?

FPUC: $26,437,934. See MFR Schedule G-1(b-2). This amount is a fallout of other rate base issues and will change pending the supplemental rate base filing. (BACHMAN)

CAPITAL STRUCTURE

ISSUE 29: Should an adjustment be made to investment tax credits (ITCs) or their cost rate?

FPUC: The appropriate amount of zero cost and weighted cost investment tax credits for the projected test year are $22,170 and $741,282, respectively. The appropriate cost rate for the weighted cost investment tax credits is 10.47%. These items are shown in MFR Volume 2, Schedule G-3(d-1), page 73. (MARTIN)

ISSUE 30: Should an adjustment be made to accumulated deferred taxes?

FPUC: No adjustment should be made to accumulated deferred taxes. The appropriate accumulated deferred taxes are $4,006,937, as shown in MFR Volume 2, Schedule G-3(d-1), page 73. (MARTIN)

ISSUE 31: Should the Commission remove an amount for non-utility investment specifically from common equity in reconciling capital structure to rate base?

FPUC: The non-utility investment has already been removed from common equity before an allocation was made to apportion the capital items to the cost of capital. The amounts that were used to allocate capital items are FPUC balances only. See MFR Volume 2, Schedule G-3(d-1), page 74. In addition to this schedule, a reconciliation was submitted in response to Request for Production No. 20. This reconciliation detailed that the non-utility investment had already been removed before the allocation of capital items was made to rate base. (MARTIN)

ISSUE 32: What is the appropriate cost rate for common equity?

FPUC: 12.3%. See MFR testimony and exhibits of Mr. Jackson. (JACKSON)

ISSUE 32A: What is the appropriate cost rate for short-term debt?

FPUC: The appropriate cost rate for short-term debt should be the current company cost at the time of hearing. (MARTIN)

ISSUE 33: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure for the projected test year ending December 31, 1995?

FPUC: The appropriate weighted average cost of capital for the projected test year ending December 31, 1995 is 8.61%, as shown in MFR Volume 2, Schedule G-3(d-1), page 73. This may change if the short-term debt rate is changed to reflect the most current cost rate. See Issue 32A. (MARTIN)

NET OPERATING INCOME

ISSUE 34: Has FPUC properly allocated expenses for the 1995 projected year?

FPUC: Yes. Direct 1993 consolidated gas expenses are added to the allocated expenses on MFR Schedule C-6 to calculate the total historic year basis. This basis is then trended to the 1995 projection year, using various factors shown in MFR Schedule G-2(c-5). (BACHMAN)

ISSUE 35: Is FPUC's requested level of total operating revenues for the 1995 projected test year appropriate?

FPUC: Yes. See MFR Schedule G-2(c-1) page 1 (BACHMAN) and MFR Schedule E-1 page 2. (SCHNEIDERMANN)

ISSUE 36: Has the Company properly removed Chamber of Commerce dues and other membership dues from expenses?

FPUC: Account 930 includes expenses in the amount of $2068 regarding chambers of commerce and professional membership dues. If upon FPSC review of these expenses a determination is made that they are not allowed in base rates the Company will adjust accordingly. See MFR Schedule C-14. (BACHMAN)

ISSUE 37: What is the appropriate amount of rate case expense and what is the appropriate amortization period?

FPUC: $144,815, to be amortized over four years. See MFR schedule C-13 and adjustment 8N on MFR Schedule G-2 (C-5), page 8 of 10. The forthcoming response to Interrogatory No. 183 will provide an update of rate case expense as of the latest date possible prior to hearing. (BACHMAN)

ISSUE 38: Should there be an adjustment to Account 930 to remove expenses for image building advertising in 1993?

FPUC: Staff has advised that this issue has been withdrawn.

ISSUE 39: Should there be an adjustment to Account 913 to remove expenses associated with the production of a corporate video?

