DOCKET NO. 030438-EI: Petition for rate increase by Florida Public Utilities Company.

WITNESS: **Direct Testimony Of Ruth K. Young,** Appearing On Behalf Of Staff

DATE FILED: January 9, 2004

DIRECT TESTIMONY OF RUTH K. YOUNG

Q. Please state your name and business address.

A. My name is Ruth K. Young and my business address is 3625 N.W. 82nd Ave., Suite 400, Miami, Florida, 33166.

Q. By whom are you presently employed and in what capacity?

A. I am employed by the Florida Public Service Commission as a Professional Accountant Specialist Division of Auditing and Safety.

Q. How long have you been employed by the Commission?

A. I have been employed by the Florida Public Service Commission since September 1978.

Q. Briefly review your educational and professional background.

A. I have a Bachelor of Business Administration degree from Adelphi University and major in accounting from Florida Atlantic University. I am a Certified Fraud Examiner and a Certified Public Accountant licensed in the State of Florida. I was hired as a Public Utilities Auditor I by the Florida Public Service Commission in September of 1978. I am currently a Professional Accountant Specialist.

Q. Please describe your current responsibilities.

A. Currently, I am a Professional Accountant Specialist with the responsibilities of planning and directing audits of regulated companies, and assisting in audits of affiliated transactions. I am also responsible for creating audit work programs to meet a specific audit purpose and I have specific authority to direct and control assigned staff work as well as participate as a staff auditor and audit manager.

Q. Have you presented expert testimony before this Commission or any other regulatory agency?

A. Yes. I testified in the General Development Utilities, Inc. rate cases for the Silver Springs Shores Division in Marion County and the Port LaBelle Division in Glades and Hendry Counties in Docket Nos. 920733-WS and 920734-WS, and a BellSouth Telecommunications, Inc. case to set non-recurring charges for combinations of network elements in Docket No. 971140-TP.

Q. What is the purpose of your testimony today?

A. The purpose of my testimony is to sponsor two staff audit reports of Florida Public Utilities Company. The first is the rate case audit in this docket, Docket No. 030438-EI. This audit report is filed with my testimony and is identified as RKY-1. Jeff Small will be testifying to Exceptions 9, 19, and 20 and Disclosures 5, 6, and 15. I will be testifying to the remainder of the exceptions and disclosures. The second audit is the audit of the reliability indices for Florida Public Utilities Company, an undocketed audit issued June 3, 2003. This audit report is also filed with my testimony and is identified as RKY-2.

Q. Let's begin with the rate case audit. Was this audit report prepared by you or under your direction?

A. Yes, I was the audit manager in charge of this audit.

Q. Please review the work you and the audit staff performed in this audit.

A. For rate base, we compiled utility plant in service from the last surveillance report dated December 31, 1999 through August 31, 2003. We examined account balances for these years by testing invoices and journal entries on a random basis and reviewed company projections for plant for September 1, 2003 through December 31, 2004 and obtained company explanations and justifications for certain projected additions. The same procedures were used for common plant in service with the addition of testing the allocations. We compiled accumulated depreciation from the last surveillance report dated December 31, 1999 through December 31, 2002 and tested the monthly entries in the depreciation expense section. We reviewed the method for the projections for 2003 and 2004 and recalculated the trended portions. We performed the same tasks for the common plant accumulated depreciation. We reconciled the working capital accounts for 2002 to the general ledger and verified the allocations. We reviewed the adjustments and tested selected accounts to determine if the charges were appropriate and utility related. We recalculated the 2003 and 2004 projections based on the company trend factors. We reconciled customer advances for construction to the books and traced the balances to schedules by customers and agreed them to the customer contracts. We verified selected payments to source documentation and recalculated the balances for 2003 and 2004 based on the company trends.

For cost of capital we compiled the components of the capital structure for the year ended December 31, 2002. We examined short and long term debt instruments and we reviewed customer deposits, deferred taxes and investment tax credits and recalculated the cost rates. We also reviewed the methods for projecting the components for 2003 and 2004.

For revenue, we traced the revenue in the MFRs for the year ended December 2002 to the general ledger. We selected customer bills on a random basis and recalculated them using the tariffs in effect. We traced certain other revenues to the appropriate support documentation, such as journal entries and invoices. We recalculated the revenues for the projected year end 2004 using the company trended number of customers, usage per customer, and proposed rates. We also recalculated other revenues using the company trends. We recalculated unbilled revenues for 2002 and traced to support documentation such as journal entries and invoices on a random basis. For 2003 and 2004, we recalculated the company's formulas.

For expenses we reviewed the adjustments in 2002 for discontinued operations and other reasons and traced to supporting documents. We examined expense account balances for 2002 by testing invoices and verified allocations to the electric division where appropriate. We recalculated all accounts that were trended based on 2002 and determined the supporting documentation for the projections not based on trends. We tested depreciation expense for 2002 for one month by recalculating the rates times the plant. We traced all rates to PSC orders. We recalculated the projected expense for 2003 and 2004 using the projected plant balances times the average for both divisions depreciation rates. We used the same procedures for common plant depreciation expense with the addition of testing the allocations. We examined support for taxes other than income and income taxes for historical 2002 and projected 2003 and 2004.

We also read external audit work papers and board of directors' minutes for the year ended December 31, 2002, and prepared an analytical review for the three years ended December 31, 2002.

Q. Please review the audit exceptions in the audit report.

A. Audit Exceptions disclose substantial non-compliance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA), a Commission rule or order, and formal company policy. Audit Exceptions also disclose company MFRs and schedules that do not represent company books and records and company failure to provide underlying records or documentation to support the general ledger or exhibits.

Audit Exception No. 1 discusses Common Plant. During the audit, the company revised its common plant projections for 2003 and 2004. The electronic data processing (EDP) common plant is allocated to the electric division at 32% and the remaining common plant is allocated at 25%. The revised projections should be reduced by $49,940 for 2003 and $23,372 for 2004. Also, the depreciation expense and accumulated depreciation needs to be changed for the difference.

Audit Exception No. 2 discusses common plant projected in 2003. We compared actual common plant according to the general ledger at November 30, 2003 to the revised 2003 capital budget. The common plant allocated to electric for 2003 should be reduced in the amount of $10,998. As this adjustment is based on the revised capital budget, it is in addition to the adjustment included in a prior exception.

Audit Exception No. 3 discusses common utility plant depreciation expense. The common utility plant depreciation expense for 2004 that was included in MFR Schedule C-59 amounts to $100,642. The amounts for 2003 and 2002 were $84,239 and $71,751 respectively. Some accounts were depreciated using incorrect rates. We recalculated the expense using the correct rates and determined that depreciation expense for 2004 should be increased by $5,922 and accumulated depreciation should be increased by $21,890.

Audit Exception No. 4 discusses accumulated depreciation. Depreciation expense for 2003 is understated by $3,119.12 due to a mathematical error. Therefore, depreciation expense and accumulated depreciation should both be increased by $3,119.12.

Audit Exception No. 5 discusses employee accounts receivable in the working capital allowance. The company has included in accounts receivable an account that relates to employee loans. The 2002 average amount is $4,941. The amounts related to 2003 and 2004 are $5,146 and $5,298, respectively. The company made an analysis of the accounts and determined that an allocation of 49.46% for non-utility needed to be made for Fernandina. Marianna did not have any non-utility functions.

In other rate case proceedings the Commission has removed employee loans because they are a non-utility function. Commission Order No. 10557, issued February 1, 1982, in Docket No. 810136-EU, for Gulf Power Company eliminated employee loans from working capital. If the total account is disallowed, working capital should be reduced by $4,941, $5,146 and $5,298 for 2002, 2003 and 2004, respectively. If only the non-utility portion is disallowed, working capital should be reduced by $405.08, $421.94 and $434.39 for 2002, 2003 and 2004, respectively.

Audit Exception No. 6 discusses other accounts receivable in the working capital allowance. The company has included in accounts receivable an account that relates to other miscellaneous accounts receivable. The

2002 average amount is $89,274. The amounts related to 2003 and 2004 are $92,989 and $95,735, respectively. The company made an analysis of the account and determined that for Fernandina only 88.47% relates to electric. Therefore, $7,782 relates to water and propane for 2002. Marianna did not have any non-utility functions. Working capital should be reduced by $7,782, $8,105 and $8,345 for 2002, 2003 and 2004, respectively, to reflect the allocation for non-utility.

Audit Exception No. 7 discusses accrued gross receipts taxes payable in the working capital allowance. The company included a credit of $156,445 for Taxes Accrued - State Gross Receipts Tax in the 2002 working capital. However, this account should be allocated to all the utilities. The allocation percent for electric is 37%. Therefore, working capital should be increased by 63% or $98,560 for 2002 to remove the non-utility portion. The amounts related to 2003 and 2004 are $102,662 and $105,693, respectively.

Audit Exception No. 8 discusses accounts payable revisions in the working capital allowance. The company increased the accounts payable amounts included in the company filing for 2002 by $269,241. The revision was made because during May 2002 there was an error in accounts payable postings which understated the account balance by $3,320,636. The 13 - month average effect of the understatement in the accounts payable balance is $255,434. There should also be an adjustment for the elimination of the water division of $13,807. These two adjustments increase accounts payable and result in decreasing the working capital allowance by $269,241. The revisions which relate to 2003 and 2004 are $280,446 and $288,728, respectively.

Audit Exception No. 10 discusses customer records and collection expense. Included in charges for 2002 expenses were charges from a company named Regulus for printing and mailing the company bills. The charges of $635,689.68 were charged to a clearing account and allocated at 28% to the electric division. This was changed to 30% in the adjustments to actual 2002 numbers and the difference was included in the $115,088 of adjustments to account 903. The company had several problems with this service and decided to terminate the contract early. It incurred some legal costs which were also charged to the account. The costs incurred in 2003 are much less than those billed in 2002. We recommend that the forecast should be reduced based on actual costs since the new vendor is charging materially less than the old. We totaled and annualized the costs for the new vendor and compared them to the Regulus bills and applied the trend factor. We recommend that the expenses for 2004 should be reduced by $39,080.

Audit Exception No. 11 discusses leasehold improvements in Fernandina. The company included $8,202.22 of expenses related to the Fernandina Beach Home and Hearth store in 2002 expenses. The 2002 expenses were trended up by 106.1%. Therefore, $8702.56 relating to the leasehold improvements were included in the filing. We reviewed a layout of the office along with digital pictures of the space. The office is currently propane, merchandising and jobbing, and conservation related. Since conservation costs are separately recorded and removed from the rate case, there are no costs that should be recorded to electric expenses.

Therefore, the $8,702.56 should be removed from electric expenses.

Audit Exception No. 12 discusses uncollectible expense. The company included $82,820 of expense for uncollectibles in its filing. The company adjusted test year uncollectibles for a prior year reserve adjustment. It also included an adjustment for payroll for discontinued operations of $2,523 that should have been added to account 903 instead of 904. The company then adjusted the expense to the three year average of charge offs to revenue but in doing so compared the average to the account balance before the adjustments. The company attempted to correct this in its 2004 adjustment to the exhibit but did not arrive at the correct amount. The three year average of charge offs for 2002 is $89,401. If this amount is increased for customer growth, the adjusted balance would be $92,261. The company included $82,820. Therefore, the company expense is understated by $9,441. In addition, the $2,523 adjustment still needs to be added to account 903 so expenses should be increased by and additional $2,523.

Audit Exception No. 13 discusses administrative payroll. The company included $986,039 for Administrative and General Salaries for 2004. The company allocates total accounting, information systems, executive, human resource and general administrative salaries to the divisions based on the investment in plant for each division. In 2002, the majority of this account was allocated at 42% to the electric division. Because the company eliminated the water division, it expected this allocation to increase and prepared preliminary allocation factors which totaled 46%. The actual allocation factor used in 2003 was 39%, because the propane business increased more than expected. We recommend that the account should be decreased to remove the increase made to the account and to reduce actual amounts to the new percentage. The revised balance would be $838,592.68 which is $147,446.32 less than the company reported in its filing. This amount should be removed from expenses. If administrative payroll were allocated based on direct payroll to each division, only 25% of the $1,982,170.72 total company charges would be allocated to the electric division.

Audit Exception No. 14 discusses franchise fees. The company normally credits franchise fees to a payable account when they are billed and when the company pays the franchise fee, the account is debited. In 2002, $13,358.76 was charged directly to the expense account. According to the company, when billing errors occur, minor amounts are usually not collected from the customers and the company pays them out of the expense account instead of doing the research to determine who needs to be billed. However, in 2002, the April amount was substantial. Revenue should have been collected from the customers to pay for the tax. It should not be recurring. The $13,358.76 was trended up in 2004 by 1.039 or a total amount of $13,879.75.

Audit Exception No. 15 discusses miscellaneous adjustments to expenses. We found several invoices which should have been coded to other expenses. The audit report provides a list of these invoices. We recommend that expenses be reduced by $6,146.43.

Audit Exception No. 16 discusses accounting fees for taxes. The company included $84,000 in its budgeted numbers for accounting fees related to taxes. We asked the company for supporting documentation for its projection. This included Impairment Testing for $15,000, Tax research for $10,000, Annual tax return for $15,000, Deferred tax work for $10,000, and Property tax for $20,000. These amounts total $70,000 The company could not provide any support for the additional $14,000. In addition, the property tax estimate was based on the cost for the last time the company received savings from the property tax audit. The agreement with the company is that the fee is half of the property tax savings. Therefore, if there are no savings, there is no cost. Therefore, if the company does have a fee in 2004, the taxes would be lower by two times the amount. Therefore, the $20,000 should not have been included in the filing. In addition, the company has not contracted out work on deferred taxes before, therefore, the $10,000 is an estimate. Actual costs for tax research and annual income tax work for 2003 were actually higher than the $25,000 projected. The company is expected to spend $32,175 in 2003 which is $7,175 more than projected. Therefore, we recommend that the accounting fees be reduced by $26,825.

Audit Exception No. 17 discusses insurance projections. The company projections for insurance costs were based on initial estimates from the insurance companies. Actual bills are now in and the amounts are less than projected. We compared the company bills to the projected amounts. The General Auto and Liability Insurance and the Directors, Fiduciary, and Commercial Crime policies end September 1. Therefore, we added an additional 10% on to the 2004 policy for the last quarter for General Auto and Liability and 6% for the others based on the increases in those policies from 2003 to 2004. The net effect of the adjustments is a reduction to operating expenses of $203,977.80.

Audit Exception No. 18 discusses miscellaneous expense. Included in the 2002 expenses $40,659 for a write off of costs associated with a proposed stock offering that was cancelled because of the sale of the water company. The company trended 2002 expenses in this account up at the rate of 107.2%. Costs associated with a new stock offering are not usually expensed. They should not be recurring and therefore should be removed from 2004 expenses. The $40,659 trended up for the 107.2% is $43,587. This amount should be removed from expenses in the filing.

