ORIGINAL

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December 29, 2003

Ms. Blanca S. Bayó, Director
Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0870

RE: Docket No. 030438-EI

Dear Ms. Bayó:

Enclosed are an original and fifteen copies each of Direct Testimony of Hugh Larkin, Jr., Donna DeRonne and Mark A. Cicchetti for filing in the above-referenced docket.

Please indicate receipt of filing by date-stamping the attached copy of this letter and returning it to this office. Thank you for your assistance in this matter.

Sincerely,

Stephen C. Burgess
Deputy Public Counsel

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Enclosures

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CAF 1
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GCL 1
OPC
MMS
SEC 1
OTH

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Florida Public Utilities	)	
Company for an increase in its rates	)	Docket No. 030438-EI
and charges in their Consolidated Electric	)	Filed: December 29, 2003
Division.	)	

DIRECT TESTIMONY OF

HUGH LARKIN, JR.

Respectfully submitted,
Harold McLean
Public Counsel

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Attorney for the Citizens
Of the State of Florida

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Florida Public Utilities Company for an increase in its rates and charges in their Consolidated Electric Division.	))))	Docket No. 030438-EI Filed: December 29, 2003

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TABLE OF CONTENTS

DIRECT TESTIMONY OF HUGH LARKIN, JR.

ON BEHALF OF THE CITIZENS OF FLORIDA

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA PUBLIC UTILITIES COMPANY

DOCKET NO. 030438-EI

I. INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Hugh Larkin, Jr. I am a Certified Public Accountant licensed in the States of Michigan and Florida and the senior partner in the firm of Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC, has extensive experience in the utility regulatory field as expert witnesses in over 400 regulatory proceedings including numerous electric, water and sewer, gas and telephone utilities.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE

COMMISSION?

A. Yes. Over the last 27 years, I have testified before the Florida Public Service Commission in numerous rate cases involving electric utilities.

Q. BY WHOM WERE YOU RETAINED, AND WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. Larkin & Associates, PLLC, was retained by the Florida Office of Public Counsel ("OPC") to review the rate increase requested by Florida Public Utilities Company ("Company" or "FPU") for its consolidated electric division. Accordingly, I am appearing on behalf of the Citizens of Florida ("Citizens").

Q. WHAT AREAS WILL YOU BE ADDRESSING IN YOUR TESTIMONY?

A. I will be addressing predominantly rate base issues and other revenues. Donna DeRonne, also with Larkin & Associates, PLLC will be addressing other accounting issues, as well as Mark Cicchetti who will be filing testimony on behalf of the Citizens in the area of cost of capital/rate of return.

II. <u>WORKING CAPITAL</u>

Q. ARE YOU PROPOSING ADJUSTMENTS TO THE COMPANY'S WORKING CAPITAL REQUEST?

A. Yes, I am.

Q. WOULD YOU PLEASE DISCUSS FLORIDA PUBLIC UTILITIES COMPANY'S WORKING CAPITAL REQUEST AND THE ADJUSTMENTS YOU ARE RECOMMENDING?

A. Yes. On Schedule C-59(B-15), FPU shows its working capital request both for the historical test year 2002 and projected test years 2003 and 2004. The amount included in rate base upon which the Company's revenue requirement is calculated is the 2004 projected working capital, which is based on the 2002 calculation of working capital escalated in most instances by a factor of inflation times customer growth. FPU's calculation of working capital is overstated in a number of areas.

Q. WOULD YOU PLEASE DISCUSS YOUR ADJUSTMENTS TO WORKING CAPITAL AND WHY SUCH ADJUSTMENTS ARE APPROPRIATE?

A. Yes, I will. Each of my recommended adjustments to the Company's working capital request are presented on Exhibit___(HL-1), Schedule 1, attached to this testimony. Exhibit___(HL-1), Schedule 1 presents the Company's requested working capital amounts, by component, my recommended adjustments, and the adjusted balance. As shown at the bottom of the Schedule, FPU's working capital request should be reduced from positive $559,994 to ($3,820,066), an overall reduction of $4,380,060. I will address each separate adjustment below.

Cash Working Capital

Q. WHAT HAS FPU INCLUDED IN THE PROJECTED 2004 WORKING CAPITAL FOR CASH WORKING CAPITAL?

A. FPU has included as a working capital requirement for cash amounts, in Accounts 1310.12 and 1310.7 and Accounts 1340.1 and 1340.3, a total projected amount of $1,802,940 in 2004. The Company projected this amount by allocating total cash for the year 2002 and then escalating the cash balance by a factor, which reflects inflation times customer growth.

Q. IS THIS THE SAME METHODOLOGY UTILIZED BY THE COMMISSION IN THE LAST FPU CASE RELATED TO THE COMPANY'S MARIANNA ELECTRIC OPERATIONS?

A. No, it is not. The Commission used a five-year historical average of cash balances, including the historical test year, to set the level of cash for working capital.

Q. WHAT IS THE COMPANY'S REASON FOR SUGGESTING A DIFFERENT METHODOLOGY?

A. Company witness Mesite, on page 6 of the accounting witnesses' testimony, states:

> First, currently we report cash at the lower of the current period 13-month average or the five-year 13-month average: we propose that the cash should be reported exclusively at the current 13-month average to allow for consistency in the rate base determinants.

Q. IS THAT A VALID REASON FOR CHANGING THE BASIS FOR DETERMINING THE CASH COMPONENT OF WORKING CAPITAL?

A. No, it is not. The Commission properly used a historical five-year average, because a five-year average reflects a normalized level of cash balance the Company has historically needed for operating purposes. The 2002 balance reflects unusually high levels of cash due mostly as a result of the issuance of Industrial Development Bonds related to Palm Beach County. These funds are unrelated to electric operations. To more appropriately reflect the actual level of cash used in operations, a five-year average of 13-month averages, including the historical test year 2002, is more reflective of what cash is needed for the day-to-day operations of the Company.

Q. WHAT IS THE HISTORICAL BALANCES OF CASH FOR THE YEARS 1998 THROUGH THE YEAR 2002 IN ACCOUNTS 1310.12 AND 1310.7?

A. The actual 13-month average balance for those five years are as follows:

1998	($295,605)[1]
1999	18,288
2000	(301,555)
2001	(37,797)
2002	761,824
5-Year Total	145,155
5-Year Average	$ 29,031
Allocated to electric 37%	$10,742

The historical average cash in Accounts 1310.12 and 1310.7 for the total Company is $29,031. This amount allocated to the electric division at 37% is $10,742.