FPUC: The Company has agreed to remove expenses associated with the corporate video. If Staff is in agreement that the projected 1995 amount is $2,712, the Company will reduce advertising expenses accordingly. See Company response to Audit Exception No. 1. (SMITH)

ISSUE 40: Is FPUC's requested level of outside services for the 1995 projected year appropriate?

FPUC: Yes, the appropriate amounts of outside service expense for the projected test year in accounts 9231, 9232, and 9233 are $38,302, $28,669, and $47,578, respectively. See MFR Volume 2, Schedule G-2(c-5), pages 7 and 8. (BACHMAN)

ISSUE 41: What is the appropriate amount of injuries and damages expense for 1993 and 1994?

FPUC: Staff has advised that this issue has been withdrawn.

ISSUE 42: What are the appropriate trending factors to be used in deriving projected operating expenses and how should they be applied?

FPUC: The appropriate trending factors used in deriving projected operating expenses are shown in MFR Volume 2, Schedule G-2(c-5). This schedule also shows the appropriate application of the trending factors. (BACHMAN)

ISSUE 43: Should the projected test year expense be adjusted for the effect of changing the trend factors?

FPUC: No, changes to the trending factors are not necessary. See Company position on Issue 42. (BACHMAN)

ISSUE 44: What is the appropriate amount of projected test year O&M Expense?

FPUC: The appropriate amount of O & M expense for the projected test year is $7,615,790. See MFR Volume 2, Schedule G-2(c-1), page 1. (BACHMAN)

ISSUE 45: What is the appropriate amount of projected test year

Depreciation and Amortization Expense? This is a calculation based upon the decisions on preceding issues.

FPUC: The projected test year Depreciation and Amortization Expense is $1,612,518, as shown in MFR Volume 2, Schedule G-2(c-17), pages 61 and 63. (MARTIN)

ISSUE 46: Should an adjustment be made to forecasted ESOP costs, and if so, what is the appropriate adjustment? (Audit Disclosure No. 5)

FPUC: No adjustment is appropriate. The Company uses current common stock prices to determine what the cost should be to value the stock that employees purchase. The below market prices reflected on the MFR Schedule G-3(d-5) are the cost values of the treasury stock issued through the ESOP. The difference between cost and current market values are recorded in premium accounts. See Schedule G-3(d-5) in MFR Volume 2, page 81. (MARTIN)

ISSUE 47: Is the company in compliance with Rule 25-14.013, Florida Administrative Code, "Accounting for Deferred Income Taxes under SFAS 109?"

FPUC: Yes, the Company complies with Rule 25-14.013. (MARTIN)

ISSUE 48: Should an adjustment be made to income tax expense, including ITC synchronization and interest reconciliation, and if so, what is the appropriate adjustment?

FPUC: No, the appropriate amount of income tax expense is included in the MFR filing and summarized on MFR Schedule G-2(c-1). ITC synchronization and interest reconciliation have been properly recorded. (MARTIN)

ISSUE 49: What is the appropriate level of property taxes, including adjustments for non-utility property and common plant allocated to non-utility operations?

FPUC: The appropriate level of property taxes for the projected test year is $547,498. This already includes an adjustment that removed non-utility and common plant related property taxes. See MFR Schedule G-2(c-30), and Schedules C-2 and C-30. (BACHMAN)

ISSUE 50: Should an adjustment be made to Taxes Other, and if so, what is the appropriate adjustment?

FPUC: No adjustment should be made. The appropriate amount of Taxes Other for the projected test year is $983,231. See MFR Volume 2, Schedule G-2(c-1), page 37. (BACHMAN)

ISSUE 51: Is FPUC's requested level of net operating income (NOI) in the amount of $600,147 for the 1993 historical test year and

$988,052 for the 1995 projected test year appropriate?

FPUC: FPUC's requested level of NOI for the 1995 projected test year is $988,052 before the requested rate relief. FPUC's requested level of NOI for the 1993 historic year was $1,677,225. See MFR Volume 2, Schedule G-2(c-1), page 37. (BACHMAN)

ISSUE 52: What is the appropriate test year revenue expansion factor to be used in calculating the revenue deficiency?