Q. Please review the audit disclosures in the audit report.

A. Audit Disclosures present information for the Commission and staff to consider.

Audit Disclosure No. 1 discusses the projected 2003 utility plant in service. We compared projected plant and construction work in process balances of $1,401,887 at August 31, 2003 to actual plant and construction work in process balances of $994,923 at the same time. This comparison showed that the projected plant was more than the actual in the amount of $406,963. The audit report shows the components of this difference. The majority of the projected additions were based on the capital budget. In order to determine if the capital budget was on target at August 31, 2003, we compared the projected additions to the capital budget of $2,141,600 at August 31, 2003 to the actual additions to construction work in process of $1,778,265; a difference of $363,335. The details of these differences is also included in the audit report. We also compared the projected capital budget additions for the year 2003 to the actual additions at August 31, 2003 and included a detail of these differences in the audit report. Following are some of the specific areas that we looked at.

For the North West Florida (Marianna) division we looked at Account 3731 - Street Lights and Account 397 - Communication Equipment. For the Street Lights account, the company projected $12,000 for the eight months ended August 31, 2003, the actual at the same date was $6,610. The company explained that the 2003 projection was based on trended amounts from previous years and other projects being considered. The company also stated "the City of Marianna indicated that continued upgrades of the street lighting city would occur during 2003. To date, this has not occurred to the degree anticipated." We recommend that the company provide documentation at the time of hearing showing the amounts spent in these accounts.

For the Communication Equipment account, the projection for the year ended 2003 was $35,000. At August 31, 2003 there were no additions to this account. We reviewed the contract for this work in the amount of $32,253. The company stated that the system was in the process of being installed, and a paid invoice showed that on November 13, 2003, the company paid $17,083.13. The company also provided us with the amounts spent on certain other accounts from September 1, 2003 through November 30, 2003 showing lower than anticipated expenditures in 2003 than expected. We recommend that the company provide documentation at the time of hearing showing the amounts spent in these accounts.

For the North East Florida (Fernandina) division we looked at Account 356 - Overhead Conductors and Devices, Account 3636 - Poles, Towers, and

Fixtures, Account 3681 - Overhead Line Transformers, and Account 3683 - Buried Line Transformers. For the Overhead Conductors and Devices account, the utility projected $150,000 for the year ended 2003. There was zero in the account at August 31, 2003. The company explained "The monies originally placed in the budget for this plant has been withdrawn. We cancelled this project due to needs in other projects."

For the Poles, Towers, and Fixtures account, the projection for 2003 was $120,000. The amount booked to this account at August 31, 2003 was $13,926; a difference of $106,074. The company indicated that there was less activity in the overhead construction than was anticipated, and that at the time of the audit did not anticipate spending any additional money for this account in 2003.

For the Overhead Line Transformers account, the projection for the eight months was $25,000 and the amount projected for the year was $43,000. At August 31, 2003 there was $6,993 in the account. The company has overhead transformers on order for $26,000 and expected to expend the remaining by the end of the year. We recommend that the company should provide documentation at the time of hearing showing the amounts spent in these accounts.

For the Buried Line Transformers account, the projection for the year is $172,000. The projected estimate for the eight months ended August 31,2003 was $172,000. The amount charged for the 8 months was $70,990. The company explained that "Ordering transformers is on a required basis. The placement cost in the budget is an educated guess each year." We reviewed paid invoices in the amount of $132,304 from September 1 through October 7.

Also, the company provided us with the amounts spent on certain other accounts from September 1, 2003 through November 30, 2003 showing lower than anticipated expenditures in 2003 than expected. We recommend that the amount spent over projections should also be considered. However, for the accounts over budgeted, the excess amounts should be removed from the 2003 capital budget.

Audit Disclosure No. 2 discusses the projected 2004 utility plant in service. The projected additions to plant in 2004 consist of construction work in process not closed in 2003, but closed in 2004 in the amount of $679,500; and the capital budget for 2004 of $4,281,900, for a total of $4,961,400. We asked the company to provide explanations, reasons and available documentation for capital budget items totaling $2,863,500. A summary of the accounts and company responses are included in the audit report. This summary shows that the work orders for two of the projects have been revised upwards, due to material costs being higher than the initial estimates. These work orders are in Northeast Florida.

Audit Disclosure No. 3 discusses the unamortized rate case expense in the working capital allowance. The company has included in the filing an average of $182,216 and $446,430 of unamortized rate case expenses for the years 2003 and 2004, respectively. The company revised the total estimated rate case expenses to include an additional $17,000 for the estimated consulting fees from Christensen Associates. The revised average amounts are $188,792 and $462,544 for the years 2003 and 2004, respectively. This represents an increase to working capital of $6,576 and $16,114 for 2003 and 2004, respectively. Commission Order No. 22224, issued November 27, 1989, in Docket No. 881056-EI, for the Fernandina Beach division, and Commission Order No. 21532, issued July 12, 1989, in Docket No. 880558-EI, for the Marianna division, require that unamortized rate case expense should be excluded from the working capital calculation.

Audit Disclosure No. 4 discusses the cash included in the working capital allowance. Commission Order No. 94-0983-FOF-EI, issued August 12, 1994, in Docket No. 930720-EI, for the Fernandina Beach division, and Commission Order No. 94-0170-FOF-EI, issued February 10, 1994, in Docket No. 930400-EI, for the Marianna division, require that the company should include the five year average of cash or the actual amount, whichever is less. In the company filing, the company included a Commission adjustment to reflect cash at the average of the prior 5 year average which was lower, however, the company has also included a company adjustment to report the cash balance at the actual 13-month average; therefore, reversing the Commission adjustment. The company adjustment increases the cash balance by $284,398 for 2002 to remove the effect of the 5-year average. The adjustments related to 2003 and 2004 are $296,233 and 304,981, respectively. The company trended the adjusted 2002 balance using the trend rates for customer growth and inflation.

Audit Disclosure No. 7 discusses forfeited discounts. When the company forecast the revenue for Account 450 - Forfeited Discounts, the estimated amounts from April to December of 2003 were used to calculate the 2004 forfeited discounts. We recalculated the 2004 forfeited discounts using actual January to November 2003 and estimated December 2003. The results show that the forfeited discounts were understated by $34,364. The effect of this is to increase the operating revenue by the same amount.

Audit Disclosure No. 8 discusses adjustments to the filing for increasing reliability. The company has included $259,000 in adjustments to 2004 expense that relate to increases in reliability. These adjustments are:

- Increase for 1.5 additional tree trimming crews: $160,000
- Increase in transformer maintenance-contract in place: $29,000
- Salary for Engineer Technician to work on mapping system and supplies for mapping system: $50,000
- Portion of salary for employee to work on new relay protection system: $20,000

Audit Disclosure No. 9 discusses adjustments to salaries. The company decreased salary expense for an executive that is retiring in 2004 to the salary that is being offered to the replacement. The person replacing the executive is already an employee and his position is being advertised. The low range of the advertised salary is $18,000 less than his current salary. Therefore, if the job is filled at the low range, expenses should be reduced by another $18,000.

Audit Disclosure No. 10 discusses the 2002 adjustments for discontinued operations. The company filing adjusts 2002 expenses for the discontinuance of the water division. The adjusted amounts are trended upward for 2003 and 2004 trend factors. A company schedule detailing the adjustments shows that the payroll portion of the adjustments is a $240,261 increase to expense for employees that used to be charged to water and are now charged to electric. We determined the actual payroll charged to electric for 2003 since the elimination of the water division using the company journal entry detail. We annualized the amounts for April to October 2003 and compared them to the actual amounts for 2002. Using all of the accounts charged to the electric divisions, including construction and retirement work in process, the increase in payroll would be $206,318. Since one position has been vacant for some time, we believe that this indicates that the $240,261 is a reasonable amount. However, we performed the same calculation for accounts charged to expense only, since the entire $240,261 was expensed. Using these numbers, the increase since the elimination of the water division was only $130,441 or $109,820 less than the company charged to expense. Review of the construction work in process account shows that this account increased causing the actual numbers charged to expense to decrease. If the company continues to capitalize the wages of these employees in 2004, the expense accounts may be overstated by $109,820. Part of the reason for the difference is because one of the employees in Fernandina quit and has not been replaced. This caused a difference of $14,600 for operations and $9,124 for maintenance.

Audit Disclosure No. 11 discusses temporary staff. The company paid $65,658.78 for temporary help and commission fees for staffing of which $16,414.70 was expensed to electric. In 2003, these charges were expensed to rate case expense causing 2003 expenses to be significantly lower than 2002. We were unable to determine if the temporary help was related to the rate case filing or if in 2004 the company will continue to use temporary staff. The account was trended at 1.039. Therefore, $17,054.87 was included in expense for these costs.

Audit Disclosure No. 12 discusses payroll tax projection factors. Employment taxes are projected based on payroll only. However, FICA taxes are based on payroll and customer growth. In a prior audit exception regarding taxes other than income, we recalculated FICA tax based on payroll only as we believe that the payroll taxes should be based on consistent projections.

Audit Disclosure No. 13 discusses depreciation rates used for 2003 and 2004. The Company has calculated depreciation expense on total plant balances for Marianna and Fernandina together and has used an average depreciation rate of both Marianna and Fernandina instead of calculating the depreciation expense for each separately and using the applicable rate for each.

Audit Disclosure No. 14 discusses depreciation on training programs. The company filing includes $10,000 in Miscellaneous Tangible plant for the year 2004 for training programs that are being developed specifically for the company. The company and the vendors expect that within approximately five years, the programs will no longer be relevant, requiring re-evaluation and extensive updating and re-issuance. This account has been depreciated over five years. Total depreciation expense for 2004 is $2,004.

Q. Let's discuss the second audit, the audit of the reliability indices. Was this audit report prepared by you or under your direction?

A. Yes, I was the audit manager in charge of this audit.

Q. Please review the work you and the audit staff performed in this audit.

A. We obtained the data base for all reported outages included in the SAIDI and SAIFI indices submitted to the Commission and selected a sample of 52 outage tickets from the Marianna data base, and a sample of 30 outage tickets from Fernandina. We compared the number of outages in the data base to the number of outages in the ticket file and agreed the duration of the outage on the data base to the original outage tickets. We also traced the number of customers for each outage to the appropriate supporting data, where available. Field observations were made for a small number of outages. We also recalculated all indices using the company data base and reviewed all exclusions the company said it had to ensure they were Commission approved types.

Q. Please review the audit disclosures in the audit report.

A. Audit Disclosure No. 1 discusses the number of outages in 2002. The company does not have a system which would ensure that all outages reported are included in the data base in which the indices are calculated. Outage tickets are not pre-numbered or kept in such a manner that the company knows that every outage is accounted for. Therefore, we could not verify that all outages that occurred were in the data base. We recommended that the outage tickets be numbered sequentially and each one listed in the data base. All the numbers should be listed with keys noting (1) loss of service and reason (2) no loss of service (3) cancellation of ticket and reason, (4) PSC rule exclusions (5) problem in the customers home, and (6) any other explanation that might be necessary. These keys should be in a separate column so that the data base could be sorted by key, and indices easily calculated.

Audit Disclosure No. 2 discusses exclusions from the data base. The company does not input its exclusions in the data base. The outage tickets and company summaries for exclusions are kept in a separate file in Fernandina. In Marianna they are clipped and included with all outages in the file. There is no way to be sure that all the exclusions in both divisions are accounted for, and therefore no way to be sure that all the exclusions are in accordance with Commission Rule 25-6.0455(2). Therefore, we recommended that all outages should be included in the data base. The exclusions should be included as part of the sequential outage tickets and keyed on the data base as explained previously.

Audit Disclosure No. 3 discusses the duration of the outages. The durations of the outages are from the time the first caller reports an outage to the time the journeyman in the field reports the service restored. At FPUC, the actual loss of service time cannot be determined from the systems in place. Some other companies can determine the actual time of interruption based on equipment failure reports. We reviewed 30 outage tickets for Fernandina and found that for one outage the dispatch time was not reported. We reviewed outage tickets for Mariana for the months of June and July, 2002, and found that there were eight tickets out of 52 in June, and 26 tickets out of 71 in July which did not show the restoration time. A scan of other months showed that there were more tickets with no restoration time. When asked, the company representative stated that the restoration times are not necessarily recorded by the same person who records the outage time. Many times he gets a stick-on note with the customer name and restoration time. He puts this together with the outage report and completes his outage summary every day. This way, it is easy to look back and query the journeymen if there are any questions. We recommended that the utility implement a system to ensure that all tickets include an outage time and a restoration time.

Audit Disclosure No. 4 describes the utility's method for determining the number of customers affected by outages. I worked with a staff engineer on this disclosure. We found that the number of customers affected by an outage is an estimate. Without the exact customer count, or a complete system "as-built" record, an estimation is the only methodology. While the company is using the only methods it can, based on its system, we believe that these estimates performed by many different journeymen are educated determinations, but still remain subjective, and could lead to inconsistencies.

Audit Disclosure No. 5 discusses our comparison of information on the data base to the original outage tickets. For Fernandina, we found differences in both reporting too many minutes and/or customers as well as reporting less minutes and /or customers than should have been reported. We could not reconcile the differences. We could determine certain outage differences. These were five duplicates, two exclusions that should be accounted for, and four outage tickets that were left out of the index. We recalculated the data base and indices with the correct items. For Mariana, we could only reconcile one difference. That was an item in the exclusion category that should have been included. We also recalculated the indices for this item. Our recalculation for both systems shows that the SAIDI decreased from 76.64 to 74.89 and the SAIFI remained the same.

Since there were a number of differences that could not be reconciled, we believe that the company should consider controls mentioned in the beginning of this report.

Q. Does this conclude your testimony?

A. Yes, it does.

DOCKET NO. 030438-EI: Petition for rate increase by Florida Public Utilities Company.

WITNESS: **Direct Testimony Of Ruth K. Young,** Appearing On Behalf Of Staff

EXHIBIT: RKY-1 - Rate Case Audit Report

FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND SAFETY
Miami District Office

FLORIDA POWER UTILITY COMPANY

RATE CASE - ELECTRIC

YEAR ENDED DECEMBER 31, 2002
PROJECTED 2004
DOCKET #030438-EI
AUDIT CONTROL NO. 03-274-4-1

Ruth K. Young

Ruth Young, Audit Manager

Yen Ngo, Audit Staff

Gabriela Leon

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Iliana Piedra

Iliana Piedra, Audit Staff

Jeff Small, Audit Staff

Kathy Welch

Kathy Welch, Public Utilities Supervisor

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DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT

December 15, 2003

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described in this report to audit the schedules of Rate Base, Net Operating Income and Capital Structure for the historical 12-month period ended December 31, 2002 and projected 2004 for Florida Public Utilities Electric Division. These schedules were prepared by the utility as part of its petition for rate increase Docket No. 030438-EI.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

Scanned - The documents or accounts were read quickly looking for obvious errors.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for errors or inconsistency.