[1] 12-month average.

Q. FPU USED A HIGHER ALLOCATION PERCENTAGE OF 39% RELATED TO THE ELECTRIC OPERATIONS, WHY IS THAT NOT APPROPRIATE?

A. FPU is assigning 39% of all cash balances to the electric operations after removing the water utility revenues from the allocations process due to the sale of the water utility. FPU is assuming that the cash balances utilized in operations on a total Company basis will be exactly the same even though FPU will not have a water utility in 2004. FPU, therefore, has removed from the allocation factor, the revenues associated with the water utility and allocated a higher percentage of the total cash to the electric operations. This is inappropriate. First, it assumes that there were no cash requirements in working capital for the water operations. Second, when the water operation was sold, it assumes the cash requirements would remain exactly the same. I have utilized the 37% allocation, which was the allocation used assuming water operations were included in the allocation factor. This allocates part of the cash to water, and assumes that absent a water operation, total cash will decline and total Company operations will not need the same level of cash.

Q. ARE THERE OTHER ACCOUNTS THAT FPU HAS INCLUDED IN CASH WORKING CAPITAL WHICH YOU HAVE EXCLUDED?

A. Yes. Accounts 1340.1 and 1340.3 have been included by FPU in the working cash requirement. Account 1340.1 is Special Deposits and only had a balance in it in the month of December 2001. That balance of $541,088 was used to calculate a 13-month average balance of $41,622 on a total Company basis, which was projected to increase by inflation times customer growth in the years 2003 and 2004. The balance at December 2001 was for dividends that had been declared, which FPU witness Bachman indicated should not have been in this account in December 2001. No amount existed in this account after December 31, 2001, and the balance is $0 from that date forward to September 30, 2003. Obviously, it would be inappropriate to include a special deposit which no longer exists in the Company's cash working capital requirement. The second account, Account 1340.3, is Project Fund-Restricted. No balance appeared in this account in the years 1998, 1999, 2000 through October 2001. From November 2001 through November 2002, a declining balance appeared in this account. In the month of December 2002, the balance was a negative $31.28. From January 2003 through September 2003, there is no balance in this account. The amounts pertained to Palm Beach County Industrial Development Bonds that were restricted until spent on projects. The Company has taken a 13-month average for the historical test year 2002, which included the only period in which a balance appeared in this account, and has projected funds in this account for the projected test year 2004. These amounts should not be included in cash working capital. No cash balance appeared in this account either before the historical test year nor after the historical test year. The funds have been expended. Thus, this is not an ongoing cash requirement. Additionally, this project fund has to do with a specific project in Palm County not related to electric operations and is not related to day-to-day operations to be included as a component of working capital.

Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING TO CASH WORKING CAPITAL TO REFLECT THE FIVE-YEAR AVERAGE AND TO REMOVE THE BALANCES ASSOCIATED WITH SPECIAL DEPOSITS AND PROJECT FUNDS-RESTRICTED?

A. The five-year average allocated to electric is $10,742. The adjustment to working capital to bring the proposed Company balance down to that level is a reduction of $1,792,198.

Q. ARE THERE ANY OTHER ADJUSTMENTS TO CASH WORKING CAPITAL THAT YOU ARE RECOMMENDING?

A. Yes, Accounts 1310.4 through 1310.44, totaling $26,461, are cash balances at local electric division. In 2003, it was determined that those accounts were no longer needed. It would not be appropriate to include them as cash necessary for the Company's operations when those accounts were closed before the projected test year. In addition, FPU increased the working fund balance in Account 1350 Working Funds-FB Division by $200 for the sales of the water utility. I have removed that amount.

<u>Customer Accounts Receivable</u>

Q. HOW DID THE COMPANY DETERMINE CUSTOMER ACCOUNTS RECEIVABLE INCLUDED IN WORKING CAPITAL FOR THE PROJECTED TEST YEAR ENDING DECEMBER 31, 2004?

A. The Company utilized the historic test year customer accounts receivable balances in Accounts 1420 and 1430 and then escalated those balances by inflation times customer growth for the years 2003 and 2004.

Q. DO YOU AGREE WITH THE COMPANY'S APPROACH TO DETERMINING THE PROJECTED TEST YEAR ACCOUNTS RECEIVABLE BALANCE TO BE INCLUDED

IN WORKING CAPITAL?

A. No, I do not.

Q. WHAT IS INAPPROPRIATE ABOUT THE COMPANY'S APPROACH TO DETERMINING ACCOUNTS RECEIVABLE FOR WORKING CAPITAL PURPOSES?

A. First, the historical 2002 accounts receivable balances include amounts that I feel are inappropriate for inclusion in working capital for ratemaking purposes. These accounts relate to merchandising, amounts due from employees, and miscellaneous receivables related to damage done by third parties on Company electric property. The amount of receivables included in the Company's 2002 test year related to these receivables, which were escalated and included in the Working Capital requirement, were as follows:

	Marianna Division	Fernandina Beach Division
Account 1420.2 - Accounts Receivable Merchandising	$ 836	$22,250
Account 1420.21 - Accounts Receivable Customers A/R Billed	(2)	28,114
Account 1420.22 - Accounts Receivable		1,005
Account 1430.1 - Other Accounts Receivable-Employee	$ 4,122	$ 819
Account 1430.2 - Other Accounts Receivable-Miscellaneous	$21,777	$67,497
Total	$26,733	$119,685

The Company has included for both divisions $146,418 of receivables which relate to merchandising, third party damages owed to the Company, and other activities, including employee receivables, which are unrelated to the provision of electric service. These revenues and expenses are included below the line and ratepayers should not be required to pay a rate of return on receivables associated with non-regulated activities. These activities should be excluded from rate base and ratepayers should not be required to pay a rate of return on receivable balances associated with merchandising or third party damages. The 13-month average of receivables in the year 2002 of $3,169,574, on Schedule C-59 (B-15), should be reduced by $146,418, leaving a regulated utility balance of $3,023,156 in the historical test year.