FPUC: The appropriate test year revenue expansion factor to be used in calculating the revenue deficiency is 1.6139054. See MFR Volume 2, Schedule G-4. (BACHMAN)

ISSUE 53: What is the proper amount and ratemaking treatment of expenses associated with the environmental clean-up of manufactured gas plant sites?

FPUC: The Company should continue to recover $240,000 annually for the ten year period authorized by the Commission in its last rate case, Docket No. 900151-GU. See current rate case MFR direct testimony of Mr. Bachman, page 7, line 12 through page 9, line 4. (BACHMAN)

ISSUE 54: What is the appropriate ratemaking treatment for piping allowances? Is the amount and the amortization of the piping allowances appropriate? (Audit Disclosure No. 9)

FPUC: The requested ratemaking treatment, and amount and amortization are appropriate. See answers to Interrogatories Nos. 83 and 84; Audit Disclosure No. 9; MFR direct testimony of Mr. Smith, pages 26 through 29; and FPSC Order No. 6500 (February 6, 1975), at pages 6 and 7. (SMITH)

ISSUE 55: What is the appropriate ratemaking treatment for conversion expenses? Is the amount and the amortization of the conversion expenses appropriate? (Audit Disclosure No. 9)

FPUC: A reasonable amount of conversion expense should be included in base rates. This amount should be based on historical and projected conversions. The amount the Company has included in the projected test year is both reasonable and necessary. See Company positions on Issues 16 and 17. (SMITH/BACHMAN)

ISSUE 56: What is the appropriate expense and ratemaking treatment for the program to raise water heaters to 18 inches above floor level in garages? (Audit Disclosure No. 9)

FPUC: See answer to Interrogatory No. 97; Audit Disclosure No. 9; and MFR direct testimony of Mr. Smith, pages 52 through 55. (SMITH)

ISSUE 57: Is the Company's adjustment to revenues as a result of transferring customers from one rate schedule to another appropriate? (Audit Disclosure No. 14)

FPUC: Staff has advised that this issue has been withdrawn.

ISSUE 58: Should an adjustment be made to the insurance reserves and insurance expense? (property, liability, auto, workers comp, medical)

FPUC: No. The appropriate amount of insurance reserves and expenses are reflected in MFR Schedule G-1(b-13). The insurance projection methodologies used were consistent with the Company's prior rate cases. (BACHMAN)

ISSUE 59: Should an adjustment be made to meter change-out expense?

FPUC: No. The estimated number of meter change-outs in 1995 exceed those in 1993 and are estimated to only be slightly less than 1994 (1993 - 3,759, 1994 - 4,354, 1995 - 4,275 est.) See amended answer to Interrogatory No. 76. (STEIN)

ISSUE 60: Should pension and post retirement benefits expense be adjusted to reflect updated projections?

FPUC: The pension and post retirement benefits expense reflected in MFR Volume 2, Schedule G-2(c-5), page 8, reflects the most current information the Company has available from its consultants. The Company may have an updated projection for these benefits before the hearing. If available, the expense should be adjusted to the most current updated projection. (BACHMAN)

ISSUE 61: Should an adjustment be made to reduce expenses for officer and management fringe benefits?

FPUC: No. The Company does not provide specific officer and management fringe benefits, other than automobile benefits, to which no adjustment is appropriate. (BACHMAN)

ISSUE 62: Should an adjustment be made for business meals and entertainment expenses?

FPUC: No. Meals and entertainment included in the test year are necessary, recurring and reasonable operation expenses. (BACHMAN)

ISSUE 63: Should an adjustment be made for employee awards and activities expenses?

FPUC: The Company does not have employee activities or awards and accordingly this issue does not need to be addressed. However, if the Company did have expenses relating to these items, they should be allowed as a necessary and recurring operation expense, if reasonable. (BACHMAN)

ISSUE 64: Should expenses be reduced to remove selling expenses not amortized? (Audit Exception No. 2)

FPUC: Yes. See Audit Exception No. 2. (SMITH)

ISSUE 65: Should an adjustment be made to expenses associated with moving into the new addition?