Reviewed - The exhibit amounts were reconciled with the general ledger. The general account balances were traced to the subsidiary ledgers, and selective analytical review procedures were applied.

Examined - The exhibit amounts were reconciled with the general ledger. The general account balances were traced to the subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

Confirmed - Evidential matter supporting an account balance, transaction, or other information was obtained directly from an independent third party.

Verified - The item was tested for accuracy, and substantiating documentation was examined.

RATE BASE: Compiled utility plant in service from the last surveillance report dated December 31, 1999 through August 31, 2003. Examined account balances for these years by testing invoices and journal entries on a random basis. Reviewed company projections for plant for September 1, 2003 through December 31, 2004, obtained company explanations and justifications for certain projected additions. The same procedures were used for common plant in service with the addition of testing the allocations.

Accumulated depreciation was compiled from the last surveillance report dated December 31, 1999 through December 31, 2002. The monthly entries were tested in the depreciation expense section as stated below. The method for the projections for 2003 and 2004 was reviewed. The trended portions were recalculated. The same was done for common plant accumulated depreciation.

Working capital accounts for 2002 were reconciled to the general ledger and allocations verified. Adjustments were reviewed. Tested selected accounts to determine if charges were appropriate and utility related. The 2003 and 2004 projections were recalculated based on the company trend factors.

Customer advances for construction for were reconciled to the books. Balances were also traced to schedules by customers, and agreed to the customer contracts. Selected payments were verified to source documentation. For 2003 and 2004 the balances were recalculated based on the company trends.

COST OF CAPITAL: Compiled components of the capital structure for the year ended December 31, 2002. Examined short and long term debt instruments. Reviewed customer deposits, deferred taxes and investment tax credits; and recalculated the cost rates. The methods for projecting the components for 2003 and 2004 were reviewed.

NET OPERATING INCOME:

REVENUE: For the year ended December 2002, the revenue in the MFR's was traced to the general ledger. Selected customer bills on a random basis to recalculate using the tariffs in effect. Certain other revenues were traced to appropriate support documentation, such as journal entries and invoices. The revenues for projected year end 2004 were recalculated using the company trended number of customers, usage per customer, and proposed rates. Also, other revenues were recalculated using the company trends. Unbilled revenues for 2002 were recalculated and traced to support documentation such as journal entries and invoices on a random basis. For 2003 and 2004, the company's formulas were recalculated.

EXPENSES: Adjustments in 2002 for discontinued operations and other reasons were reviewed and traced to supporting documents. Examined expense account balances for 2002 by testing invoices and verified allocations to electric where appropriate. Recalculated all accounts that were trended based on 2002. Determined the supporting documentation for the projections not based on trends.

Depreciation expense for 2002 was tested for one month by recalculating the rates times the plant. All rates were traced to PSC orders. The projected expense for 2003 and 2004 was recalculated using the projected plant balances times the average for both divisions depreciation rates. The same procedures were used for common plant depreciation expense with the addition of testing the allocations.

Examined support for taxes other than income and income taxes for historical 2002 and projected 2003 and 2004.

OTHER: Read external audit work papers and board of directors' minutes for the year ended December 31, 2002. Prepared an analytical review for the three years ended December 31, 2002.

EXCEPTIONS

AUDIT EXCEPTION NO. 1

SUBJECT: **COMMON PLANT**

STATEMENT OF FACTS: During the audit, the company revised its common plant projections for 2003 and 2004. The EDP common plant is allocated to electric at 32% and the remaining common is allocated at 25%. The difference between the projected amounts and revised for both the total and allocation to electric follows. The schedule detailing how the allocation was determined follows this disclosure.

	2003 Total	2004 Total
MFR C-59(B8a-2003/2004)	$874,005	$417,150
Less Actual booked from January 03 through March 03	(151,213)	---0---
Common Projected 4/1-12/31	$722,792	$417,150
Revised Common Projected for 4/1-12/31/	553,800	329,300
Adjustment to allocate to elect.	$168,992	$ 87,850
Allocation to Electric:		
Revised EDP Equipment	$100,037	$ 8,850
Allocation Factor	32%	32%
Reduction to projections	32,012	2,832
Revised Remaining Common	$ 68,955	$ 79,000
Allocation Factor	26%	26%
Reduction to projections	17,928	20,540
Total Reduction to projections	$ 49,940	$ 23,372

OPINION: Since the 2003 ending balance effects the 2004 beginning balance, both years need to be adjusted. Also, the depreciation expense and accumulated depreciation needs to be changed for the difference.

COMPANY : FPUC - ELECTRIC
TITLE: COMMON PLANT PROJECTED
PERIOD; YEAR END 2004
DATE: NOVEMBER 19, 2003
AUDITOR: RKY

Account		YEAR END 2003 MFR Projected 21-1/2-1	YEAR END 2003 Revised Projected	YEAR END 2003 Difference		YEAR END 2004 MFR Projected 21-1/2-1	YEAR END 2004 Revised Projected	YEAR END 2004 Difference
390	Structures and Improvements	66,750	20,800	(45,950)	390	50,000	0	(50,000)
3911	Office Furniture and Equip	12,200	8,200	(4,000)	3911	11,100	5,400	(5,700)
3912	Office Machines	96,005	96,000	(5)	3912	10,000	13,200	3,200
3913	Computerized Equipment**	417,537	317,500	(100,037)	3913	290,550	281,700	(8,850)
3921	Trans Equip - Cars**	19,000	0	(19,000)	3921	45,500	19,000	(26,500)
3970	Communications Equipment**	95,000	95,000	0	3970	0	0	0
3980	Misc Equipment	0	0	0	3980	0	0	0
3990	Misc Tangible	16,300	16,300	0	3990	10,000	10,000	0
		722,792	553,800	(168,992)		417,150	329,300	(87,850)

** These Projections are for April through December 2003.
The first three months are actual and already booked.

Allocated to Electric Division	YEAR END 2003		Year End 2004
EDP Equipment	(100,037)		(8,850)
	32.00%		32.00%
	(32,012)		(2,832)
Remaining Common Plant	(68,955)		(79,000)
	26.00%		26.00%
	(17,928)		(20,540)
Total Reduction in 2003	(49,940)	Total Reduction in 2004	(23,372)

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AUDIT EXCEPTION NO. 2

SUBJECT: **COMMON PLANT PROJECTED IN 2003**

STATEMENT OF FACTS: A comparison was prepared of actual common plant according to the general ledger at November 30, 2003 to the revised 2003 capital budget.

Revised Budget for 2003		$553,792
Actual additions thru August 30, 2003	$178,458	
Actual additions 8/30/03 thru 11/30/03	165,184	
Actual retirements	(18,762)	
		324,880
Revised Budget less actual additions		228,912
Amount company plans to capitalize during December 2003.		194,643
Amount over budget		$ 34,269

The schedule following this disclosure details the common plant accounts.

The amount over budgeted needs to be allocated to the electric division as follows:

EDP Equipment Over Budgeted (Note 1)		$ 34,634
Times allocation to electric		32%
		11,083
Remaining Common Under Budget	(Note 1)	(365)
Times allocation to electric		26%
		(95)
Total Over Budgeted for 2003 allocated to electric		$ 10,998

(Note 1) The attached schedule details the amounts for EDP Equipment and Remaining Common.

OPINION: The common plant allocated to electric for 2003 should be reduced in the amount of $10,998. As this adjustment is based on the revised capital budget, it is in addition to the adjustment included in a prior exception.

Florida Public Utilities Company
COMMON
PROJECTED 2003 CAPITAL EXPENDITURE

ACCT	DESCRIPTION	2003 REVISED BUDGET AT 8/31/03	1/1/03-8/30/03 ADDITIONS	BALANCE	9/1/03-11/30/09 ADDITIONS	9/1/03-11/30/09 RETIREMENTS	BALANCE	ESTIMATED DECEMBER 2003 (BELOW)	2003 PROJECTED (SHORT) / OVER
3900	Structures & Improvements	20,750	11,506	9,244	2,066		7,178	-	(7,178)
3911	Office Furniture & Equipment	8,200	3,247	4,953	-		4,953	-	(4,953)
3912	Office Machines	96,005	8,413	87,592	27,170	(18,762)	79,184	74,317	(4,867)
3913	Computerized Equipment	317,537	101,929	215,608	134,917		80,691	46,057	(34,634)
3970	Communication Equipment	95,000	53,363	41,637	1,031		40,606	57,969	17,363
3990	Miscellaneous - Tangible	16,300	-	16,300			16,300	16,300	-
	TOTAL CAPITAL	553,792	178,458	375,334	165,184		228,912	194,643	(34,269)

December Additions		Amount	Account
Lock Box Equipment - Total (21220)	101,487		
Deposit Paid October	(27,170)	74,317	3912
Lock Box Software - Total		45,246	3913
Training Program - Total (21154)	10,000		
Deposit Paid August	(3,189)	6,811	3990
Training Program - Reallocate Account		(3,189)	3913
from 3913 to 3990		3,189	3990
Telephone System - Total (21078)	105,000		
Deposit Paid May	(47,031)	57,969	3970
[2] Projectors		4,000	3913
Safety Training		6,300	3990
	Total	194,643	

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AUDIT EXCEPTION NO. 3

SUBJECT: COMMON UTILITY DEPRECIATION EXPENSE

STATEMENT OF FACT: Common utility depreciation for 2004 included in MFR Schedule C-59 (C-34) amounts to $100,642 for 2004. The amounts for 2003 and 2002 were $84,239 and $71,751 respectively.

OPINION: Some accounts were depreciated using the incorrect rates. The rates are as follows:

Account	Correct Rate	Company-Rate Used
390	2.6%	2..5%
391.1	4.6%	4.8%
391.3	8.7%	8.1%
397	7.2%	7.1%

The recalculation of Common Utility Plant depreciation expense using the correct depreciation rates are $106,564 for 2004, $88,895 for 2003, and $83,063 for 2002.

	Co Dep Exp	Staff Dep Exp	Difference	Adj to Acc Dep
2002	71,751	83,063	11,312	(11,312)
2003	84,239	88,895	4,656	(15,968)
2004	100,642	106,564	5,922	(21,890)

Depreciation expense for 2004 needs to be increased by $5,922 and accumulated depreciation should be increased by $21,890. Due to time restrictions, we were unable to determine the effects of prior years. The company should provide the corrected schedules.

COMMON UTILITY PLANT

CCOUN	DESCRIPTION	unallocated common plant DEC. 2001	JAN 2002	FEB 2002	MAR 2002	APRIL 2002	MAY 2002	JUNE 2002	JULY 2002	AUG 2002	SEPT 2002	OCT 2002	NOV 2002	DEC 2002	13 months total
303	Misc. Tangible PLant	$0.00	$0.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$20,163.00
389	Land	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$4,445,038.00
390	Structures and Improvement	$2,074,959.00	$2,074,959.00	$2,076,771.00	$2,076,771.00	$2,076,771.00	$2,076,771.00	$2,076,771.00	$2,076,771.00	$2,076,771.00	$2,076,771.00	$2,076,771.00	$2,076,771.00	$2,076,771.00	$26,994,399.00
3911	Office Furniture	$22,261.00	$22,261.00	$22,261.00	$23,915.00	$23,915.00	$23,915.00	$23,915.00	$24,510.00	$24,510.00	$24,510.00	$24,510.00	$24,510.00	$24,510.00	$309,503.00
3912	Office Equipment	$67,508.00	$67,508.00	$67,508.00	$72,696.00	$72,696.00	$72,696.00	$72,696.00	$72,696.00	$72,696.00	$72,696.00	$72,696.00	$70,737.00	$70,737.00	$925,566.00
3913	Computer Software & Equip	$2,069,098.00	$2,069,098.00	$2,071,589.00	$2,071,589.00	$2,071,589.00	$2,071,589.00	$2,071,589.00	$2,071,589.00	$2,071,589.00	$2,071,589.00	$2,081,498.00	$2,081,498.00	$2,078,299.00	$26,952,203.00
3921	Transportation Automobiles	$133,213.00	$133,213.00	$133,213.00	$133,213.00	$133,213.00	$133,213.00	$133,213.00	$133,213.00	$111,725.00	$111,725.00	$111,725.00	$111,725.00	$111,725.00	$1,624,329.00
3922	Transportation Pickup/Vans	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
397	Communication Equipment	$134,860.00	$134,860.00	$134,860.00	$134,860.00	$134,860.00	$134,860.00	$134,860.00	$134,860.00	$134,860.00	$134,860.00	$134,860.00	$134,860.00	$134,860.00	$1,753,180.00
		$4,843,825.00	$4,843,825.00	$4,849,961.00	$4,856,803.00	$4,856,803.00	$4,856,803.00	$4,856,803.00	$4,857,398.00	$4,835,910.00	$4,835,910.00	$4,845,819.00	$4,843,860.00	$4,840,661.00	$63,024,381.00

	depreciation rate	DEC. 2001	JAN 2002	FEB 2002	MAR 2002	APRIL 2002	MAY 2002	JUNE 2002	JULY 2002	AUG 2002	SEPT 2002	OCT 2002	NOV 2002	DEC 2002	12 months total
390	2.60%	$4,495.74	$4,495.74	$4,499.67	$4,499.67	$4,499.67	$4,499.67	$4,499.67	$4,499.67	$4,499.67	$4,499.67	$4,499.67	$4,499.67	$4,499.67	$58,487.86
3911	4.60%	$85.33	$85.33	$85.33	$91.67	$91.67	$91.67	$91.67	$93.96	$93.96	$93.96	$93.96	$93.96	$93.96	$1,186.43
3912	7.70%	$433.18	$433.18	$433.18	$466.47	$466.47	$466.47	$466.47	$466.47	$466.47	$466.47	$466.47	$453.90	$453.90	$5,939.05
3913	8.70%	$15,000.96	$15,000.96	$15,019.02	$15,019.02	$15,019.02	$15,019.02	$15,019.02	$15,019.02	$15,019.02	$15,019.02	$15,090.86	$15,090.86	$15,087.67	$195,403.47
6 3921	11.30%	$1,254.42	$1,254.42	$1,254.42	$1,254.42	$1,254.42	$1,254.42	$1,254.42	$1,254.42	$1,052.08	$1,052.08	$1,052.08	$1,052.08	$1,052.08	$15,295.76
3922	4.70%	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
397	7.20%	$809.16	$809.16	$809.16	$809.16	$809.16	$809.16	$809.16	$809.16	$809.16	$809.16	$809.16	$809.16	$809.16	$10,519.08
		$22,078.80	$22,078.80	$22,100.78	$22,140.41	$22,140.41	$22,140.41	$22,140.41	$22,142.69	$21,940.35	$21,940.35	$22,012.19	[illegible]	$21,976.43	$286,831.66