Q. DO YOU FEEL THAT THE METHODOLOGY USED BY FPU TO PROJECT THE ACCOUNTS RECEIVABLE BALANCE IS A REASONABLE BASIS FOR PROJECTING FUTURE ACCOUNTS RECEIVABLE BALANCES?

A. No, I do not. The Company has projected Customer Accounts Receivable for the year 2004 by applying a factor, which multiplies inflation times customer growth. This is not the methodology which the Company used to project sales growth. The accounts receivable balance is related to revenues. Historically the Company's Utility Accounts Receivable has declined in total over the past few years. The following table shows Utility Accounts Receivable from 1998 through the year 2002 on a 13-month average basis except for the year 1998, which was calculated on a 12-month average basis, as it relates to operating revenues:

	Accounts Receivable	Operating Revenues	Receivable as a Percentage of Revenues
1998	$3,528,591	$40,253,776	8.76%
1999	3,476,995	37,544,667	9.26%
2000	3,545,382	39,304,084	9.02%
2001	3,023,955	39,049,631	7.74%
2002	3,023,156	40,929,682	7.39%

As can be seen from this schedule, Accounts Receivable has declined from $3,528,591 in 1998 to $3,023,156 in the year 2002. Obviously, there is no relationship to inflation times customer growth because the balance has declined over time, even though customer growth and inflation from 1998 to 2002 have increased. Since the level of accounts receivable as a percentage of revenues has declined over time, the use of the most recent historical test year relationship is a more reasonable way to project the accounts receivable balance in 2004. The 2002 percentage of accounts receivable to revenue was 7.39%. Applying that percentage to projected revenue of $41,827,588 results in a projected balance of $3,091,059. This is an increase from the 2002 balance of $3,023,156 (which excluded other receivables of $146,418) of $67,903. Exhibit___(HL-1), Schedule 1 shows $3,398,972, less other accounts receivable of $146,418, and a reduction of $161,495, to arrive at the projected balance of $3,091,059.

Accumulated Provision for Uncollectibles

Q. HOW SHOULD THE ACCUMULATED PROVISION FOR UNCOLLECTIBLES BE CALCULATED?

A. The historical relationship between Accounts Receivable and the Accumulated Provision for Uncollectibles is shown in the table below. The accumulated provision for uncollectibles is related to the number of accounts in customer accounts receivable that maybe uncollectible. The historical relationship between customer accounts receivable and the provision for uncollectibles is an indication of what percentage of receivables may become uncollectible. The relationship of uncollectible to receivable had increased until 2001. The relationship declined in 2002 and through the first nine months of 2003. The balances are presented below:

	Customer Accounts Receivable	Provision for Uncollectible Accounts	Percentage of Uncollectibles to Accounts Receivable
1998 (12 mos.)	$3,528,591	($43,682)	1.24%
1999	3,476,995	(83,798)	2.41%
2000	3,545,382	(94,155)	2.65%
2001	3,023,955	(101,037)	3.34%
2002	3,023,156	(91,567)	3.03%
2003 (10 mos.)	3,082,270	(54,375)	1.76%

I have used the average percentage of uncollectibles to accounts receivable of the years 2001 and 2002 to estimate the provision for the year 2004. The average for those two years is 3.19%. Applying that percentage to customer accounts receivable for 2004 results in an accumulated provision for uncollectibles of $98,605 ($3,091,059 x 3.19% = $98,605). I have adjusted the balance accumulated provision for uncollectibles in Account 1440 to that amount. This is a $360 reduction from the amount included by FPU.

Prepaid Insurance

Q. DO YOU AGREE WITH THE COMPANY'S ALLOCATION OF PREPAID INSURANCE TO THE ELECTRIC OPERATIONS OF FPU?

A. No, I do not. The Company allocated prepaid insurance based on revenue. The electric divisions of FPU were allocated 39% of prepaid insurance, which included an additional allocation as a result of the elimination of the water operations of FPU. In my opinion, there are two things wrong with this allocation. First, the prepaid insurance is primarily for premiums associated with liability policies, directors and officers liability, insurance and workmans compensation. Allocating these costs based on the electric operations proportion of total revenue is not appropriate. A more appropriate allocation factor would be the electric operations' proportion of total payroll. The electric payroll is approximately 31% of total Company payroll. Allocating the historical test year prepaid insurance of $501,605 by 31% results in electric operations prepaid insurance for Working Capital purposes of $155,498.

The second problem with the Company's method is that it allocates additional dollars to the electric operations as a result of the elimination of the water division. The Company is apparently contending that insurance costs will not decrease as a result of the elimination of water operations, and the Company has therefore allocated a greater proportion of insurance costs to electric operations for that component which would have been allocated to water operations. Clearly, the elimination of the water operations should decrease the Company's insurance costs. Less exposure to liability for injuries and damages associated with water operations should reduce premiums, this should also occur for workmans compensation. I am therefore not adjusting the allocation factor to allocate additional dollars as the Company has done as a result of the removal of the water division. I have escalated prepaid insurance by the inflation factor since these premiums relating to liability costs and workmans compensation would likely escalate. The 13-month average 2004 prepaid insurance in Working Capital should be $161,562 ($155,498 x 1.039 = $161,562).

Prepaid Pensions

Q. FPU HAS INCLUDED PREPAID PENSIONS IN CASH WORKING CAPITAL FOR THE 2004 PROJECTED TEST YEAR IN THE AMOUNT OF $783,172. ARE PREPAID PENSIONS AN APPROPRIATE ITEM TO INCLUDE IN WORKING CAPITAL?

A. No, they are not. Working Capital represents the investment that a utility must make in providing service prior to receiving payment from customers. Pension costs designated as prepayments represent past contributions by ratepayers to pension trust funds whose value now exceeds the net periodic pension cost and therefore, resulted in a prepaid pension asset. If prepaid pensions are included as a Cash Working Capital requirement, then ratepayers would, in affect, be required to pay a return on the increased value of past contributions which they have already paid. The prepayment of pension costs does not represent any prepayment on the part of stockholders for the benefit of ratepayers. It therefore should be excluded from Working Capital requirements. Inclusion would charge ratepayers a rate of return on a contribution to the pension plan which they have already made.