FPUC: The Company should have made an adjustment (increase to expenses) associated with moving into the new addition. The Company will incur additional costs specifically related to the new office addition, but our MFR filing for the projected test year did not provide for any such expenses. (BACHMAN)

ISSUE 66: The Company made an adjustment to increase Account 813, Other Gas Supply Expenses, to hire a gas supply assistant and for odorant expense. Is this adjustment appropriate?

FPUC: Gas Supply Analyst - Yes. See MFR direct testimony of Mr. Stein, p. 4, line 19 through p. 6, line 21. See adjustment 8A on MFR Schedule G-2(c-5) pages 1 and 10. (STEIN/BACHMAN)

Odorant Expense - Yes. See response to Interrogatories Nos. 74 and 75 and adjustment 8A mentioned above. (STEIN/BACHMAN)

ISSUE 67: The Company made an adjustment to increase Account 874, Main & Service Expense, to hire a line locator and for "one call" fee increase. Is this adjustment appropriate? (Audit Disclosure No. 15)

FPUC: Yes. It is necessary to have an additional line locator and the increase for "one-call" fee is appropriate. See MFR direct testimony of Mr. Stein, page 6, line 22 through page 8, line 17. (STEIN)

ISSUE 68: The Company made an adjustment to increase Accounts 878, Meter & House Regulator Expense, and 887, Maintenance of Mains, to normalize for lost time due to above average medical related absences? Is this adjustment appropriate? (Audit Disclosure No. 15)

FPUC: Yes. See answer to Interrogatory No. 92. (STEIN)

ISSUE 69: The Company made an adjustment to increase Account 880, Other Expense Maps & Records, for the Pactel system fee increase and to reclassify an engineering technician. Is this adjustment appropriate?

FPUC: Yes. The Pactel System fee increase is appropriate. See answer to Interrogatory No. 93. The engineering technician reclassification is also appropriate. See MFR direct testimony of Mr. Stein, page 8, line 18 through page 9, line 4. (STEIN)

ISSUE 70: The Company made an adjustment to increase Account 904, Uncollectible Accounts, to adjust to the 3 year average charge offs. Is this adjustment appropriate?

FPUC: The Company made an adjustment to uncollectible expense to the three year average charge offs. This is consistent with both our previous Marianna rate case and gas rate case and is an appropriate adjustment. See MFR Schedule C-8 and the answers to Interrogatories Nos. 54 and 94. (BACHMAN)

ISSUE 71: The Company made an adjustment to increase Account 912, Selling & Demonstrating Expense, to add 5 new positions in the Marketing area. Is this adjustment appropriate? (Audit Disclosure Nos. 8 & 10)

FPUC: Yes. See answers to Interrogatories Nos. 95 and 96; Audit Disclosure No. 10; MFR direct testimony of Mr. Smith, pages 23 through 26 and 55 through 57; and MFR Schedule G-2(c-5), page 6. (SMITH)

ISSUE 72: The Company made an adjustment to increase Account 913, Advertising Expense, to add an Energy Savers Program, and for other information and instruction. Is this adjustment appropriate?

FPUC: Yes. See answer to Interrogatory No. 97; Audit Disclosure No. 8; MFR direct testimony of Mr. Smith, pages 49 through 52; and MFR Schedule G-2(c-5), page 6. (SMITH)

ISSUE 73: The Company made an adjustment to increase Account 916, Miscellaneous Sales Expense, for marketing development and demonstration, water heater stands, conversions, piping allowance, and other miscellaneous. Is this adjustment appropriate?

FPUC: Yes. See Audit Disclosure No. 9; and MFR Schedule G-2(c-5), page 7. (SMITH)

ISSUE 74: The Company made an adjustment to increase Account 921, Office Supplies & Expense, for the company use portion of purchased gas. Is this adjustment appropriate?