		January 2002	February 2002	March 2002	April 2002	May 2002	June 2002	July 2002	August 2002	September 2002	October 2002	November 2002	December 2002	TOTAL 12 MONTHS
303														
389														
390	30.00%	$1,349	$1,349	$1,350	$1,350	$1,350	$1,350	$1,350	$1,350	$1,350	$1,350	$1,350	$1,350	$16,198
3911	30.00%	$26	$26	$26	$28	$28	$28	$28	$28	$28	$28	$28	$28	$328
3912	30.00%	$130	$130	$130	$140	$140	$140	$140	$140	$140	$140	$140	$136	$1,646
3913	32.00%	$4,800	$4,800	$4,806	$4,806	$4,806	$4,806	$4,806	$4,806	$4,806	$4,806	$4,829	$4,829	$57,707
3921	30.00%	$376	$376	$376	$376	$376	$376	$376	$376	$316	$316	$316	$316	$4,273
3922	30.00%	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
397	30.00%	$243	$243	$243	$243	$243	$243	$243	$243	$243	$243	$243	$243	$2,913
		$6,924	$6,924	$6,931	$6,943	$6,943	$6,943	$6,943	$6,943	$6,882	$6,882	$6,905	$6,902	$83,063
Per company's schedule		$5,981	$5,981	$5,988	$5,999	$5,999	$5,999	$5,999	$5,999	$5,943	$5,943	$5,962	$5,958	$71,751
Difference		$943	$943	$943	$944	$944	$944	$944	$944	$939	$939	$943	$944	$11,312

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COMMON UTILITY DEPRECIATION EXPENSE -2003

ACCOUNT	DESCRIPTION	DEC. 2002	JAN 2003	FEB 2003	MAR 2003	APRIL 2003	MAY 2003	JUNE 2003	JULY 2003	AUG 2003	SEPT 2003	OCT 2003	NOV 2003	DEC 2003
303	Miscellaneous Tangible PLant	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00
389	Land	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00
390	Structures and Improvements	$2,076,771.00	$2,076,771.00	$2,076,771.00	$2,076,771.00	$2,076,771.00	$2,076,771.00	$2,076,771.00	$2,076,771.00	$2,076,771.00	$2,093,521.00	$2,110,121.00	$2,126,821.00	$2,143,521.00
3911	Office Furniture	$24,510.00	$24,510.00	$24,510.00	$24,510.00	$24,510.00	$27,710.00	$29,710.00	$36,710.00	$36,710.00	$36,710.00	$36,710.00	$36,710.00	$36,710.00
3912	Office Equipment	$70,737.00	$70,737.00	$70,737.00	$70,737.00	$70,737.00	$70,737.00	$70,737.00	$70,737.00	$70,737.00	$70,737.00	$80,737.00	$80,737.00	$80,737.00
3913	Computer Software & Equipment	$2,078,299.00	$2,087,067.00	$2,191,033.00	$2,191,033.00	$2,207,033.00	$2,383,033.00	$2,430,933.00	$2,444,433.00	$2,458,933.00	$2,458,933.00	$2,562,933.00	$2,562,933.00	$2,566,933.00
3921	Transportation Automobiles	$111,725.00	$111,725.00	$111,725.00	$111,725.00	$111,725.00	$111,725.00	$111,725.00	$111,725.00	$111,725.00	$130,725.00	$149,725.00	$149,725.00	$149,725.00
3922	Transportation Pickup and Vans	$0.00	$30,916.00	$30,916.00	$30,916.00	$30,916.00	$30,916.00	$30,916.00	$30,916.00	$30,916.00	$30,916.00	$30,916.00	$30,916.00	$30,916.00
397	Communication Equipment	$134,860.00	$134,860.00	$134,860.00	$142,423.00	$142,423.00	$142,423.00	$237,423.00	$237,423.00	$237,423.00	$237,423.00	$237,423.00	$237,423.00	$237,423.00
399	Other Tangible Property	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$20,000.00	$20,000.00	$26,300.00	$26,300.00	$26,300.00	$26,300.00
		$4,840,661.00	$4,880,345.00	$4,984,311.00	$4,991,874.00	$5,007,874.00	$5,187,074.00	$5,331,974.00	$5,372,474.00	$5,388,974.00	$5,429,024.00	$5,578,624.00	$5,595,324.00	$5,616,024.00
Account	**Depreciation Rate**													
390	2.60%	$4,500	$4,500	$4,500	$4,500	$4,500	$4,500	$4,500	$4,500	$4,500	$4,536	$4,572	$4,608	$4,644
3911	4.60%	$94	$94	$94	$94	$94	$106	$114	$141	$141	$141	$141	$141	$141
3912	7.70%	$454	$454	$454	$454	$454	$454	$454	$454	$454	$454	$518	$518	$518
3913	8.70%	$15,068	$15,131	$15,885	$15,885	$16,001	$17,277	$17,624	$17,722	$17,827	$17,827	$18,581	$18,581	$18,610
3921	11.30%	$1,052	$1,052	$1,052	$1,052	$1,052	$1,052	$1,052	$1,052	$1,052	$1,231	$1,410	$1,410	$1,410
3922	4.70%	$0	$121	$121	$121	$121	$121	$121	$121	$121	$121	$121	$121	$121
397	7.20%	$809	$809	$809	$855	$855	$855	$1,425	$1,425	$1,425	$1,425	$1,425	$1,425	$1,425
399	20.00%	$0	$0	$0	$0	$0	$0	$0	$333	$333	$438	$438	$438	$438
		$21,976	$22,161	$22,915	$22,960	$23,076	$24,364	$25,289	$25,747	$25,853	$26,173	$27,206	$27,242	$27,307
Account	**Allocation Rate**													
390	26.00%	$1,170	$1,170	$1,170	$1,170	$1,170	$1,170	$1,170	$1,170	$1,170	$1,179	$1,189	$1,198	$14,095
3911	26.00%	$24	$24	$24	$24	$24	$28	$30	$37	$37	$37	$37	$37	$362
3912	26.00%	$118	$118	$118	$118	$118	$118	$118	$118	$118	$118	$135	$135	$1,450
3913	32.00%	$4,822	$4,842	$5,083	$5,083	$5,120	$5,529	$5,640	$5,671	$5,705	$5,705	$5,946	$5,946	$65,091
3921	26.00%	$274	$274	$274	$274	$274	$274	$274	$274	$274	$320	$367	$367	$3,515
3922	26.00%	$0	$31	$31	$31	$31	$31	$31	$31	$31	$31	$31	$31	$346
397	26.00%	$210	$210	$210	$222	$222	$222	$370	$370	$370	$370	$370	$370	$3,520
399	26.00%	$0	$0	$0	$0	$0	$0	$0	$87	$87	$114	$114	$114	$515
Per MFR Schedule		$6,618	$6,670	$6,911	$6,923	$6,960	$7,371	$7,633	$7,758	$7,791	$7,875	$8,188	$8,198	$88,895
Company		$6,239	$6,289	$6,513	$6,525	$6,560	$6,943	$7,203	$7,283	$7,306	$7,623	$7,873	$7,882	$84,239
Difference		$379	$381	$398	$398	$400	$428	$430	$475	$485	$252	$315	$316	$4,656

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ACCOUNT	DESCRIPTION	DEC. 2003	JAN 2004	FEB 2004	MAR 2004	APRIL 2004	MAY 2004	JUNE 2004	JULY 2004	AUG 2004	SEPT 2004	OCT 2004	NOV 2004	DEC 2004
303	Miscellaneous Tangible PLant	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00	$1,833.00
389	Land	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00	$341,926.00
390	Structures and Improvements	$2,143,521.00	$2,160,221.00	$2,176,921.00	$2,193,521.00	$2,193,521.00	$2,193,521.00	$2,193,521.00	$2,193,521.00	$2,193,521.00	$2,193,521.00	$2,193,521.00	$2,193,521.00	$2,193,521.00
3911	Office Furniture	$36,710.00	$38,710.00	$38,710.00	$41,110.00	$45,110.00	$47,110.00	$47,110.00	$47,810.00	$47,810.00	$47,810.00	$47,810.00	$47,810.00	$47,810.00
3912	Office Equipment	$166,742.00	$166,742.00	$166,742.00	$166,742.00	$166,742.00	$176,742.00	$176,742.00	$176,742.00	$176,742.00	$176,742.00	$176,742.00	$176,742.00	$176,742.00
3913	Computer Software & Equipment	$2,606,570.00	$2,637,570.00	$2,650,420.00	$2,734,420.00	$2,771,420.00	$2,776,120.00	$2,808,620.00	$2,808,620.00	$2,823,620.00	$2,858,620.00	$2,866,620.00	$2,866,620.00	$2,899,120.00
3921	Transportation Automobiles	$130,725.00	$130,725.00	$149,725.00	$149,725.00	$149,725.00	$149,725.00	$176,225.00	$176,225.00	$176,225.00	$176,225.00	$176,225.00	$176,225.00	$176,225.00
3922	Transportation Pickup and Vans	$30,916.00	$30,916.00	$30,916.00	$30,916.00	$30,916.00	$30,916.00	$30,916.00	$30,916.00	$30,916.00	$30,916.00	$30,916.00	$30,916.00	$30,916.00
397	Communication Equipment	$237,423.00	$237,423.00	$237,423.00	$237,423.00	$237,423.00	$237,423.00	$237,423.00	$237,423.00	$237,423.00	$237,423.00	$237,423.00	$237,423.00	$237,423.00
399	Other Tangible Property	$16,300.00	$16,300.00	$16,300.00	$26,300.00	$26,300.00	$26,300.00	$26,300.00	$26,300.00	$26,300.00	$26,300.00	$26,300.00	$26,300.00	$26,300.00
		$5,714,666.00	$5,762,366.00	$5,810,916.00	$5,923,916.00	$5,964,916.00	$5,981,616.00	$6,040,616.00	$6,041,316.00	$6,056,316.00	$6,091,316.00	$6,099,316.00	$6,099,316.00	$6,131,816.00

	depreciation rates	JAN 2004	FEB 2004	MAR 2004	APRIL 2004	MAY 2004	JUNE 2004	JULY 2004	AUG 2004	SEPT 2004	OCT 2004	NOV 2004	DEC 2004	TOTAL
390	2.60%	$4,644	$4,680	$4,717	$4,753	$4,753	$4,753	$4,753	$4,753	$4,753	$4,753	$4,753	$4,753	$56,815
3911	4.60%	$140.72	$148	$148	$158	$173	$181	$181	$183	$183	$183	$183	$183	$2,046
3912	7.70%	$1,069.93	$1,070	$1,070	$1,070	$1,070	$1,134	$1,134	$1,134	$1,134	$1,134	$1,134	$1,134	$13,288
3913	8.70%	$18,912.13	$19,122	$19,216	$19,825	$20,093	$20,127	$20,362	$20,362	$20,471	$20,725	$20,783	$20,783	$240,781
3921	11.30%	$1,230.99	$1,231	$1,410	$1,410	$1,410	$1,410	$1,659	$1,659	$1,659	$1,659	$1,659	$1,659	$18,058
3922	4.70%	$121.09	$121	$121	$121	$121	$121	$121	$121	$121	$121	$121	$121	$1,453
397	7.20%	$1,424.54	$1,425	$1,425	$1,425	$1,425	$1,425	$1,425	$1,425	$1,425	$1,425	$1,425	$1,425	$17,094
399	20.00%	$271.67	$272	$272	$438	$438	$438	$438	$438	$438	$438	$438	$438	$4,760
		$27,815	$28,069	$28,378	$29,199	$29,462	$29,568	$30,073	$30,076	$30,185	$30,438	$30,496	$30,496	$354,298

		JAN 2004	FEB 2004	MAR 2004	APRIL 2004	MAY 2004	JUNE 2004	JULY 2004	AUG 2004	SEPT 2004	OCT 2004	NOV 2004	DEC 2004	total TOTAL
390	26%	$1,208	$1,217	$1,226	$1,236	$1,236	$1,236	$1,236	$1,236	$1,236	$1,236	$1,236	$1,236	$14,772
3911	26%	$37	$39	$39	$41	$45	$47	$47	$48	$48	$48	$48	$48	$532
3912	26%	$278	$278	$278	$278	$278	$295	$295	$295	$295	$295	$295	$295	$3,455
3913	32%	$6,052	$6,119	$6,149	$6,344	$6,430	$6,441	$6,516	$6,516	$6,551	$6,632	$6,651	$6,651	$77,050
3921	26%	$320	$320	$367	$367	$367	$367	$431	$431	$431	$431	$431	$431	$4,695
3922	26%	$31	$31	$31	$31	$31	$31	$31	$31	$31	$31	$31	$31	$378
397	26%	$370	$370	$370	$370	$370	$370	$370	$370	$370	$370	$370	$370	$4,445
399	26%	$71	$71	$71	$114	$114	$114	$114	$114	$114	$114	$114	$114	$1,238
		$8,367	$8,445	$8,531	$8,781	$8,871	$8,901	$9,041	$9,041	$9,076	$9,157	$9,176	$9,176	$106,564
Per company's schedule		$7,900	$7,973	$8,056	$8,293	$8,377	$8,406	$8,540	$8,541	$8,574	$8,649	$8,667	$8,667	$100,642
		$467	$472	$475	$488	$494	$495	$501	$500	$502	$508	$509	$509	$5,922

AUDIT EXCEPTION NO. 4

SUBJECT: ACCUMULATED DEPRECIATION

STATEMENT OF FACT: Total depreciation expense for 2003 included in the company filing, schedule C-59 (B-8b) is $2,625,961. The recalculated depreciation expense amounts to $2,629,080.12. Depreciation expense is understated by $3,119.12. The company has used the correct depreciation rates. The difference is due to a mathematical error.

OPINION: Depreciation expense and accumulated depreciation should both be increased by $3,119.12. See the attached schedules for the staff's recalculation.