Q. IN A PRIOR DECISION FOR FPU, THE COMMISSION HAS ALLOWED PREPAID PENSION COSTS AS A CASH WORKING CAPITAL REQUIREMENT BASED ON THE FACT THAT ACCRUED PENSION COST HAD BEEN REFLECTED AS A REDUCTION OF CASH WORKING CAPITAL IN PERIODS IN WHICH A PENSION LIABILITY EXISTED. WOULD YOU PLEASE COMMENT?

A. When an accrued liability for a pension cost is recorded on a utility's books, pension expense is increased and a liability reflecting a future payment to the pension trust fund is reflected as a liability on the utility's books and records. As rates are collected, the utility has the use of the funds, which are represented by the pension liability, which has not been paid to the trust fund. This represents a source of funds and a reduction of Cash Working Capital. The ratepayers, in this instance, are advancing cash to the Company for a future payment of pension costs. The utility has the use of these funds until a payment is made to the trust fund. Additional accruals are made each month representing payments to be made in the future for funds contributed by ratepayers. This is a true cost free source of funds and should be deducted from Cash Working Capital. It represents an advance by ratepayers which can be used by the utility until contributions are forwarded to the pension fund trustee. On the other hand, a prepaid pension cost does not represent a payment made by stockholders for the benefit of ratepayers. The prepaid pension cost results from the value of assets exceeding the valuation of the current net periodic pension cost and, therefore, results in a prepayment which arose because of past collections from ratepayers which were contributed to pension trust fund. Clearly, this is not in the nature of funds advanced by stockholders for the benefit of ratepayers such as prepaid insurance or prepaid rent. The source of the funds was the ratepayers themselves, not the utility stockholders.

Unbilled Revenue

Q. DO YOU AGREE WITH THE AMOUNT OF CASH WORKING CAPITAL REQUIREMENT FOR UNBILLED REVENUE INCLUDED IN THE 2004 TEST YEAR BY FPU?

A. No, I do not. The Company escalated unbilled revenue by a factor representing inflation and customer growth. Unbilled revenue represents kilowatt hours that have not yet been billed as a result of the cyclical billing. Inflation cannot affect unbilled revenue because it represents kilowatt hours which have been delivered but not billed to ratepayers. Customer growth may affect unbilled revenue, but only to the extent that additional customers consume additional kilowatt hours which go unbilled at the end of any accounting period. The most reasonable approach to projecting unbilled revenue is to increase the historical test year 2002 by kilowatt hour growth since it is kilowatt hours that goes unbilled and not inflation or customers. The historical 2002 unbilled revenue was $478,674. The sales growth for the period between 2002 through 2004, as projected by the Company, is 3.2% on a combined basis for both divisions. Escalating the historical test year unbilled revenue by this growth in kilowatt hours results in an unbilled revenue of $493,992 ($478,674 x 1.032 = $493,992). The adjustment to test year 2004 unbilled revenue for Working Capital purposes is $19,326.

Deferred Debits-Other

Q. ARE THERE ADJUSTMENTS WHICH YOU THINK SHOULD BE MADE TO DEFERRED DEBITS-OTHER INCLUDED BY THE COMPANY AS A WORKING CAPITAL REQUIREMENT?

A. Yes. This account is composed of two major components. The first component is labeled "Reimbursable Hurricane Assistance Entergy Louisiana." These are for expenses that were deferred for reimbursement by Entergy Louisiana for line crews which assisted Entergy Louisiana with line restoration as a result of hurricane activity. Ratepayers in Florida should not pay a carrying charge on costs which are being reimbursed by another utility unrelated to the provision electric service to FPU customers. The 13-month average included in the historical year 2002 for this item was $3,149.02. The second item, which composes the majority of the deferred debit included in Working Capital, is entitled "Fernadina Office Addition." This amount is being amortized at the rate of approximately $22,000 annually. The balance at December 2002 was $22,870.52. This balance will be fully amortized and recovered from ratepayers before the beginning of the projected test year 2004. It, therefore, should not be included as a Working Capital requirement. The 13-month average of this balance is $31,300.17. Together, these two items comprise all but $321 of the Deferred Debit-Other balance included in Working Capital for the historical test period. I have removed both of these items, which total $34,449, from the historical test year, and I have removed the escalated amount, which is $36,930, from the projected 2004 Working Capital requirement. The balance left in this account is $357.

Storm Damage Reserve

Q. IS THE COMPANY PROJECTING AN INCREASE IN THE STORM DAMAGE RESERVE FROM THE HISTORICAL 2002 TEST YEAR TO THE PROJECTED TEST YEAR OF 2004?

A. No, it is not. It is, in fact, projecting a decrease in the storm damage reserve from the historical 13-month average of $2,015,796 to $1,844,196 in the projected 2004 test year.

Q. HAS THE COMPANY EXPLAINED IN ITS TESTIMONY WHAT CAUSED THE DECREASE IN THE STORM DAMAGE RESERVE?

A. No, it has not. FPU has, in fact, requested an increase in the accrual of storm damage expense from the current level of $121,625 for both divisions to a total of $225,000 for both divisions in the projected 2004 test year. This is an 85% increase in the accrual for storm damage expense.

Q. WHAT IS THE BASIS FOR THE COMPANY'S REQUEST FOR AN INCREASE IN STORM DAMAGE EXPENSE OF 85%?

A. Company witness Cutshaw attempts to justify the increase in storm damage expense by adopting a study used in a 1996 Gulf Power case to the FPU system. He contends that the Gulf Power study justifies a reserve of $3,621,000 in 2003, which he "...increased for very conservative customer growth and inflation (CPI) for 10 years to arrive at $5,517,000. The projected loss expense portion at 80% would be $4,414,000." It is this reserve balance of $4,414,000 which Mr. Cutshaw contends represents the "Historical worse-case storm striking in our service area..." He states that this should be the minimum in the reserve. In other words, the reserve should be set at the "worse-case storm" scenario.

Q. DID YOU REQUEST THAT THE COMPANY PROVIDE THE AMOUNT OF COST CHARGED AGAINST THE STORM DAMAGE RESERVE FROM 1990 TO THE MOST CURRENT MONTH AVAILABLE IN 2003?