FPUC: The adjustment to increase Account 921 for the company use portion of purchased gas is appropriate. This is to allow recovery for the company use portion of the gas costs. This adjustment was previously allowed in our last gas rate case, Docket No. 900151-GU. (BACHMAN)

ISSUE 75: Should an adjustment be made to reduce expenses for the depreciation study? (Audit Disclosure No. 7)

FPUC: The 1995 projection test year did include amortization costs attributable to a previous depreciation study. These costs represent an actual expense that the company has incurred. It would therefore be reasonable to amortize the unamortized balance over four additional years. (MARTIN)

ISSUE 76: The Company made an adjustment to increase Account 926.3, Retirees Benefits-Post Retirement, for the post retirement life insurance benefits obligation. Is this adjustment appropriate? (Audit Disclosure No. 12)

FPUC: The Company made a $25,604 adjustment to Account 9263 for the post retirement life insurance benefits obligation. The life insurance portion represents an actual liability to the Company, as per its consultants (Buck Consultants). See also the Company position on Issue 92. (BACHMAN)

ISSUE 77: Should the Residential Energy Efficiency Program be recovered through base rates? If so, what are the imputed revenues and appropriate expenses in the projected test year?

FPUC: Yes. See answers to Interrogatories Nos. 33 and 97 and MFR direct testimony of Mr. Smith, pages 37 and 38. Further detail regarding imputed revenues and expenses, to the extent determinable, will be provided in the forthcoming answers to Interrogatories Nos. 158 through 160. (SMITH)

ISSUE 78: Should the Residential Energy Audit Program be recovered through base rates? If so, what are the imputed revenues and appropriate expenses in the projected test year?

FPUC: Yes. See answers to Interrogatories Nos. 33 and 97 and MFR direct testimony of Mr. Smith, pages 39 through 41. Further detail regarding imputed revenues and expenses, to the extent determinable, will be provided in the forthcoming answers to Interrogatories Nos. 158 through 160. (SMITH)

ISSUE 79: Should the Homeowners maximized Energy Savings Program be recovered through base rates? If so, what are the imputed revenues and appropriate expenses in the projected test year?

FPUC: Yes. See answers to Interrogatories Nos. 33 and 97 and MFR direct testimony of Mr. Smith, pages 41 and 42. Further detail regarding imputed revenues and expenses, to the extent determinable, will be provided in the forthcoming answers to Interrogatories Nos. 158 through 160. (SMITH)

ISSUE 80: Should the Business Energy Efficiency Plan be recovered through base rates? If so, what are the imputed revenues and appropriate expenses in the projected test year?

FPUC: Yes. See answers to Interrogatories Nos. 33 and 97 and MFR direct testimony of Mr. Smith, pages 42 and 43. Further detail regarding imputed revenues and expenses, to the extent determinable, will be provided in the forthcoming answers to Interrogatories Nos. 158 through 160. (SMITH)

ISSUE 81: Should the Market Development & Demonstration Program be recovered through base rates? If so, what are the imputed revenues and appropriate expenses in the projected test year? (Audit Disclosure No. 9)

FPUC: Yes. See answers to Interrogatories Nos. 33 and 97, Audit Disclosure No. 9 and MFR direct testimony of Mr. Smith, pages 44 and 45. Further detail regarding imputed revenues and expenses, to the extent determinable, will be provided in the forthcoming answers to Interrogatories Nos. 158 through 160. (SMITH)

ISSUE 82: Should the Consumer Affairs Services be recovered through base rates? If so, what are the imputed revenues and appropriate expenses in the projected test year?

FPUC: Yes. See answers to Interrogatories Nos. 33 and 97 and MFR direct testimony of Mr. Smith, pages 45 and 46. Further detail regarding imputed revenues and expenses, to the extent determinable, will be provided in the forthcoming answers to Interrogatories Nos. 158 through 160. (SMITH)

ISSUE 83: Should the Utility Service & Information Program be recovered through base rates? If so, what are the imputed revenues and appropriate expenses in the projected test year?