2003 DEPRECIATION EXPENSE

ACCOUNT	PLANT BALANCE DEC 2002	JAN 2003	FEB 2003	MARCH 2003	APRIL 2003	MAY 2003	JUNE 2003	JULY 2003	AUG. 2003	SEPT. 2003	OCT. 2003	NOV., 2003	DEC. 2003
3501	$56,519.00	$56,519.00	$56,519.00	$56,519.00	$56,519.00	$56,519.00	$56,519.00	$56,519.00	$56,519.00	$56,519.00	$56,519.00	$56,519.00	$56,519.00
352	$26,401.00	$26,401.00	$26,401.00	$26,401.00	$26,401.00	$26,401.00	$26,401.00	$26,401.00	$26,401.00	$26,401.00	$26,401.00	$26,401.00	$26,401.00
353	$1,962,229.00	$1,962,229.00	$1,962,229.00	$1,962,229.00	$1,962,229.00	$1,964,929.00	$1,964,929.00	$1,964,929.00	$1,964,929.00	$1,964,929.00	$1,964,929.00	$1,964,929.00	$1,964,929.00
354	$244,665.00	$244,665.00	$244,665.00	$244,665.00	$244,665.00	$244,665.00	$244,665.00	$244,665.00	$244,665.00	$244,665.00	$244,665.00	$244,665.00	$244,665.00
355	$2,457,138.00	$2,457,168	$2,457,198.00	$2,457,228.00	$2,457,258.00	$2,335,888.00	$2,335,918.00	$2,335,948.00	$2,335,978.00	$2,336,008.00	$2,336,039.00	$2,336,070.00	$2,336,101.00
356	$2,001,539.00	$2,001,539.00	$2,001,539.00	$2,001,539.00	$2,001,539.00	$1,800,139.00	$1,800,139.00	$1,800,139.00	$1,800,139.00	$1.800,139.00	$1,800,139.00	$1,800,139.00	$1,945,139.00
359	$6,788.00	$6,788.00	$6,788.00	$6,788.00	$6,788.00	$6,788.00	$6,788.00	$6,788.00	$6,788.00	$6,788.00	$6,788.00	$6,788.00	$6,788.00
Total	$6,755,279.00	$6,755,309.00	$6,755,339.00	$6,755,369.00	$6,755,399.00	$6,435,329.00	$6,435,359.00	$6,435,389.00	$6,435,419.00	$6,435,449.00	$6,435,480.00	$6,435,511.00	$6,580,542.00
3601	$16,188.00	$16,188.00	$16,188.00	$16,188.00	$16,188.00	$16,188.00	$16,188.00	$16,188.00	$16,188.00	$16,188.00	$16,188.00	$16,188.00	$16,188.00
361	$96,042.00	$96,042.00	$96,042.00	$96,042.00	$96,042.00	$96,042.00	$96,042.00	$96,042.00	$96,042.00	$96,042.00	$96,042.00	$96,042.00	$96,042.00
362	$3,317,022.00	$3,317,489.00	$3,317,956.00	$3,318,423.00	$3,340,890.00	$3,341,357.00	$3,341,824.00	$3,342,291.00	$3,342,758.00	$3,343,224.00	$3,343,690.00	$3,344,156.00	$3,564,623.00
364	$7,271,848.00	$7,308,236.00	$7,344,624.00	$7,381,012.00	$7,420,200.00	$7,459,388.00	$7,506,576.00	$7,545,764.00	$7,584,952.00	$7,681,140.00	$7,730,328.00	$7,769,515.00	$7,920,203.00
365	$8,331,789.00	$8,352,669.00	$8,373,549.00	$8,394,429.00	$8,415,309.00	$8,436,189.00	$8,464,069.00	$8,484,949.00	$8,505,829.00	$8,539,710.00	$8,602,592.00	$8,623,474.00	$8,747,356.00
3662	$1,735,670.00	$1,757,201.00	$1,778,732.00	$1,800,263.00	$1,821,794.00	$1,843,325.00	$1,864,856.00	$1,886,387.00	$1,907,917.00	$1,929,448.00	$1,950,979.00	$1,972,510.00	$2,369,041.00
3672	$3,539,708.00	$3,565,676.00	$3,591,644.00	$3,617,612.00	$3,643,580.00	$3,669,548.00	$3,695,516.00	$3,721,483.00	$3,747,450.00	$3,773,417.00	$3,799,384.00	$3,825,351.00	$4,201,318.00
3681	$6,364,238.00	$6,368,492.00	$6,372,746.00	$6,377,000.00	$6,404,254.00	$6,408,508.00	$6,429,262.00	$6,433,516.00	$6,437,770.00	$6,442,025.00	$6,456,280.00	$6,470,535.00	$6,474,789.00
3683	$4,830,196.00	$4,834,671.00	$4,839,146.00	$4,843,621.00	$4,972,496.00	$4,981,371.00	$4,990,246.00	$5,051,121.00	$5,059,996.00	$5,068,871.00	$5,077,746.00	$5,086,621.00	$5,095,497.00
3691	$3,565,981.00	$3,577,999.00	$3,590,017.00	$3,602,035.00	$3,614,053.00	$3,626,071.00	$3,638,089.00	$3,650,107.00	$3,662,125.00	$3,674,143.00	$3,686,162.00	$3,698,181.00	$3,710,200.00
3693	$3,020,468.00	$3,036,668.00	$3,052,868.00	$3,069,068.00	$3,085,268.00	$3,101,468.00	$3,117,668.00	$3,133,868.00	$3,150,068.00	$3,166,268.00	$3,182,468.00	$3,198,668.00	$3,214,868.00
370	$2,893,453.00	$2,903,817.00	$2,914,181.00	$2,922,545.00	$2,938,009.00	$2,953,473.00	$2,969,937.00	$2,986,401.00	$3,002,865.00	$3,019,329.00	$3,035,794.00	$3,052,259.00	$3,068,725.00
3711	$1,023,739.00	$1,027,076.00	$1,030,413.00	$1,033,750.00	$1,037,087.00	$1,040,424.00	$1,043,761.00	$1,047,098.00	$1,050,435.00	$1,053,772.00	$1,057,109.00	$1,060,446.00	$1,063,784.00
3713	$439,787.00	$441,579.00	$443,371.00	$445,163.00	$446,955.00	$448,747.00	$450,539.00	$452,331.00	$454,123.00	$455,916.00	$457,709.00	$459,502.00	$461,295.00
3731	$580,136.00	$580,806.00	$581,476.00	$582,146.00	$582,816.00	$583,486.00	$584,156.00	$584,826.00	$585,496.00	$586,165.00	$586,834.00	$587,503.00	$588,172.00
3733	$489,879.00	$491,533.00	$493,187.00	$494,841.00	$496,495.00	$498,149.00	$499,803.00	$501,457.00	$503,111.00	$504,765.00	$506,419.00	$508,073.00	$509,728.00
Total	$47,516,144.00	$47,676,142.00	$47,836,140.00	$47,994,138.00	$48,331,436.00	$48,503,734.00	$48,708,532.00	$48,933,829.00	$49,107,125.00	$49,350,423.00	$49,585,724.00	$49,769,024.00	$51,101,829.00
390	$1,359,364.00	$1,359,764.00	$1,360,164.00	$1,360,564.00	$1,360,964.00	$1,361,364.00	$1,366,764.00	$1,367,164.00	$1,389,064.00	$1,389,464.00	$1,389,864.00	$1,390,364.00	$1,390,864.00
3911	$7,370.00	$7,370.00	$7,370.00	$7,370.00	$7,370.00	$9,370.00	$9,370.00	$9,370.00	$9,370.00	$9,370.00	$9,370.00	$9,370.00	$9,370.00
3912	$37,716.00	$37,716.00	$37,716.00	$37,716.00	$37,716.00	$39,716.00	$39,716.00	$39,716.00	$39,716.00	$39,716.00	$39,716.00	$39,716.00	$39,716.00
3913	$512,120.00	$508,817.00	$505,514.00	$502,211.00	$498,908.00	$498,105.00	$494,802.00	$504,499.00	$526,196.00	$522,894.00	$519,592.00	$516,290.00	$662,988.00
3931	$106,918.00	$106,918.00	$106,918.00	$106,918.00	$106,918.00	$106,918.00	$106,918.00	$106,918.00	$106,918.00	$106,918.00	$106,918.00	$106,918.00	$106,918.00
3932	$761.00	$761.00	$761.00	$761.00	$761.00	$761.00	$761.00	$761.00	$761.00	$761.00	$761.00	$761.00	$761.00
3941	$37,772.00	$37,772.00	$37,772.00	$37,772.00	$37,772.00	$37,772.00	$37,772.00	$37,772.00	$37,772.00	$37,772.00	$37,772.00	$37,772.00	$37,772.00
3942	$85,684.00	$87,184.00	$88,684.00	$90,184.00	$91,684.00	$93,184.00	$99,684.00	$101,184.00	$102,684.00	$104,184.00	$105,684.00	$107,184.00	$108,684.00
3951	$64,248.00	$64,248.00	$64,248.00	$64,248.00	$64,248.00	$64,248.00	$64,248.00	$64,248.00	$64,248.00	$64,248.00	$64,248.00	$64,248.00	$64,248.00
3952	$38,559.00	$38,559.00	$38,559.00	$38,559.00	$38,559.00	$38,559.00	$38,559.00	$38,559.00	$38,559.00	$38,559.00	$38,559.00	$38,559.00	$38,559.00
396	$116,642.00	$116,642.00	$116,642.00	$116,642.00	$116,642.00	$116,642.00	$116,642.00	$116,642.00	$116,642.00	$116,642.00	$116,642.00	$116,642.00	$116,642.00
397	$128,693.00	$128,693.00	$128,693.00	$128,693.00	$128,693.00	$128,693.00	$128,693.00	$128,693.00	$114,693.00	$114,693.00	$149,693.00	$149,693.00	$149,693.00
398	$20,036.00	$20,036.00	$20,036.00	$20,036.00	$20,036.00	$20,036.00	$20,036.00	$20,036.00	$20,036.00	$20,036.00	$20,036.00	$20,036.00	$20,036.00
399								$5,000.00	$10,000.00	$10,000.00	$10,000.00	$10,000.00	$10,000.00
Total	$2,515,883.00	$2,514,480.00	$2,513,077.00	$2,511,674.00	$2,510,271.00	$2,515,368.00	$2,523,965.00	$2,540,562.00	$2,576,659.00	$2,575,257.00	$2,608,855.00	$2,607,553.00	$2,756,251.00
3921	$96,020.00	$96,020.00	$96,020.00	$96,020.00	$96,020.00	$96,020.00	$96,020.00	$96,020.00	$96,020.00	$96,020.00	$96,020.00	$96,020.00	$96,020.00
3922	$536,946.00	$536,946.00	$536,946.00	$536,946.00	$525,266.00	$525,266.00	$565,266.00	$565,266.00	$553,586.00	$553,586.00	$553,586.00	$553,586.00	$541,906.00
3923	$1,655,055.00	$1,666,960	$1,678,865.00	$1,690,770.00	$1,702,675.00	$1,714,580.00	$1,847,985.00	$1,859,891.00	$1,871,797.00	$1,883,703.00	$1,895,609.00	$1,907,515.00	$1,932,421.00
3924	$106,426.00	$106,426.00	$106,426.00	$106,426.00	$106,426.00	$106,426.00	$106,426.00	$106,426.00	$106,426.00	$106,426.00	$106,426.00	$106,426.00	$106,426.00
Total	$2,394,447.00	$2,406,352.00	$2,418,257.00	$2,430,162.00	$2,430,387.00	$2,442,292.00	$2,615,697.00	$2,627,603.00	$2,627,829.00	$2,639,735.00	$2,651,641.00	$2,663,547.00	$2,676,773.00
Total Plant	$59,181,753.00	$59,352,283.00	$59,522,813.00	$59,691,343.00	$60,027,493.00	$59,896,723.00	$60,283,553.00	$60,537,383.00	$60,747,032.00	$61,000,864.00	$61,281,700.00	$61,475,635.00	$63,115,395.0(

ACCOUNT	Dep RATE	JAN 2003	FEB 2003	MARCH 2003	APRIL 2003	MAY 2003	JUNE 2003	JULY 2003	AUG. 2003	SEPT. 2003	OCT. 2003	NOV., 2003	DEC. 2003	TOTAL
3501	2.10%	$99	$99	$99	$99	$99	$99	$99	$99	$99	$99	$99	$99	$1,187
352	2.10%	$46	$46	$46	$46	$46	$46	$46	$46	$46	$46	$46	$46	$554
353	2.50%	$4,088	$4,088	$4,088	$4,088	$4,088	$4,094	$4,094	$4,094	$4,094	$4,094	$4,094	$4,094	$49,095
354	1.80%	$367	$367	$367	$367	$367	$367	$367	$367	$367	$367	$367	$367	$4,404
355	3.80%	$7,781	$7,781	$7,781	$7,781	$7,781	$7,397	$7,397	$7,397	$7,397	$7,397	$7,397	$7,398	$90,686
356	3.10%	$5,171	$5,171	$5,171	$5,171	$5,171	$4,650	$4,650	$4,650	$4,650	$4,650	$4,650	$4,650	$58,406
359	3.90%	$22	$22	$22	$22	$22	$22	$22	$22	$22	$22	$22	$22	$265
3601	3.50%	$47	$47	$47	$47	$47	$47	$47	$47	$47	$47	$47	$47	$567
361	2.20%	$176	$176	$176	$176	$176	$176	$176	$176	$176	$176	$176	$176	$2,113
362	3.40%	$9,398	$9,400	$9,401	$9,402	$9,466	$9,467	$9,469	$9,470	$9,471	$9,472	$9,474	$9,475	$113,365
364	4.40%	$26,663	$26,797	$26,930	$27,064	$27,207	$27,351	$27,524	$27,668	$27,811	$28,164	$28,345	$28,488	$330,013
365	4.40%	$30,550	$30,626	$30,703	$30,780	$30,856	$30,933	$31,035	$31,111	$31,188	$31,312	$31,543	$31,619	$372,257
3662	2.00%	$2,893	$2,929	$2,965	$3,000	$3,036	$3,072	$3,108	$3,144	$3,180	$3,216	$3,252	$3,288	$37,082
3672	2.90%	$8,554	$8,617	$8,680	$8,743	$8,805	$8,868	$8,931	$8,994	$9,056	$9,119	$9,182	$9,245	$106,793
3681	4.20%	$22,275	$22,290	$22,305	$22,320	$22,415	$22,430	$22,502	$22,517	$22,532	$22,547	$22,597	$22,647	$269,376
3683	4.20%	$16,906	$16,921	$16,937	$16,953	$17,404	$17,435	$17,466	$17,679	$17,710	$17,741	$17,772	$17,803	$208,726
3691	3.90%	$11,589	$11,628	$11,668	$11,707	$11,746	$11,785	$11,824	$11,863	$11,902	$11,941	$11,980	$12,019	$141,651
3693	3.90%	$9,817	$9,869	$9,922	$9,974	$10,027	$10,080	$10,132	$10,185	$10,238	$10,290	$10,343	$10,396	$121,273
370	3.60%	$8,680	$8,711	$8,743	$8,768	$8,814	$8,860	$8,910	$8,959	$9,009	$9,058	$9,107	$9,157	$106,776
3711	6.30%	$5,375	$5,392	$5,410	$5,427	$5,445	$5,462	$5,480	$5,497	$5,515	$5,532	$5,550	$5,567	$65,652
3713	6.30%	$2,309	$2,318	$2,328	$2,337	$2,347	$2,356	$2,365	$2,375	$2,384	$2,394	$2,403	$2,412	$28,328
3731	4.90%	$2,369	$2,372	$2,374	$2,377	$2,380	$2,383	$2,385	$2,388	$2,391	$2,394	$2,396	$2,399	$28,607
3733	4.90%	$2,000	$2,007	$2,014	$2,021	$2,027	$2,034	$2,041	$2,048	$2,054	$2,061	$2,068	$2,075	$24,450
390	2.10%	$2,379	$2,380	$2,380	$2,381	$2,382	$2,382	$2,392	$2,393	$2,431	$2,432	$2,432	$2,433	$28,796
3911	14.30%	$88	$88	$88	$88	$88	$112	$112	$112	$112	$112	$112	$112	$1,221
3912	20.00%	$629	$629	$629	$629	$629	$662	$662	$662	$662	$662	$662	$662	$7,777
3913	20.00%	$8,535	$8,480	$8,425	$8,370	$8,315	$8,302	$8,247	$8,408	$8,770	$8,715	$8,660	$8,605	$101,832
3931	14.30%	$1,274	$1,274	$1,274	$1,274	$1,274	$1,274	$1,274	$1,274	$1,274	$1,274	$1,274	$1,274	$15,289
3932	14.30%	$9	$9	$9	$9	$9	$9	$9	$9	$9	$9	$9	$9	$109
3941	14.30%	$450	$450	$450	$450	$450	$450	$450	$450	$450	$450	$450	$450	$5,401
3942	14.30%	$1,021	$1,039	$1,057	$1,075	$1,093	$1,110	$1,188	$1,206	$1,224	$1,242	$1,259	$1,277	$13,790
3951	14.30%	$766	$766	$766	$766	$766	$766	$766	$766	$766	$766	$766	$766	$9,187
3952	14.30%	$459	$459	$459	$459	$459	$459	$459	$459	$459	$459	$459	$459	$5,514
396	5.50%	$535	$535	$535	$535	$535	$535	$535	$535	$535	$535	$535	$535	$6,415
397	20.00%	$2,145	$2,145	$2,145	$2,145	$2,145	$2,145	$2,145	$2,145	$1,912	$1,912	$2,495	$2,495	$25,972
398	14.30%	$239	$239	$239	$239	$239	$239	$239	$239	$239	$239	$239	$239	$2,865
399														
Total recalculated		$195,703.61	$196,166.95	$196,630.28	$197,087.62	$198,154.76	$197,858.80	$198,547.19	$199,453.15	$200,181.41	$200,945.40	$202,261.73	$202,804.24	$2,385,795
Total per Company		$195,500.00	$195,961.00	$196,427.00	$196,882.00	$197,948.00	$197,650.00	$198,337.00	$199,325.00	$200,135.00	$200,898.00	$202,213.00	$202,754.00	$2,384,030
Difference		$203.61	$205.95	$203.28	$205.62	$206.76	$208.80	$210.19	$128.15	$46.41	$47.40	$48.73	$50.24	$1,765.14