A. Yes, I did.

Q. WHAT DOES THAT DATA INDICATE?

A. The data indicates that over the last 10-years the combined total of cost charged against the Marianna and the Fernandina divisions was $265,031.02 in total, or an average of approximately $20,787 in storm damage cost charged against the reserve in the 12 ¾ -years from 1990 through September 2003. In fact, the Company only incurred storm damage expense in the years 1994, 1995, 1996, 1999 and 2003. The cost charged against the reserve for each of those years, by division, was as follows:

	Combined Total	Marianna	Fernandina
1994	$ 22,576.15	$ 11,608.02	$ 10,968.13
1995	142,850.07	142,850.07	0.00
1996	6,266.30	6,266.30	0.00
1999	72,272.08	0.00	72,272.08
2003	21,066.42	0.00	21,066.42
	$265,031.02	$160,724.39	$104,306.63

As can be seen, there is only one year in which the actual storm damage cost incurred exceeded the annual accrual of $121,625. The year 1995 had actual incurred costs of $142,850.07, as compared to the reserve accrual of $121,625, a difference of only approximately $21,000. Clearly, the Company's request to increase the accrual by 85% is not justified by actual costs incurred. The reserve accrual has exceeded the actual cost incurred in every year except one during the period 1990 to the present. The reserve itself has continued to grow, and at September 30, 2003, the reserve was $2,170,246. The reserve has grown approximately $66,000 between December 31, 2002 and September 30, 2003.

Q. IS THERE ANY REASON WHY THE RESERVE SHOULD BE SET AT THE WORSE-CASE SCENARIO?

A. No, there is not. Rates are set based on projected normal occurrences. We do not project revenues based on the possibility of a heat wave, nor do we project medical insurance reserves based on the possibility of a plague effecting the Company's employees. The historical results show that the reserve accrual of $121,625 is more than adequate to cover current loses and allow the reserve to increase over time.

In addition, the Company's two electrical divisions are not contiguous; therefore, a storm would be highly unlikely to affect both divisions at the same time. The Company's Marianna division is inland, and any storm would more than likely dissipate significantly by the time it reached the Marianna service territory. The Company also acknowledges that the frequency of hurricanes in the northeast Florida area is much less frequent than that of the panhandle area upon which the Gulf Study was based and upon which FPU is requesting its increase in storm damage accrual.

Q. HAS THE COMPANY EXPLAINED IN ITS TESTIMONY WHY THE RESERVE HAS DECREASED FROM THE HISTORICAL 2002 13-MONTH AVERAGE OF $2,015,796 TO THE AMOUNT USED IN THE COMPANY'S REQUESTED WORKING CAPITAL REQUIREMENT FOR THE TEST YEAR ENDED 2004 OF $1,844,196?

A. No, it has not. This is a $171,600 decrease from the historical balance and is a $326,050 decrease from the actual balance at September 30, 2003.

Q. WHAT AMOUNT ARE YOU RECOMMENDING BE UTILIZED IN THE CALCULATION OF WORKING CAPITAL FOR THE PROJECTED TEST YEAR 2004?

A. I am recommending that the known and measurable balance at September 30, 2003 be utilized in the working capital calculation. This balance is $2,170,246. This increases the cost free capital available for working capital purposes by $326,050.

Q. WHAT AMOUNT OF ACCRUAL ARE YOU RECOMMENDING THE COMMISSION

ALLOW FOR STORM DAMAGE?

A. The current storm damage annual accrual of $121,625 has allowed the reserve for storm damage to increase from $51,912 in 1992 for the Marianna Division to $938,508.60 in September 2003, an increase of 1708%. The storm damage reserve for Fernandina Beach has increased from $20,953 in 1988 to $1,231,737 in September 2003, an increase of 5779%.

The current accrual is more than adequate to pay storm damage expense and allow the reserve to increase in anticipation of higher storm costs.

Water Company Sale

Q. HOW HAS FPU TREATED THE SALE OF THE WATER COMPANY AND ITS EFFECT ON THE ELECTRIC DIVISIONS' WORKING CAPITAL REQUIREMENTS?

A. In its filing, FPU has allocated greater amounts of assets and liabilities to the electric operations working capital requirement as a result of the sale of the water division. Under FPU's theory, all assets and liabilities considered in the working capital requirement would be exactly the same after the sale of the water division and a higher percentage of current assets and liabilities would be allocated to the electric division. Logic would dictate that if a particular operating division were sold, that the Company's current assets and liabilities would decrease as a result of that sale, and that the working capital requirements of other divisions would not increase as a result of the elimination of the water division. I have eliminated any increase in assets or liabilities associated with the sale of the water division and its affect on working capital. I have maintained the current system of allocating assets and liabilities for working capital purposes as existed prior to the sale of the water division. These adjustments have the following affect on the following accounts, including the Company's escalation of the asset or liability, through the year 2004:

Account Numbers	Primary Accounts	OPC Adjustment
1860	Allocated from Common Assets: Deferred Debits: Common	(1,281)
	Liabilities	
2280.3N	Medical Insurance Reserve	34,696
2280.2N	Insurance Reserve	12,865
2320	Accounts Payable - Net of Gas & Fuel	19,650
2320.8	Salaries & Wages Accrued	5,432
2320	Other - Accounts Payable	2,079
2360	Taxes Accrued - FPSC Assessment	4,008
2360	Taxes Accrued - Unemploy & FICA	200
2360	Taxes Accrued - Income Taxes	1
2370.1 & 2370.2	Interest Accrued	53,835
2380	Dividend Declared - Preferred	59
2410.2 & 2410.3	Taxes Collections Payable	345
2420	Vacation Pay Accrued	8,269
2420	Audit Fees & Exp. Accrued	1,269

Regulatory Treatment of Over and Under Recovery of Fuel and Conservation Costs

Q. DOES FPU'S FILING CHANGE THE COMMISSION'S LONG STANDING PRACTICE OF EXCLUDING UNDER-RECOVERIES OF FUEL COSTS AND CONSERVATION EXPENSE FROM WORKING CAPITAL REQUIREMENTS WHILE INCLUDING OVER-RECOVERIES OF FUEL COSTS AND CONSERVATION EXPENSE IN WORKING CAPITAL?

A. Yes, it does.

Q. WHAT IS FPU'S REASONING FOR REQUESTING A CHANGE IN THE COMMISSION POLICY RELATED TO OVER AND UNDER-RECOVERIES OF FUEL AND CONSERVATION COSTS?

