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COMMISSION CLERK

DATE: December 16, 2003
TO: Blanco Bayo, Director of the Commission Clerks & Administrative Services
FROM: Jennifer J. Iwenjiora, Professional Accountant Specialist, Division of Economic Regulation
RE: Docket No. 030601-SU, Investigation of Possible Overearnings by North Peninsula Utilities, Inc. in Volusia County

Please place the attached letters from Mr. Marty Deterding in the above-named utility's official docket file.

cc: Division of Economic Regulation (Rendell)
Division of General Counsel (Fleming)

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November 10, 2003

Mr. Troy Rendell
Division of Economic Regulation
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: North Peninsula Utilities Corporation
Rate Investigation; PSC Docket No. 030601-SU
Our File No. 26097.04

Dear Troy:

After review of the staff's draft schedules and discussions with management and their accounting consultants, we have reached the following conclusions with regard to the issues underlying the alleged overearnings for North Peninsula Utilities Corporation. I tried to separate these conclusions out, based upon the year to which they relate and whether they relate to overearnings or going forward rate reductions.

1. 2002 Overearnings - The staff suggests that there are significant overearnings in calendar year 2002, based upon their calculations. However, the amount which is subject to refund is only the amount of the index implemented during the last 40% of that calendar year. As such, because the 2002 index was implemented in August, only approximately \$1,135 in index increase was received during that year and is therefore subject to refund. The Utility management believes that there are some potential issues related to this alleged overearnings, not the least of which is the fact that the related party management agreement previously accepted in the Utility's last rate proceedings has not been increased in several years. On a going forward basis, that will be corrected.

In order to resolve these issues, the Utility is willing to recognize the \$1,135 in overearnings as refundable for calendar year 2002. However, because the cost of refunding that amount of money would exceed the amount of the refund itself, we would highly recommend that the staff agree to allow us to book those monies to CIAC, rather than go through

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Mr. Troy Rendell
November 10, 2003
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the process of a refund at substantially higher costs and difficulty.

2. 2003 Overearnings in Rates Going Forward - The staff's initial analysis for 2003 suggests that overearnings of approximately \$9,000 still exists for calendar year 2003. However, for the first 7 ½ months of that year, the 2002 index increase revenues totaling approximately \$1,702 is the potential amount subject to refund ($\$2,724 \times 7.5/12$). For the last 4 ½ months, the amount of jurisdictional overearnings is the entire prorata overearnings ($\$8,623 \times 4.5/12 = \$3,234$). Therefore, the jurisdictional refund for calendar year 2003 is approximately \$5,000, if the actual earnings equal those projected for the year.

The Utility believes that once the 2003 year is complete, all of the changes in general operating costs and actual expenses incurred by the Utility, as well as the capital additions that the staff has agreed to recognize, will demonstrate the Utility has not overearned in 2003 and will not overearn on a going forward basis in 2004. The staff's own estimates for calendar year 2004, suggest that any potential overearnings will be substantially reduced in 2004 from those projected for 2003.

In order to ensure that a proper analysis and review of the actual results of operations is utilized in establishing any refund or rate reduction on a going forward basis, the Utility would propose that the Commission take no further action other than dealing with the 2002 overearnings as outlined above, at the present time. Instead, the Utility would propose that: (1) the Utility will agree to file its 2003 Annual Report no later than April 30, 2004; and (2) that the Utility will obtain a letter of credit for jurisdictional overearnings for 2003 plus the staff's own calculation of the potential annual overearnings for 2004, for a total letter of credit of approximately \$7,000; and (3) that thereafter the staff will delay any further action on this proceeding until actual operations information is available at the end of April 2004.

After the Annual Report is filed, the Utility would propose that the staff review that to see if and to what extent, overearnings did occur during 2003, and whether any needed rate reduction is apparent based upon the actual operating expense of the Utility.