TRANSPORTATION EQUIPMENT DEPRECIATION EXPENSE

		JAN 2003	FEB 2003	MARCH 2003	APRIL 2003	MAY 2003	JUNE 2003	JULY 2003	AUGUST 2003	SEPT 2003	OCT 2003	NOV 2003	DEC 2003	TOTA;L
3921	12.60%	$1,008	$1,008	$1,008	$1,008	$1,008	$1,008	$1,008	$1,008	$1,008	$1,008	$1,008	$1,008	
3922	13.00%	$5,817	$5,817	$5,817	$5,817	$5,690	$5,690	$6,124	$6,124	$5,997	$5,997	$5,997	$5,871	
3923	8.80%	$12,137	$12,224	$12,312	$12,399	$12,486	$12,574	$13,552	$13,639	$13,727	$13,814	$13,988	$14,171	
3924	3.20%	$284	$284	$284	$284	$284	$284	$284	$284	$284	$284	$284	$284	
PER RECALCULATION		$19,246.00	$19,333.30	$19,420.60	$19,507.91	$19,468.68	$19,555.98	$20,967.62	$21,054.93	$21,015.71	$21,103.02	$21,277.64	$21,333.75	$243,285.12
3921	12.60%	$1,004.00	$1,004.00	$1,004.00	$1,004.00	$1,004.00	$1,004.00	$1,004.00	$1,004.00	$1,004.00	$1,004.00	$1,004.00	$1,004.00	
3922	13.00%	$5,795.00	$5,795.00	$5,795.00	$5,795.00	$5,668.00	$5,668.00	$6,100.00	$6,100.00	$5,974.00	$5,974.00	$5,974.00	$5,974.00	
3923	8.80%	$12,068.00	$12,155.00	$12,242.00	$12,329.00	$12,415.00	$12,502.00	$13,475.00	$13,562.00	$13,649.00	$13,735.00	$13,822.00	$13,909.00	
3924	3.20%	$284.00	$284.00	$284.00	$284.00	$284.00	$284.00	$284.00	$284.00	$284.00	$284.00	$284.00	$284.00	
TOTAL PER COMPANY		$19,151.00	$19,238.00	$19,325.00	$19,412.00	$19,371.00	$19,458.00	$20,863.00	$20,950.00	$20,911.00	$20,997.00	$21,084.00	$21,171.00	$241,931.00
DIFFERENCE		$95.00	$95.30	$95.60	$95.91	$97.68	$97.98	$104.62	$104.93	$104.71	$106.02	$193.64	$162.75	$1,354.12

	Per Company	Recalculated	Difference
Depreciation Expense	$2,384,030.00	$2,385,795.00	($1,765.00)
Transportation Expense	$241,931.00	$243,285.12	($1,354.12)
	$2,625,961.00	$2,629,080.12	($3,119.12)

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AUDIT EXCEPTION NO. 5

SUBJECT: WORKING CAPITAL - EMPLOYEE ACCOUNTS RECEIVABLE

STATEMENT OF FACTS: In the company filing C59(B15) the company has included in accounts receivable an account that relates to employee loans. The 2002 average amount for Account 1430.1 Other - Employee for Marianna is $4,122 and for Fernandina is $819, or a total of $4,941. The amounts related to 2003 and 2004 are $5,146 and $5,298, respectively.

In other current rate case proceedings the Commission has removed these amounts because it is a non-utility function. FPSC Order No. 10557 for Gulf Power eliminated employee loans from working capital.

The company made an analysis of the accounts and determined that an allocation of 49.46% for non-utility needed to be made for Fernandina. Therefore, $405.08 relates to non-utility. Marianna did not have any non-utility functions.

OPINION: If the total account is disallowed, working capital should be reduced by $4,941, $5,146 and $5,298 for 2002, 2003 and 2004, respectively. If only the non-utility portion is disallowed, working capital should be reduced by $405.08, $421.94 and $434.39 for 2002, 2003 and 2004, respectively.

AUDIT EXCEPTION NO. 6

SUBJECT: WORKING CAPITAL -OTHER ACCOUNTS RECEIVABLE

STATEMENT OF FACTS: In the company filing C59(B15) the company has included in accounts receivable an account that relates to other miscellaneous accounts receivable. The 2002 average amount for account 1430.2 Other Miscellaneous for Marianna is $21,777 and for Fernandina is $67,497, or a total of $89,274. The amounts related to 2003 and 2004 are $92,989 and $95,735, respectively.

The company made an analysis of the account and determined that for Fernandina only 88.47% relates to electric. Therefore, $7,782 relates to water and propane for 2002. Marianna did not have any non-utility functions.

OPINION: Working capital should be reduced by $7,782, $8,105 and $8,345 for 2002, 2003 and 2004, respectively, to reflect the allocation for non-utility.

AUDIT EXCEPTION NO. 7

SUBJECT: WORKING CAPITAL - ACCRUED GROSS RECEIPTS TAX

STATEMENT OF FACTS: In company filing C59 (B15) the company included a credit of $156,445 for account 100.2360.2 - Taxes Accrued - State Gross Receipts in the 2002 working capital. The company explained this is a common account and should be allocated to all the utilities. The allocation percent for electric is 37%.

OPINION: Working Capital should be increased by 63% or $98,560 of the amount for 2002 to remove the non-utility portion. The amounts related to 2003 and 2004 are $102,662 and $105,693, respectively.

AUDIT EXCEPTION NO. 8

SUBJECT: WORKING CAPITAL - ACCOUNTS PAYABLE REVISION

STATEMENT OF FACTS: The company has revised the accounts payable amounts included in the company filing C59(B15) for 2002.

Total as revised	($2,792,531)
Total as originally reported	($2,523,290)
	($ 269,241)

The revision was made because during May 2002 there was an error in accounts payable postings which understated the account balance by $3,320,636. The $255,434 is the 13 - month average effect of the understatement in the accounts payable balances. There is also an adjustment for the elimination of the water division of $13,807. This totals the $269,241. This decreases the working capital allowance.

The revision which relates to 2003 and 2004 is $280,446 and $288,728, respectively.

AUDIT EXCEPTION NO. 9

SUBJECT: COST OF CAPITAL

STATEMENT OF FACT: The utility's filing reflects the following balances for its projected December 31, 2004, cost of capital in MFR Schedule D-1a.

Class of Capital	12-Month Year End As of 12/31/2004	Jurisdictional Factor	Jurisdictional Balance	Ratio	Cost Rate	Weighted Cost Rate
Long-term Debt	$50,086,856	33%	$16,520,338	41.47%	7.87%	3.26%
Short-term Debt	0		0	0.00%	3.21%	0.00%
Preferred Stock	600,000	33%	197,900	0.50%	4.75%	0.02%
Common Equity	55,051,146	33%	18,157,729	45.58%	12.00%	5.47%
Customer Deposits	1,330,347		1,330,347	3.34%	6.00%	0.20%
Deferred Taxes	3,449,838		3,449,838	8.66%	0.00%	0.00%
ITC at Zero Cost	2,308		2,308	0.01%	0.00%	0.00%
ITC at Overall Cost	182,409		182,409	0.46%	10.00%	0.05%
Total	$110,702,904		$39,840,869	100.00%		9.00%

The utility included the following revised projected 13-month average 2004 cost of capital schedule in response to the Commission staff's First Document Request identified as Attachment No. 1.3.

Class of Capital	13-Month Average As of 12/31/2004	Jurisdictional Factor	Jurisdictional Balance	Ratio	Cost Rate	Weighted Cost Rate
Long-term Debt	$50,245,281	34%	$17,174,001	43.11%	7.87%	3.39%
Short-term Debt	2,278,077	34%	778,654	1.95%	3.21%	0.06%
Preferred Stock	600,000	34%	205,082	0.51%	4.75%	0.02%
Common Equity	49,023,546	34%	16,756,408	42.06%	12.00%	5.05%
Customer Deposits	1,384,187		1,384,187	3.47%	6.00%	0.21%
Deferred Taxes	3,333,003		3,333,003	8.37%	0.00%	0.00%
ITC at Zero Cost	2,308		2,308	0.01%	0.00%	0.00%
ITC at Overall Cost	207,227		207,227	0.52%	10.00%	0.05%
Total	$107,073,629		$39,840,870	100.00%		8.79%

OPINION: The utility's revised 2004 cost of capital schedule above changed the utility's presentation from a projected 12-month period as of December 31, 2004, to a projected 13-month average balance as of December 31, 2004. However, the revised schedule still dose not comply with prior Commission orders. See the audit staff's disclosure in this report that addresses this issue.

The utility's projected average balance of $1,384,187 for customer deposits in its revised cost of capital schedule is understated by $433,545 and its corresponding cost rate is understated by 0.842 percent because of the following. ($1,817,732 - $1,384,187 = $433,545) and (6.842 percent - 6.000 percent = 0.842 percent)

1) The utility's projected 2004 customer deposit balance included adjustments that reduce it by $107,000 in May and April of the test year. The utility initially identified these reductions as payments for anticipated refunds of customer deposits. The audit staff has determined in subsequent conversations with the utility staff that the projected refunds were actually anticipated interest payments on customer deposits that the utility routinely posts on an annual basis in May and April of each year.
2) The utility calculated interest on customer deposits using a 6 percent rate for all deposits. The audit staff has determined in subsequent conversations with utility staff that approximately 32 percent of its customer deposits receive a 7 percent interest rate as required of nonresidential deposits in Rule 25-6.097(4), Florida Administrative Code.
3) The utility calculated its projected customer deposit balance based on a 3 percent annual growth rate applied to each of the prior month's ending balance less payments for anticipated refunds to customers discussed above.

The audit staff has recalculated a projected 13-month average balance of $1,817,732 and a corresponding cost rate of 6.842 percent based on the following methodology. See the audit staff calculations in the schedule attached.

1) The audit staff determined that the actual monthly growth rate is 0.424 percent or an average annual growth rate of 5.088 percent based on a five-year average net growth in customer deposits from December 1998 through December 2002. The audit staff used the monthly ending balance of customer deposits and calculated the percentage change for each month. In months that the percentage change exceeded 4 percent, the previous 12-month average percentage was supplanted to remove nonrecurring events. Such events included large one-time nonresidential deposits or deposit refunds and the periodic review of customer payment records that the utility performed to assess additional deposits on customers with poor payment histories.
2) The above monthly growth rate of 0.424 percent was then applied to the ending December 2002 customer deposit balance to calculate projected January 2003 and each subsequent projected month's balance through the end of the projected period as of December 31, 2004. The attached schedule calculates a projected 13-month average balance of $1,817,732 as of December 31, 2004, for utility customer deposits. The audit staff did not include the utility's adjustment for anticipated payments to customers because customer refunds are already accounted for in the net monthly growth rate calculated above.

3) The audit staff's schedule also calculates a projected $124,361 total interest cost for the 13-month period ended December 31, 2004, based on the following historical interest payment ratio provided by the utility staff.

a) Approximately 68 percent of customer deposits earn 6 percent interest.

b) Approximately 32 percent of customer deposits earn 7 percent interest.

The above interest cost of $124,361 which is calculated on the average customer deposit balance of $1,817,732 generates an effective interest cost rate of 6.842 percent on customer deposits for the projected period 2004.

The following revised cost of capital schedule incorporates the audit staff's adjustments to customer deposits discussed above and recalculates the weighted average cost rate to be 8.80 percent for the projected 13-month period ended December 31, 2004.