A. The Company's reasoning is stated by Mr. Mesite on page 6 of the Company's testimony. Mr. Mesite's reasoning is as follows:

> Second, since fuel and conservation are items that are eliminated from base revenue determination, and all of the income statement and balance sheet effects from these transactions are eliminated for this purpose with the current exception of over recoveries left in working capital; we feel that both the over and under recoveries should either be left in working capital or both be removed from working capital. It is not consistent to leave only one side of this balance sheet item in working capital as both components, over and under recoveries on fuel and conservation have a built in interest mechanism to allow for either a return to the customers or to the company as appropriate. To eliminate only the under recoveries double penalizes the company by requiring them to not only pay a return to the customers on the over recovery balance, but to also reduce the ability to earn a return on a portion of rate base equal to that over recovery balance.

Q. IS MR. MESITE'S REASONING FOR REQUESTING THE CHANGE IN COMMISSION POLICY CORRECT?

A. No, it is not. The Commission's policy is a well reasoned policy implemented in the 1980s to properly reflect how and who should pay the carrying cost on over and under recoveries of fuel and conservation costs.

The reasoning for the Commission policy is as follows: first, the revenues and expenses are eliminated from the operating income statement because these revenues and expenses are recovered by the Company through a separate mechanism included on customer's bills. These costs are not recovered through base rates and, therefore, they should be eliminated from the income statement so that the cost and revenues associated with fuel and conservation costs are not included and recovered in base rates. The elimination of the income and expense related to these separate recovery mechanisms are appropriate because they are not, and should not, be included in base rates.

However, the over and under recoveries of these costs have to be treated differently in the working capital requirement so that the proper parties, that is, i.e., the ratepayer or the stockholder, receives or pays the proper return on the over or under recovery.

Q. WHY HAS THE COMMISSION HISTORICALLY ELIMINATED UNDER RECOVERIES FROM THE WORKING CAPITAL REQUIREMENT?

A. Under recoveries of fuel and conservation costs are assets to the Company. That is, they are receivables from ratepayers for costs incurred not currently recovered through the adjustment clauses. If these balances are included in working capital, then the Company would receive a rate of return on these assets through the working capital inclusion in rate base and the earning of a rate of return on rate base. The Company receives its rate of return on these assets through the fuel adjustment clause mechanism and the conservation adjustment clause mechanism. Those mechanisms add interest for any under recovery to the cost which is subsequently billed through those mechanisms to ratepayers. So that if the receivable is included in working capital when base rates are established, then ratepayers would pay a double return on these under recoveries. They would pay once through the working capital requirement and a second time through the cost recovery mechanism authorized by the Commission. So that the Commission policy of excluding under-recoveries from working capital is appropriate and allows the Company to only recover a return once through the cost recovery mechanism on these under recoveries.

Q. MR. MESITE INDICATES THAT IF YOU EXCLUDE THE UNDER-RECOVERIES THEN YOU OUGHT TO ALSO EXCLUDE THE OVER-RECOVERIES WHEN CALCULATING WORKING CAPITAL. IS HIS THEORY CORRECT?

A. No, it is not. First of all, an over recovery is a liability on the Company's balance sheet. In other words, the Company has collected more in fuel costs and conservation costs through its cost recovery mechanism than it actually incurred in expense on the income statement. Therefore, ratepayers have an amount due back from the Company for this over recovery. The Company has the use of these funds during the period of time that the over collection has occurred and the period when they are returned to ratepayers. An interest calculation is made on these over recoveries and added to the amount returned to ratepayers through the cost recovery mechanism. However, if that liability is not included in working capital as a reduction of working capital, then the ratepayer is, in affect, paying his own interest to himself, because the working capital would be higher by the amount of funds that the Company actually has in its possession for use for working capital purposes. It is the intention of the mechanism that the stockholders pay the interest to ratepayers and that ratepayers not pay the interest to themselves. So the inclusion of the over-recovery in the working capital calculation assures that stockholders pay the interest, and that interest is charged below the line and not recovered from ratepayers. This has been the historical analysis that the Commission has made regarding these two items and why they have historically excluded under-recoveries and included over-recoveries in the working capital requirement. There is no need to change this long-established Commission policy. No facts or circumstances have changed that would warrant a re-evaluation of this policy.

Summary

Q. WHAT IS THE TOTAL WORKING CAPITAL REQUIREMENT OF THE COMPANY?

A. The working capital requirement is a negative which includes adjustments, which I discuss later in my testimony, related to the staff audit. This is, in affect, a source of funds to the Company that is available on an ongoing basis for investment in plant and other operating assets. The negative working capital must be reflected as a reduction of plant assets in order for rate base to be established at the proper level, that is, the amount that ratepayers should pay a rate of return upon.

Q. ARE THESE YOUR FINAL WORKING CAPITAL COMMENTS?

A. No, they are not. In depositions of Company witnesses' a number of items on the Balance Sheet appeared to have been left out of the Company's original working capital calculation. Company witnesses agreed to provide deposition exhibits explaining or reconciling various accounts. As of December 24, 2003, we had not received those exhibits and were, therefore, unable to incorporate them in our testimony. We will update this testimony to reflect any changes if necessary.

III. OTHER OPERATING REVENUE

Forfeited Discounts

Q. DOES IT APPEAR THAT FPU HAS UNDERESTIMATED THE FORFEITED DISCOUNTS FOR THE TEST YEAR 2004?

A. Yes, it does. The 2004 test year includes in Account 450-Forfeited Discounts an amount estimated by the Company at $255,104. This amount is predicated upon the estimated forfeited discounts for the year 2003, escalated by a factor for revenue growth.

Q. WHAT APPEARS TO BE INACCURATE ABOUT THE COMPANY'S ESTIMATE OF FORFEITED DISCOUNTS FOR THE YEAR 2004?

A. Forfeited discounts for the year 2003 appear to be underestimated. Since the 2004 estimate is predicated upon 2003, the test year would be underestimated based on actual results for the year 2003.

Q. WHAT HAS THE FORFEITED DISCOUNTS BEEN FOR THE YEAR 2003?

A. The forfeited discounts for the year 2003, at September 2003, were $247,944. It appears that the Company has implemented a new forfeited discount policy in the year 2003. Forfeited discounts, except for the month of January 2003, have averaged approximately $29,500 per month. It appears that sometime in January 2003 the Company implemented the new forfeited discount policy. Forfeited discounts, on an annual basis for 2003, would be

$29,500 times 12-months or $354,000 for the year 2003. Escalating this amount by the Company's escalation factor of 1.4% would project the 2004 forfeited discount revenues to be $358,956. The Company's estimate for 2004 is $255,104. I am recommending an adjustment to increase forfeited discounts in the 2004 test year by $103,852.