FPUC: Yes. See answers to Interrogatories Nos. 33 and 97 and MFR direct testimony of Mr. Smith, pages 46 and 47. Further detail regarding imputed revenues and expenses, to the extent determinable, will be provided in the forthcoming answers to Interrogatories Nos. 158 through 160. (SMITH)

ISSUE 84: Should the Business Energy Savings Team be recovered through base rates? If so, what are the imputed revenues and appropriate expenses in the projected test year?

FPUC: Yes. See answers to Interrogatories Nos. 33 and 97 and MFR direct testimony of Mr. Smith, pages 48 and 49. Further detail regarding imputed revenues and expenses, to the extent determinable, will be provided in the forthcoming answers to Interrogatories Nos. 158 through 160. (SMITH)

ISSUE 85: Should the Energy Savers Program be recovered through base rates? If so, what are the imputed revenues and appropriate expenses in the projected test year?

FPUC: Yes. See answers to Interrogatories Nos. 33 and 97 and MFR direct testimony of Mr. Smith, pages 49 through 52. Further detail regarding imputed revenues and expenses, to the extent determinable, will be provided in the forthcoming answers to Interrogatories Nos. 158 through 160. (SMITH)

ISSUE 86: Should the Appliance Conservation and Education Program be recovered through base rates? If so, what are the imputed revenues and appropriate expenses in the projected test year?

FPUC: Yes. See answers to Interrogatories Nos. 33 and 97 and MFR direct testimony of Mr. Smith, pages 52 through 55. Further detail regarding imputed revenues and expenses, to the extent determinable, will be provided in the forthcoming answers to Interrogatories Nos. 158 through 160. (SMITH)

ISSUE 87: Should the Scratch and Sniff Program be recovered through base rates? If so, what are the imputed revenues and appropriate expenses in the projected test year?

FPUC: Staff has advised that this issue has been withdrawn.

ISSUE 88: Should the Dr. Northwind Program be recovered through base rates? If so, what are the imputed revenues and appropriate expenses in the projected test year?

FPUC: Staff has advised that this issue has been withdrawn.

ISSUE 89: Should there be any other adjustments to payroll expense?

FPUC: Payroll expenses are projected as separate line items for Operation and Maintenance expenses. See MFR Volume 2, Schedule G-2(c-5). Payroll expense was trended unless specific changes were anticipated relating to payroll. These specific changes are explained on MFR Schedule G-2(c-5), pages 1 through 10; Direct Testimony of Mr. Smith, pages 20 through 57; the response to Request for Production No. 13; and the answers to Interrogatories Nos. 51, 55, 95, 96 and 115. (BACHMAN/SMITH)

ISSUE 90: Should the advertising associated with the marketing programs be recovered through base rates? If so, are the expenses appropriate? (Audit Disclosure No. 8)

FPUC: Staff has advised that this issue has been withdrawn.

ISSUE 91: Should an adjustment be made to reduce maintenance expense for projects that have been deferred to 1996 or beyond?

FPUC: No. There have not been any gas distribution projects deferred to 1996. Therefore, adjustments to maintenance expenses would be inappropriate. (SCHNEIDERMANN)

ISSUE 92: Has the Company properly complied with FASB 106? (Audit

Disclosure No. 12)

FPUC: The Company has properly complied with FASB 106. The MFR filing reflects the actual liability of the Consolidated Gas Division for both the medical and life insurance portions of FASB 106. See MFR Volume 2, Schedule G-2(c-5), Account 9263, for the amount. Also see response to Audit Disclosure No. 12 and answer to Interrogatory No. 103. (BACHMAN)

ISSUE 93: Has FPUC justified its benchmark variance in the Distribution functional area?

FPUC: Yes. See justification items DE-1 and DE-2 on MFR Schedule C-38, p. 3. (STEIN)

ISSUE 94: Has FPUC justified its benchmark variance in the Sales functional area?