Class of Capital	13-Month Average As of 12/31/2004	Jurisdictional Factor	Jurisdictional Balance	Ratio	Cost Rate	Weighted Cost Rate
Long-term Debt	$50,245,281	34%	$17,174,001	42.64%	7.87%	3.36%
Short-term Debt	2,278,077	34%	778,654	1.93%	3.21%	0.06%
Preferred Stock	600,000	34%	205,082	0.51%	4.75%	0.02%
Common Equity	49,023,546	34%	16,756,408	41.61%	12.00%	4.99%
Customer Deposits	1,817,732		1,817,732	4.51%	6.84%	0.31%
Deferred Taxes	3,333,003		3,333,003	8.28%	0.00%	0.00%
ITC at Zero Cost	2,308		2,308	0.01%	0.00%	0.00%
ITC at Overall Cost	207,227		207,227	0.51%	10.00%	0.05%
Total	$107,507,174		$40,274,415	100.00%		8.80%

Schedule for Exception No. 9

Calculation of Projected 2003 and 2004 Customer Deposits and Interest Expense

Year	Month	Month End Balance	6% Interest 68.47% Ratio	7% Interest 31.53% Ratio	Total Interest
2002	DEC	$1,684,218	$5,766	$3,098	$8,864
2003	JAN	1,691,359	5,790	3,111	8,901
2003	FEB	1,698,531	5,815	3,124	8,939
2003	MAR	1,705,733	5,840	3,137	8,977
2003	APR	1,712,966	5,864	3,151	9,015
2003	MAY	1,720,229	5,889	3,164	9,053
2003	JUN	1,727,524	5,914	3,177	9,092
2003	JUL	1,734,849	5,939	3,191	9,130
2003	AUG	1,742,205	5,964	3,204	9,169
2003	SEP	1,749,592	5,990	3,218	9,208
2003	OCT	1,757,011	6,015	3,232	9,247
2003	NOV	1,764,461	6,041	3,245	9,286
2003	DEC	1,771,943	6,066	3,259	9,325
			$71,128	$38,213	$118,205
13-MTH AVG.		$1,727,740	2003 Effective Cost Rate for Interest Expense		6.842%
2003	DEC	$1,771,943	$6,066	$3,259	$9,325
2004	JAN	1,779,456	6,092	3,273	9,365
2004	FEB	1,787,001	6,118	3,287	9,405
2004	MAR	1,794,579	6,144	3,301	9,444
2004	APR	1,802,188	6,170	3,315	9,484
2004	MAY	1,809,830	6,196	3,329	9,525
2004	JUN	1,817,504	6,222	3,343	9,565
2004	JUL	1,825,211	6,249	3,357	9,606
2004	AUG	1,832,950	6,275	3,371	9,646
2004	SEP	1,840,722	6,302	3,386	9,687
2004	OCT	1,848,527	6,328	3,400	9,728
2004	NOV	1,856,365	6,355	3,414	9,770
2004	DEC	1,864,237	6,382	3,429	9,811
			$80,899	$43,463	$124,361
13-MTH AVG		$1,817,732	2003 Effective Cost Rate for Interest Expense		6.842%

Notes:

a) December 2002 balance of $1,684,218 is actual per the utility's general ledger.

b) Monthly balance is increased by 5-year average net growth factor of 0.424 percent.
Example for Dec. 2004 above: Nov. 2004 balance of $1,856,365 x 0.424% = Dec. 2004 balance of $1,864,237

c) Interest calculated by multiplying the month-end balance times the interest rate ratio times the interest rate.
Example for Dec. 2004 above: $1,864,237 x 68.47% x 6% = $6,382

AUDIT EXCEPTION NO. 10

SUBJECT: ACCOUNT 903-REGULUS BILLING SERVICE

STATEMENT OF FACT: Included in charges for 2002 expenses per books for account 903, customer records and collection, on MFR C-59(C-19), were charges from a company named Regulus for printing and mailing the company bills. The charges of $635,689.68 were charged to a clearing account, 100.1849.903 and allocated at 28% to the electric division. This was changed to 30% in the adjustments to actual 2002 numbers and the difference was included in the $115,088 of adjustments to account 903. The company had several problems with this service and decided to terminate the contract early. They incurred some legal costs which were also charged to the account. The costs incurred in 2003 are much less than those billed in 2002.

OPINION: The forecast should be reduced based on actual costs since the new vendor is charging materially less than the old. The costs for the new vendor were totaled and annualized. These costs were compared to the Regulus bills and the difference was trended up as 2002 actual costs were in the filing.

Total 7 months of bills new vendor	297,115.25
Annualized for 12 months	509,340.43
Regulus and legal bills in 2002 actual	635,689.68
Difference	126,349.25
Allocation factor to electric	30%
Difference to electric	37,904.78
Trended up at 103.1%	39,080.00

Expenses on MFR C-59(C-19) for 2004 should be reduced by $39,080.

FPUC-ELECTRIC
COMPARISON OF REGULUS BILLS TO 2003 VENDOR
TEST YEAR ENDED DECEMBER 31, 2002 PROJECTED 2004
KATHY L. WELCH
NOVEMBER 18, 2003

COMPANY STOPPED CONTRACT WITH REGULUS BECAUSE THEY WERE OVERBILLING.

JAN.02	15,877.71	
JAN.02	20,248.95	
JAN.02	1,040.03	
JAN.02	4,277.61	
FEB. 02	3,057.60	
FEB. 02	(19.80)	
MARCH 02	12,616.80	
MARCH 02	16,975.06	
MARCH 02	1,013.11	
MARCH 02	3,921.02	
APRIL 02	13,984.23	
APRIL 02	22,036.53	
APRIL 02	15,499.20	
APRIL 02	20,826.23	
APRIL 02	1,006.46	
APRIL 02	3,479.68	
APRIL 02	957.25	
APRIL 02	1,082.21	
APRIL 02	3,782.85	
APRIL 02	9,926.63	
APRIL 02	1,786.74	
APRIL 02	305.56	
APRIL 02	20.51	
APRIL 02	2.31	
MAY 02	(2,351.15)	
MAY 02	156.06	
MAY 02	563.85	
MAY 02	3,277.73	
MAY 02	(21,492.15)	
MAY 02	5,294.93	
MAY 02	305.82	
MAY 02	13,705.45	
MAY 02	40,560.81	
MAY 02	3,527.45	
MAY 02	2,029.62	
JULY 02	(42.65)	
JULY 02	3,114.05	
JULY 02	(4,252.68)	
JULY 02	15,775.80	
JULY 02	235.20	
JULY 02	515.10	
JULY 02	1,750.23	
JULY 02	5,525.18	
JULY 02	2,032.71	
JULY 02	687.36	
JULY 02	5,772.11	
JULY 02	18,195.29	
JULY 02	249.31	
JULY 02	3,983.73	
JULY 02	518.24	
AUGUST 02	34,383.58	
AUGUST 02	1,395.96	
AUGUST 02	0.87	
AUGUST 02	4,696.70	
AUGUST 02	42,772.46	
AUGUST 02	44,009.06	
AUGUST 02	1,419.28	
AUGUST 02	(5,590.63)	
SEPTEMBER 02	2,177.96	
SEPTEMBER 02	6,306.60	
SEPTEMBER 02	726.88	
OCT. 02	43,279.50	
OCT. 02	8,815.62	
OCT. 02	5,050.12	
OCT. 02	579.80	
OCT. 02	1,919.32	
OCT. 02	7,796.99	
OCT. 02	30,708.29	
OCT. 02	1,378.50	LEGAL
NOV.02	4,374.38	
NOV.02	5,505.12	
NOV.02	1,950.03	
NOV.02	580.03	
DEC. 02	38,360.72	
DEC. 02	500.19	
DEC. 02	1,279.23	
DEC. 02	5,128.18	
DEC. 02	30,741.68	
DEC. 02	700.00	LEGAL
DEC. 02	245.00	LEGAL
DEC. 02	41,156.78	
	635,689.68	TOTAL CHARGED IN 2002 RELATED TO REGULUS
	39,860.30	FEB. KUBRA
	42,085.77	MARCH KUBRA
	45,825.02	APRIL KUBRA
	39,466.19	MAY KUBRA
	42,623.17	JUNE KUBRA
	45,159.52	JULY KUBRA
	42,095.28	AUGUST KUBRA
	297,115.25	TOTAL KUBRA FEB. TO AUGUST
	42,445.04	AVERAGE PER MONTH
	509,340.43	ANNUALIZED
	126,349.25	DIFFERENCE BETWEEN REGULUS 2002 AND KUBRA 2003
	37,904.78	AMOUNT ALLOCATED TO ELECTRIC AT 30%
	40,216.97	TRENDED UP AT 106.1%

AUDIT EXCEPTION NO. 11

SUBJECT: LEASEHOLD IMPROVEMENTS FERNANDINA (ACCOUNT 903)

STATEMENT OF FACT: The company included $8,202.22 of expenses related to the Fernandina Beach Home and Hearth store in 2002 expenses in the filing on C-59 (C-19) in account 903. The 2002 expenses were trended up by 106.1%. Therefore, $8702.56 relating to the leasehold improvements were included in the filing.

OPINION: A layout of the office was reviewed along with digital pictures of the space. The office is currently propane, merchandising and jobbing and conservation related. Since conservation costs are separately recorded and removed from the rate case, there are no costs that should be recorded to electric expenses. Therefore, the $8,702.56 should be removed from electric expenses. Expenses related to the office such as electric and telephone did not come up in our sample. Due to time constraints, we were unable to determine the expenses related to these items. The company has been asked to pull all related costs and determine the amount charged to electric expenses and submit them to the analyst.

FPUC-ELECTRIC
ANALYSIS OF COSTS CHARGED TO 115.903 FOR HOME AND HEARTH LEASEHOLD IMPROVEMENT
TEST YEAR ENDED DECEMBER 31, 2002 PROJECTED 2004

MONTH	JE	AMOUNT
JAN.	34.00	1,809.83
FEB.	34.00	1,809.83
MARCH	34.00	1,809.83
APRIL	34.00	1,809.83
MAY	34.00	1,809.83
MAY	34M	(9,049.15)
MAY	34M	2,016.50
MAY	34M	3,156.25
MAY	34Y	(5,429.49)
MAY	34Y	1,209.90
MAY	34Y	1,893.75
JUNE	34	404.33
JUNE	34	631.25
JULY	34	404.33
JULY	34	631.25
AUGUST	34	404.33
AUGUST	34	631.25
SEPT.	34	404.33
SEPT.	34	631.25
OCT.	34	404.33
NOV.	34	404.33
DEC.	34	404.33
TOTAL		**8,202.22**

AUDIT EXCEPTION NO. 12

SUBJECT: UNCOLLECTIBLE EXPENSE

STATEMENT OF FACT: The company has included $82,820 of expense for uncollectibles in its filing of net operating income on C-59(C-19). The company adjusted test year uncollectibles for a prior year reserve adjustment. It also included an adjustment for payroll for discontinued operations of $2,523 that should have been added to account 903 instead of 904. The company then adjusted the expense to the three year average of charge offs to revenue but in doing so compared the average to the account balance before the adjustments.

OPINION: The company attempted to correct this in its 2004 adjustment to the exhibit but did not arrive at the correct amount. The three year average of charge offs for 2002 is $89,401. If this amount is increased for customer growth, the adjusted balance would be $92,261. The company included $82,820. Therefore, the company expense is understated by $9,441. In addition, the $2,523 adjustment still needs to be added to account 903 so expenses should be increased by and additional $2,523.

AUDIT EXCEPTION NO. 13

SUBJECT: ANALYSIS OF ACCOUNT 920-ADMINISTRATIVE PAYROLL

STATEMENT OF FACT: The company included $986,039 for account 920, Administrative and General Salaries, for 2004 in its filing schedule C-59(C-19). This expense was included in total operating expenses that reduce net operating income.
The company allocates total accounting, information systems, executive, human resource and general administrative salaries to the divisions based on the investment in plant for each division.

In 2002, the majority of this account was allocated at 42% to the electric division. Because the company eliminated the water division, it expected this allocation to increase and prepared preliminary allocation factors which totaled 46%. The actual allocation factor used in 2003 was 39% because the propane business increased more than expected.

OPINION: The account should be decreased to remove the increase made to the account and to reduce actual amounts to the new percentage. The following schedule takes the total salaries charged to the clearing accounts and allocates them using the 2003 allocation factors. The number is then adjusted for actual amounts charged that were not allocated and are trended up using the factors in the filing. The revised balance would be $838,592.68 which is $147,446.32 less than the company reported in its filing. This amount should be removed from expenses.

If administrative payroll were allocated based on direct payroll to each division, only 25% of the $1,982,170.72 total company charges would be allocated to the electric division.

FPUC-ELECTRIC
ANALYSIS OF ACCOUNT 920 CHANGED ALLOCATION
TEST YEAR ENDED DECEMBER 31, 2002 PROJECTED 2004

	TOTAL CO.	ALLOCATION ELECT. 2003	ELECTRIC 920
100.1849.920	1,303,672.57	39.00%	508,432.30
103.1849.9201	676,449.15	39.00%	263,815.17
100.1840.920	2,049.00	42.00%	860.58
	1,982,170.72		**773,108.05**
DIRECT CHARGES			15,394.00
ADJUSTED 920 FOR 2002 USING 2003 ALLOCATIONS			788,502.05
TREND UP		106.10%	836,600.68
ADJ. OTHER ON C-19			1,992.00
STAFF ADJUSTED 920			838,592.68
PER CO. ON C-59(C-19)			986,039.00
CO. OVERSTATED			**(147,446.32)**

TOTAL CO. ADMIN PAYROLL TRENDED UP FOR 2004:

2002 PAYROLL	1,982,170.72
TREND	106.10%
2004 PAYROLL	2,103,083.13

AUDIT EXCEPTION NO. 14

SUBJECT: FRANCHISE FEES

STATEMENT OF FACT: The company normally credits franchise fees to a payable account when they are billed and when the company pays the franchise fee, the account is debited. In 2002, $13,358.76 was charged directly to division 114 and 115, account 921.5. See the attached schedule by month.

OPINION: According to the company, when billing errors occur, minor amounts are usually not collected from the customers and the company pays them out of the 921.5 account instead of doing the research to determine who needs to be billed. However, in 2002, the April amount was substantial. Revenue should have been collected from the customers to pay for the tax. It should not be recurring. The $13,358.76 was trended up in 2004 by 1.039 or a total amount of $13,879.75.

FPUC-ELECTRIC
ANALYSIS OF FRANCHISE FEES CHARGED TO 921.5
TEST YEAR ENDED DECEMBER 31, 2002 PROJECTED 2004

	114	115	TOTAL
JANUARY			0.00
FEBRUARY	357.06		357.06
MARCH			0.00
APRIL	2,671.83	8,109.61	10,781.44
MAY	15.54		15.54
JUNE	1,105.61		1,105.61
JULY			0.00
AUGUST	46.23	(93.36)	(47.13)
SEPTEMBER	147.12	98.81	245.93
OCTOBER	52.96	191.55	244.51
NOVEMBER	240.34	84.15	324.49
DECEMBER	228.79	102.52	331.31
	4,865.48	**8,493.28**	**13,358.76**

AUDIT EXCEPTION NO. 15

SUBJECT: MISCELLANEOUS ADJUSTMENTS TO EXPENSES

STATEMENT OF FACT: Several invoices were found which should have been coded to other expenses. A summary follows on the attached schedule.

OPINION: Expenses on MFR C-59 (C-19) should be reduced by $6,146.43.