Mr. Troy Rendell
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We believe that the proposal as outlined above will more accurately set not only the appropriate refunds for 2003, if any, but also the appropriate rate reductions, if any, based upon the changes in operations that actually will have occurred during calendar year 2003 and the plant additions that the Utility is currently in the process of undertaking, which will also affect those potential earnings. In the meantime, the customers will be fully protected by the proposed letter of credit as outlined above.

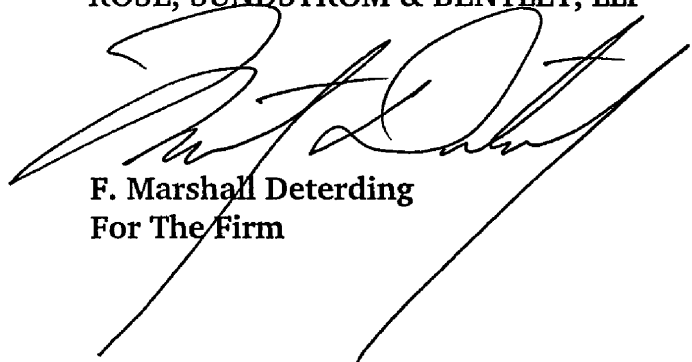
Please review this proposal and let's get together and discuss it further in the next few days.

If you have any questions in this regard or if I can provide you with any further information, please do not hesitate to contact me.

I want to thank the staff for their cooperation and hard work in trying to analyze this case and ensure that only proper refunds and rate reductions are undertaken and agreeing to give us time to work these matters out to ensure that appropriate rates are set on a going forward basis. I look forward to hearing from you concerning this proposal for finalizing this case.

Sincerely,

ROSE, SUNDSTROM & BENTLEY, LLP

A large, stylized handwritten signature in black ink, appearing to read 'F. Marshall Deterding', is written over the typed name and firm name.

F. Marshall Deterding
For The Firm

FMD/tms

cc: Katherine Fleming, Esq.
Mr. Tyree F. Wilson, Jr.
Mr. Robert Hillman
Mr. Robert Dodrill

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November 6, 2003

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Mr. Troy Rendell
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2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: North Peninsula Utilities Corporation
Rate Investigation; PSC Docket No. 030601-SU
Our File No. 26097.03

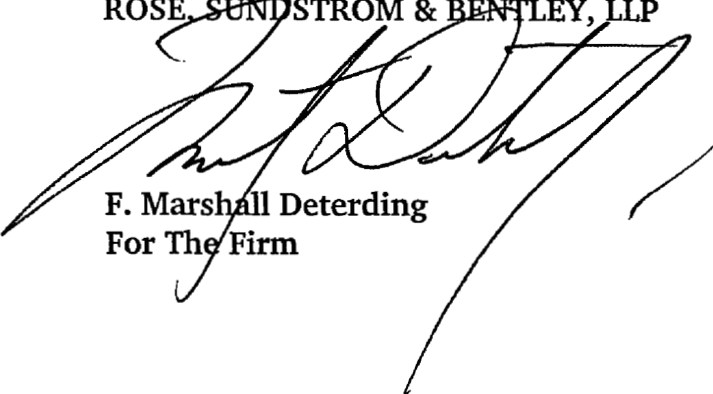
Dear Troy:

We are currently reviewing the schedules that you provided to me a few days ago, concerning the potential overearnings for North Peninsula Utilities. Mr. Hillman, the primary officer of the Utility, is currently out for several days because his Mother suffered a stroke this week. I will not have a chance to discuss the staff's initial position until he returns on Monday or Tuesday of next week. As such, I request your indulgence for another week before we get back to you with our comments. Shortly after that time, we would like to arrange a meeting with members of the Commission staff to hopefully reach a resolution of this case, if at all possible.

I look forward to hearing from you as soon as possible in this regard.

Sincerely,

ROSE, SUNDSTROM & BENTLEY, LLP


F. Marshall Deterding
For The Firm

FMD/tms

cc: Katherine Fleming, Esq.
Mr. Robert Hillman

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