IV. STAFF AUDIT REPORT

Q. HAVE YOU REVIEWED THE STAFF AUDIT REPORT ISSUED DECEMBER 19, 2003?

A. I have examined the audit exceptions and audit disclosures to some extent prior to the filing of this testimony. I have not examined the workpapers in detail, nor made a detailed analysis of each of the issues.

Q. HAVE YOU REFLECTED THE AUDIT EXCEPTIONS AND AUDIT DISCLOSURES IN YOUR TESTIMONY AND EXHIBITS?

A. In many instances we have reflected staff audit exceptions and audit disclosures in our testimony and exhibits. In some instances, our approach to the determination of the proper level of expense for rate making purposes differs from that of the staff audit and therefore, we have not reflected the staff's recommended audit exceptions or audit disclosures in our testimony and exhibits. In those instances we have stated the reason for the departure from the staff audit in our testimony.

Q. WOULD YOU PLEASE DISCUSS EACH OF THE STAFF AUDIT EXCEPTIONS AND AUDIT DISCLOSURES AND WHICH OF THOSE YOU HAVE REFLECTED AS

ADJUSTMENTS IN THE FILING?

A. Yes, I will.

Forfeited Discounts

Q. WHAT HAVE YOU REFLECTED FOR FORFEITED DISCOUNTS WHICH DIFFER FROM THE STAFF AUDIT DISCLOSURES?

A. Prior to the receipt of the staff audit we had concluded that revenues from forfeited discounts had been understated. Our adjustment to calculate the increased revenue from forfeited discounts was similar to the staff audit. However, the staff audit reduces their calculation of the estimated 2003 forfeited discount revenue by 23% under the theory that customers will not continue to incur the cost of forfeited discounts in future years. We could find no basis for that conclusion and have reflected the full value of the 2003 revenues, plus escalation for 2004, in our revenue calculations.

Common Plant and Accumulated Depreciation

Q. WHAT AUDIT EXCEPTIONS FROM THE STAFF AUDIT REPORT HAVE YOU REFLECTED IN YOUR TESTIMONY AND EXHIBITS RELATED TO COMMON PLANT AND ACCUMULATED DEPRECIATION?

A. Schedule 2 of Exhibit___(HL-1) reflects the staff audit exception for common plant and accumulated depreciation. These are audit exceptions 1 through 4. The net affect of these exceptions is to reduce common plant, increase depreciation expense and increase the reserve for depreciation.

Working Capital

Q. HAVE YOU REFLECTED THE STAFF'S AUDIT EXCEPTIONS FOR WORKING CAPITAL IN YOUR WORKING CAPITAL SCHEDULE?

A. Yes. Staff's working capital exceptions, numbers 5 and 6, for employee accounts receivable and other accounts receivable have been discussed earlier in this testimony and were discovered by us prior to receiving the staff's audit report. We have removed the entirety of both of these accounts plus other accounts receivable which we think are inappropriate for inclusion in working capital for ratemaking purposes. The discussion related to those accounts are included on earlier pages of my testimony.

Q. HAVE YOU ADJUSTED FOR STAFF'S AUDIT EXCEPTION FOR ACCRUED GROSS RECEIPT TAX AND ACCOUNTS PAYABLE REVISION?

A. Yes, I have. The accrued gross receivable adjustment in the Staff audit increases working capital while the change to accounts payable decreases working capital. I have reflected both of these in my analysis of working capital.

Utility Plant-In-Service

Q. STAFF AUDIT DISCLOSURE NO. 1 INDICATES THAT THE PROJECTIONS FOR UTILITY PLANT-IN-SERVICE HAS BEEN OVERSTATED THROUGH AUGUST 2003. HAVE YOU MADE AN ADJUSTMENT FOR THIS DISCLOSURE?

A. No, I have not. I would recommend that the actual closures to plant-in-service through December 2003, be reflected in the rate base used to determine rates in this case.

Q. WHAT CLOSURES TO PLANT-IN-SERVICE SHOULD BE REFLECTED FOR THE YEAR 2004?

A. The Company's original projections of plant-in-service for 2004, should be added to the actual 13-month average of plant-in-service through December 31, 2003. This would provide the most accurate, up-to-date estimate of plant used and useful on a 13-month average through December 31, 2004.

Q. DOESN'T AUDIT DISCLOSURE NO. 2 INDICATE THAT THE COMPANY HAS REVISED SOME OF ITS WORK ORDERS RELATED TO PLANT ADDITIONS IN THE YEAR 2004?

A. Yes, it does. However, there is no way of verifying the Company will actually incur these increased costs in the year 2004, or at all. Unless the Company can show signed contracts demonstrating that these expenditures will actually increase and that the expenditures will be made in the year 2004, the test year should reflect only the original projected additions to plant-in-service in the year 2004.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

CERTIFICATE OF SERVICE
DOCKET NO. 030438-EI

I HEREBY CERTIFY that a true and exact copy of the above and foregoing Direct Testimony of Hugh Larkin, Jr. has been furnished by hand delivery* or U.S. Mail to the following parties of record this 29th day of December, 2003.

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Stephen C. Burgess
Deputy Public Counsel

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2004

Working Capital

Docket No. 030438-EI
Exhibit__(HL-1)
Schedule 1
Witness: Hugh Larkin, Jr.