FPUC: Yes. See justification items SE-1, SE-2 and SE-3 on MFR Schedule C-38, p. 3. (SMITH/BACHMAN)

ISSUE 95: Has FPUC justified its benchmark variance in the A&G functional area?

FPUC: Yes. See justification items A&G-1, A&G-2 and A&G-3 on MFR Schedule C-38, p. 4. (BACHMAN)

ISSUE 96: Has FPUC justified its benchmark variance in the Other Gas Supply area?

FPUC: Yes. See justification item OGSE-1 on MFR Schedule C-38, p. 5. (STEIN)

REVENUE DEFICIENCY

ISSUE 97: What is the appropriate projected test year revenue deficiency?

FPUC: The $2,079,120 test year revenue deficiency is shown in MFR Volume 2, Schedule G-5. The Company's filing of supplemental rate base testimony and exhibits are expected to increase this figure. However, the Company's requested revenue increase will remain at $2,079,120. (BACHMAN)

ISSUE 98: Should any portion of the $386,927 interim increase granted by Order No. PSC-94-1519-FOF-GU issued on December 9, 1994, be refunded to the customers?

FPUC: No. The final total dollars of revenue deficiency are greater than the $386,927 of interim relief granted. (BACHMAN)

ISSUE 99: Should FPUC-GAS be required to file, within 60 days after the date of the final order in this docket, a description of all entries or adjustments to its future annual reports, rate of return reports, published financial statements and books and records that will be required as a result of the Commission's findings in this rate case?

FPUC: Yes. (BACHMAN)

RATE DESIGN AND COST OF SERVICE

ISSUE 100: What are the appropriate billing determinants to be used in the projected test year?

FPUC: As set forth on MFR Schedule E1, page 3 of 3. (SCHNEIDERMANN)

ISSUE 101: What should the miscellaneous service charges be?

FPUC: As set forth on MFR Schedule E-1, page 3 and E-3, pages 2 through 6. (STEIN)

ISSUE 102: What is the appropriate cost of service methodology to be used in allocating costs to the various rate classes?

FPUC: As set forth on MFR Schedules H1, H2 and H3, all pages, as revised by Mr. Schneidermann's February 16, 1995 supplemental testimony and exhibits. (SCHNEIDERMANN)

ISSUE 103: If any revenue increase is granted, what should be the rates and charges for Florida Public Utilities Company resulting from the allocation of the increase among customer classes?

FPUC: As set forth on MFR Schedules H1, H2 and H3, all pages, as revised by Mr. Schneidermann's February 16, 1995 supplemental exhibits, for cost of service allocations along with MFR Direct Testimony of Mr. Schneidermann, page 22, line 10 through page 23 line 10 and Supplemental Direct Testimony of Mr. Schneidermann, page 6, line 17 through page 7, line 14. (SCHNEIDERMANN)

ISSUE 104: Should the public housing authority rate schedule be eliminated?

FPUC: Yes. See MFR Direct Testimony of Mr. Schneidermann, page 18, line 11 through page 20, line 19. (SCHNEIDERMANN)

ISSUE 105: Should the transportation administration charge be approved?

FPUC: Yes. See MFR Direct Testimony of Mr. Schneidermann, page 11, line 17 through page 16, line 12 and page 26, line 8 through page 28, line 5. (SCHNEIDERMANN)

g) <u>Stipulated Issues</u>

None at this time.

h) <u>Pending Motions or Other Matters</u>

February 24, 1995 Motion for Leave to File Supplemental Direct Rate Base Testimony and Exhibits.

i) <u>Compliance</u>

FPUC believes the foregoing complies with the requirements of Order No. PSC-94-1485-PCO-GU.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the Prehearing Statement of Florida Public Utilities Company has been furnished on this 2nd day of March, 1995 by hand-delivery to **VICKI D. JOHNSON, ESQ.**, Division of Legal Services, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0863.

Wayne L. Schiefelbein

WAYNE L. SCHIEFELBEIN