Line No.	Account Number(s)	Primary Account	FPU Proposed WC 13 Month Avg (A)	OPC Adjustments (B)	Adjusted Total per OPC (C)
		Assets			
1	1310 1&7, 1340.1&3	Cash	$ 1,802,940	$ (1,792,198)	$ 10,742
2	1310.4n	Cash - Local Electric Division	$ 26,461	$ (26,461)	$ -
3	1350	Working Funds - FB Division	$ 2,500	$ (200)	$ 2,300
4	1350	Working Funds - Electric Div	$ 2,500		$ 2,500
5	1420, 1430	Customer Accounts Receivable	$ 3,398,972	$ (307,913) *	$ 3,091,059
6	1440	Accum. Provision for Uncollect.	$ (98,965)	$ 360	$ (98,605)
7	1630	Stores Expense	$ -		$ -
8	1540	Materials & Supplies	$ 906,917		$ 906,917
9	1650.2, 4, 5	Prepayments - Insurance	$ 209,788	$ (48,226)	$ 161,562
10	1650.3	Prepayments - Pensions	$ 783,172	$ (783,172)	$ -
11	1730	Unbilled Revenues	$ 513,318	$ (19,326)	$ 493,992
12	1840.7	Clearing Accounts - Refunds	$ -		$ -
13	1840.1	Clearing Accounts - Divisional	$ -		$ -
14	1850	Temporary Facilities	$ 6,947		$ 6,947
15	1860.1-Subsidiary Ledger	Deferred Debits - Other	$ 37,287	$ (36,930)	$ 357
16	1860.1	Deferred Debits - Rate Case Exp.	$ 446,430		$ 446,430
17	1860.21	Deferred Debits - Over/Under Recovery Fuel	$ -		$ -
18	1860.3 & 1860.61	Deferred Debits - Conservation	$ -		$ -
19	1860 - Allocated from Common	Deferred Debits - Common	$ 24,988	$ (1,281)	$ 23,707
20		**Total Assets**	$ 8,063,255	$ (3,015,347)	$ 5,047,908
		Liabilities			
21	2280.3n	Medical Insurance Reserve	$ (676,806)	$ 34,696	$ (642,110)
22	2280.2n	Insurance Reserve	$ (250,951)	$ 12,865	$ (238,086)
23	2280.11	Storm Damage Reserve	$ (1,844,196)	$ (326,050)	$ (2,170,246)
24	2320-4010.555/4010 5501	Accounts Payable - Fuel	$ (2,322,593)	$ (288,728)	$ (2,611,321)
25	2320	Accounts Payable - Net of Gas & Fuel	$ (383,320)	$ 19,650	$ (363,670)
26	2320 8	Salaries & Wages Accrued	$ (173,890)	$ 5,432	$ (168,458)
27	2320	Other - Accounts Payable	$ (40,531)	$ 2,079	$ (38,452)
28	2360	Taxes Accrued - Ad Valorem	$ (178,368)		$ (178,368)
29	2360	Taxes Accrued - Gross Receipts	$ (167,768)	$ 105,693	$ (62,075)
30	2360	Taxes Accrued - FPSC Assessment	$ (78,192)	$ 4,008	$ (74,184)
31	2360	Taxes Accrued - Unemployment & FICA	$ (6,417)	$ 200	$ (6,217)
32	2360	Income Taxes	$ (143,941)	$ 1	$ (143,940)
33	2370 1&2	Interest Accrued	$ (527,763)	$ 53,835	$ (473,928)
34	2370.3	Accrued Interest on Customer Deposits	$ (63,395)		$ (63,395)
35	2380	Dividends Declared - Preferred	$ (1,069)	$ 59	$ (1,010)
36	2410 2 & 2410.3	Tax Collections Payable	$ (11,063)	$ 345	$ (10,718)
37	2410***	Tax Collections Payable	$ (336,708)		$ (336,708)
38	2420	Vacation Pay Accrued	$ (264,691)	$ 8,269	$ (256,422)
39	2420	Audit Fees & Expenses Accrued	$ (24,753)	$ 1,269	$ (23,484)
40	2530	Overrecovery Power & Gas	$ -	$ (974,001)	$ (974,001)
41	2530	Overrecovery Conservation	$ -	$ (24,335)	$ (24,335)
42	2530	Miscellaneous Current Liabilities	$ (6,846)		$ (6,846)
43		**Total Liabilities**	$ (7,503,261)	$ (1,364,713)	$ (8,867,974)
44		**Total Working Capital**	$ 559,994	$ (4,380,060)	$ (3,820,066)

Each of the above adjustments are discussed in the testimony of Hugh Larkin, Jr.
* Consists of adjustments of $146,418 and $161,495.

FLORIDA PUBLIC UTILITIES
Projected Test Year Ended December 31, 2004

Docket No. 030438-EI
Exhibit__(HL-1)
Schedule 2

Staff Audit Adjustments to Common Plant

Witness: Hugh Larkin, Jr.

Allocated to Common Plant Audit Exception Nos. 1, 2, 3 and 4

Line No.	Description	EDP	Other	Total Common Plant Adjustment
	Plant in Service Adjustment			
1	Adjustment to PIS - 2003 (Audit Adj. 1)	$ 32,012	$ 17,928	$ 49,940
2	Adjustment to PIS - 2004 (Audit Adj. 1)	$ 2,832	$ 20,540	$ 23,372
3	Adjustment to PIS - 2004 (Audit Adj. 2)	$ 11,083	$ (95)	$ 10,988
4	Total	$ 45,927	$ 38,373	$ 84,300
	Depreciation Expense Increase/(Decrease) Adjustment			
5	Depreciation Rate	8.1%	7.1%	
6	Annual Depreciation (Line 5 x Line 4)	$ 3,720	$ 2,724	
7	2004 Adjustment (Audit Adjustment 1 & 2)	$ (3,720)	$ (2,724)	$ (6,445)
8	Depreciation Expense Increase (Audit Adjustment 3)			$ 5,922
9	Depreciation Expense Increase (Audit Adjustment 4)			$ 3,119
10	Increase in Depreciation Expense			$ 2,596
	Reserve for Depreciation Adjustment			Total Reserve (Decrease)/Increase
11	2003 - Additions (Audit Exception 1)	$ 3,866		$ (3,866)
12	2003 - Additions for 2004 (Audit Exception 1)	$ 3,866		$ (3,866)
13	2004 - Additions (Audit Exceptions 1 & 2)	$ 2,578		$ (2,578)
14	2004 Audit Exception 3			$ 21,890
15	2004 Audit Exception 4			$ 3,119
16	Net Increase in Depreciation Reserve			$ 14,699

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DOCKET NO. 030438-EI

I HEREBY CERTIFY that a true and exact copy of the above and foregoing Direct Testimony of Hugh Larkin, Jr. has been furnished by hand delivery* or U.S. Mail to the following parties of record this 29th day of December, 2003.

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