FPUC-ELECTRIC
ANALYSIS OF VARIOUS EXPENSES CHARGED TO THE INCORRECT ACCOUNTS
TEST YEAR ENDED DECEMBER 31, 2002, PROJECTED 2004

ACCOUNT	DATE	VENDOR	AMOUNT CHARGED	% TO ELECTRIC	AMOUNT TO ELECTRIC	TREND FACTOR	TRENDED AMOUNT	WP	REASON FOR REMOVAL
921.50	8/02	JACK BROWN	1,312.47	25.00%	328.12	103.90%	340.91	59-7/2 P.14	PROPANE MEETING
921.50	8/02	FLA. GAS TRANS.	679.48	25.00%	169.87	103.90%	176.49	59-7/2 P.19	PROPANE CLASS
921.50	3/02	SUNTRUST	2,655.04	25.00%	663.76	103.90%	689.65	59-7/2 P.21	OUT OF PERIOD
921.30	8/02	ORCOM SOLUTIONS	7,256.84	25.00%	1,814.21	103.90%	1,884.96	59-5/1 P 11	NON-RECURRING
									TRAINING THE COMPANY
									SAID IS UNUSUAL
921.60	5/02	NEW HORIZONS	4,350.00	25.00%	1,087.50	103.90%	1,129.91	59-8/1	NON-RECURRING
									TRAINING THAT WAS NEVER USED
									COMPANY WENT OUT OF BUSINESS
923.20	9/02	AKERMAN, SENTERFIT	1,542.17	35.00%	539.76	103.90%	560.81	59-9/2-1	BOND ISSUANCE COSTS
930.20	11/02	SEC	3,750.00	35.00%	1,312.50	103.90%	1,363.69	59-13/1-1	NON-RECURRING
									ONE TIME FEE
							6,146.43		

AUDIT EXCEPTION NO. 16

SUBJECT: ACCOUNTING FEES FOR TAXES PROJECTED FOR 2004

STATEMENT OF FACT: The company included $84,000 in its budgeted numbers for account 923 in MFR C-59(C-19) for accounting fees related to taxes. The company was asked for supporting documentation for its projection. This included:

Impairment Testing	$15,000
Tax research	10,000
Annual tax return	15,000
Deferred tax work	10,000
Property tax	20,000
Total	$70,000

OPINION: The company could not provide any support for the additional $14,000. In addition, the property tax estimate was based on the cost for the last time the company received savings from the property tax audit. The agreement with the company is that the fee is half of the property tax savings. Therefore, if there are no savings, there is no cost. Therefore, if the company does have a fee in 2004, the taxes would be lower by two times the amount. Therefore, the $20,000 should not have been included in the filing.

The company has not contracted out work on deferred taxes before, therefore, the $10,000 is an estimate. Actual costs for tax research and annual income tax work for 2003 were actually higher than the $25,000 projected. The company is expected to spend $32,175 in 2003 which is $7,175 more than projected.

Tax accounting fees should be reduced by:

($14,000)	Over-projection-no support provided
($20,000)	Remove property tax fee
$ 7,175	Additional annual and research fee
($26,825)	Net reduction in the account

AUDIT EXCEPTION NO. 17

SUBJECT: INSURANCE PROJECTIONS

STATEMENT OF FACT: The company projections for insurance costs on MFR C-59(C-19) were based on initial estimates from the insurance companies. Actual bills are now in and the amounts are less than projected.

OPINION: The company bills were compared to the projected amounts as shown on the attached schedule. The costs were allocated to electric on the same schedule. The General Auto and Liability Insurance and the Directors, Fiduciary, and Commercial Crime policies end September 1. Therefore, an additional 10% was added on to the 2004 policy for the last quarter for General Auto and Liability and 6% for the others based on the increases in those policies from 2003 to 2004. Those adjusted amounts are shown in the second column of the worksheet. The net effect of the adjustments is a reduction to operating expenses of $203,977.80.

FLORIDA PUBLIC UTILITIES
ANALYSIS OF INSURANCE PROJECTIONS
TEST YEAR ENDED DECEMBER 31, 2002, PROJECTED 2004

ACCOUNT		CO. PROJECTION ON MFR C-59(C-19) TOTAL CO.	CO. REVISED USING ACTUAL INSURANCE BILLS	DIFFERENCE	ALLOCATION TO ELECTRIC	ELECTRIC ADJUSTMENT	CO. ADJUSTMENT ON MFR C-59(C-19)	NET ELECTRIC ADJUSTMENT
926.20	MEDICAL INS.	1,932,428.48	1,236,726.00	695,702.48	25.00%	173,925.62	51,761.47	122,164.15
924.00	PROPERTY INS.	109,524.55	99,971.00	9,553.55	39.00%	3,725.88		3,725.88
925.10	GEN. AUTO & LIAB.	544,884.32	480,208.17	64,676.15	35.00%	22,636.65		22,636.65
925.10	DIRECTORS	195,635.00	120,135.76	75,499.24	35.00%	26,424.73		26,424.73
925.10	FIDUCIARY	14,000.00	8,185.50	5,814.50	35.00%	2,035.08		2,035.08
925.10	COMMERCIAL CRIME	15,180.00	5,597.76	9,582.24	35.00%	3,353.78		3,353.78
925.10	WORKMEN'S COMP	579,799.00	502,044.00	77,755.00	30.40%	23,637.52		23,637.52
	TOTAL 925.1	1,349,498.32	1,116,171.19	233,327.13		78,087.76	0.00	78,087.76
		3,391,451.35	**2,452,868.19**	**938,583.16**		**255,739.27**	**51,761.47**	**203,977.80**

AUDIT EXCEPTION NO. 18

SUBJECT: ACCOUNT 930.2-MISCELLANEOUS EXPENSE

STATEMENT OF FACT: Included in MFR C-59(C-19) in the 2002 expenses in account 930.2 is $40,659 for a write off of costs associated with a proposed stock offering that was cancelled because of the sale of the water company. The company trended 2002 expenses in this account up at the rate of 107.2%.

OPINION: Costs associated with a new stock offering are not usually expensed. They should not be recurring and therefore should be removed from 2004 expenses. The $40,659 trended up for the 107.2% is $43,587. This amount should be removed from expenses in the filing.

AUDIT EXCEPTION NO. 19

SUBJECT: TAXES OTHER THAN INCOME (TOTI)

STATEMENT OF FACT: The utility's filing reflects the following balances for TOTI for the indicated periods.

Account Description	Historical 2002	Adjustments	Historical 2002 - Adj.	Projection Factor	Projected 2003	Projection Factor	Projected 2004
Ad Valorem Taxes	$463,257	$42,180	$505,437	101.4%	$512,664	103.9%	$524,994
FPSC Assessment	30,040	(6,750)	23,290	Direct	27,477	Direct	28,038
Emergency Excise Tax	(8,079)	0	(8,079)	101.4%	(8,195)	103.9%	(8,392)
Payroll Taxes	136,684	0	136,684	104.8%	143,244	109.8%	150,074
Miscellaneous Taxes	1,063	0	1,063	101.4%	1,078	103.9%	1,104
Franchise Tax	1,635,364	0	1,635,364	Pass	1,328,932	Pass	1,354,781
State Gross Receipts	1,030,613	0	1,030,613	Pass	1,301,808	Pass	1,217,311
	$3,288,942	$35,430	$3,324,372		$3,307,008		$3,267,910
Federal Unemployment	(6,195)	0	(6,195)	103.0%	(6,381)	106.1%	(6,572)
State Unemploy. Taxes	(4,400)	0	(4,400)	103.0%	(4,532)	106.1%	(4,668)
FICA	147,279	0	147,279	104.7%	154,156	109.5%	161,314
Payroll Taxes	$136,684	$0	$136,684		$143,243		$150,074

The $42,180 adjustment to increase ad valorem taxes indicated above is composed of the following amounts. ($23,703+$5,197+$13,280)

I. The allocation of $23,703, or 30 percent of $79,010, to electric operations for property taxes associated with common assets and corporate operations.

II. The reallocation of $5,197 of property taxes associated with discontinued operations to the electric divisions.

III. The reallocation of $13,280 of property taxes to the electric divisions from the water division based on an analysis of the remaining life values for all personal property located within Nassau County.

The $6,750 adjustment for FPSC assessment fees above removes regulatory assessment fees calculated on fuel and conservation revenues which were removed for the MFR filing.

OPINION: The utility's projected 12-month period ended December 31, 2004 TOTI balance is understated by $85,617 based on the following audit staff determinations. ($99,411-$13,794)

1. The $13,280 increase for Nassau County property taxes in 2002 above is not needed because the audit staff has determined that the original allocation methodology, which was based on the specific taxing districts within Nassau County, was a better indicator of the electric divisions' portion of property tax obligations rather then the utility's method described in Item No. 3. The projected 2004 TOTI balance includes an adjustment of $13,794, which is the historical 2002 adjustment of $13,280 times a projection factor of 103.9 percent. The $13,794 balance should be removed from projected 2004.

2. The utility's projected balance of $150,074 for payroll taxes is understated by $99,411, based on the audit staff's review of the utility's historical 2002 payroll and several utility errors in its MFR filing. See audit staff's discussion and calculations that follow.
    1. The utility's filing did not include payroll taxes for allocated common salaries from corporate operations or the reallocation of salaries associated with its discontinued operations.
    2. The utility's automated payroll system over accrued payroll taxes for capitalized salaries that resulted in credit balances for FUTA and SUTA taxes for the filing.
    3. The utility's projected 2004 FUTA and SUTA taxes in its filing were calculated using the historical 2002 balance times a projection factor of 106.1 percent. These payroll taxes are limited to the first $7,000 of an employee's salary. The audit staff believes that there is no real growth in the number of utility employees from 2002 through 2004 and that the 2002 balance should be used for the projected 2004 period.

The following schedule addresses and corrects the issues discussed above.

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
Payroll Tax	Total Company Payroll Tax	Weighted Payroll Tax Allocation	Electric Payroll Tax	Discontinued Operations Payroll Tax	Adjusted Electric Payroll Tax	Payroll Tax per MFRs	2002 Adjustment
FICA	$1,091,696	96.74%	$206,476	$17,405	$223,881	$147,279	$76,602
FUTA	21,494	1.90%	4,065	343	4,408	(6,195)	10,603
SUTA	15,315	1.36%	2,897	244	3,141	(4,400)	7,541
Total	$1,128,505	100.00%	$213,438	$17,992	$231,430	$136,684	$94,746
	(Note 1)		(Note 2)	(Note 3)	(C+D)		(E-F)

Payroll Tax	2002 Adjustment	2004 Projection Factor	2004 Adjustment
FICA	$76,602	106.09%	$81,267
FUTA	10,603	100.00%	10,603
SUTA	7,541	100.00%	7,541
Totals	$94,746		$99,411
		(Note 4)	

Notes:

1 Total company payroll tax from its filed tax returns.

2 The audit staff recalculated a total company payroll expense of $15,069,517 and determined a ratio of payroll expense to total payroll expense for each company division. The payroll expense ratios were then applied to the total company payroll tax expense of $1,128,505. The electric divisions' payroll tax expense was calculated to be $213,438. Column C above allocates the electric divisions' calculated payroll tax to the individual payroll tax components, based on the weighted payroll tax allocation determined in Column B above. Additionally, the audit staff has determined that the utility failed to include any payroll taxes associated with the allocated portion of common payroll expenses included in the electric divisions' payroll expense. The audit staff's recalculation of total company payroll expense discussed above corrects this error.

3 The audit staff has determined that the utility increased its payroll expense in the filing by $240,261 for salary expenses that were initially charged to its water division in 2002. The adjustment reflects the company's change in operations after the sale of its water division and reallocates a portion of the former water division's salaries to the electric divisions. However, the company did not allocate a corresponding amount for payroll taxes to the electric divisions. The electric divisions' payroll tax expense associated with the above adjustment was calculated to be $17,992 which is based on the component ratios for total company payroll tax expense to total company payroll expense.

FICA of $1,091,696 / $15,069,517 x $240,261 = $17,405 FUTA of $21,494 / $15,069,517 x $240,261 = $343
SUTA of $15,315 / $15,069,517 x $240,261 = $244

4 The audit staff used utility projection Factor No. 5 from the utility's filing to project FICA payroll growth and ignored any growth related to FUTA and SUTA taxes based on our conclusions in Item 2(c) above.

Florida Public Utilities
Analysis of Payroll Journal Entries
Test Year Ended December 31, 2002

Acct. No.	Total 2002	% of Payroll	Payroll Tax Allocated	Allocation to Electric	2002 Electric Payroll Tax	Per Company	Difference	Trend Factor	Trended Difference
100.1840.935	$120.00	0.00%	$8.99	31.00%	$2.79				
100.1840.9251	7.00	0.00%	0.52	37.00%	0.19				
100.1849.901	97,048.00	0.64%	7,267.60	28.00%	2,034.93				
100.1849.903	66,197.00	0.44%	4,957.27	28.00%	1,388.04				
100.1849.920	89.00	0.00%	6.66	42.00%	2.80				
100.1849.925.1	33.00	0.00%	2.47	32.00%	0.79				
100.1849.935	20,514.00	0.14%	1,536.22	28.00%	430.14				
100.186	33,350.00	0.22%	2,497.47		0.00				
101.163	64,874.00	0.43%	4,858.19		0.00				
101.1840.920	564.00	0.00%	42.24	44.00%	18.58				
101.1849.920	625,943.00	4.15%	46,874.75	42.00%	19,687.39				
101.1849.9215	8,779.00	0.06%	657.43	27.00%	177.51				
102.1849.920	408,531.00	2.71%	30,593.50	42.00%	12,849.27				
103.1849.920	84,458.00	0.56%	6,324.77	42.00%	2,656.40				
103.1849.9201	670,830.00	4.45%	50,236.18	42.00%	21,099.20				
104.1849.9201	154,513.00	1.03%	11,570.95	42.00%	4,859.80				
104.1849.9251	59,188.00	0.39%	4,432.24	32.00%	1,418.32				
105.1849.920	11,632.00	0.08%	871.08	42.00%	365.85				
114.1070.000	288,766.00	1.92%	21,624.71		0.00				
114.1080.000	48,840.00	0.32%	3,657.46		0.00				
114.1430.000	28,431.00	0.19%	2,129.10		0.00				
114.1630.1	75,369.00	0.50%	5,644.13		0.00				
114.1840.1	9,524.00	0.06%	713.22		0.00				
114.1850.1	8,787.00	0.06%	658.03		0.00				
114.4010.0	749,003.00	4.97%	56,090.29	100.00%	56,090.29				
114.4020.0	371,414.00	2.46%	27,813.93	100.00%	27,813.93				
115.1070.0	457,226.00	3.03%	34,240.10		0.00				
115.1080.0	33,381.00	0.22%	2,499.79		0.00				
115.1430.0	83,598.00	0.55%	6,260.37		0.00				
115.1630.0	60,706.00	0.40%	4,546.07		0.00				
115.1840.0	53,404.00	0.35%	3,999.24		0.00				
115.1850.1	15,056.00	0.10%	1,127.49		0.00				
115.4010.0	579,261.00	3.84%	43,378.89	100.00%	43,378.89				
115.4020.0	255,886.00	1.70%	19,162.43	100.00%	19,162.43				
121.1070.	650,098.00	4.31%	48,683.63		0.00				
121.1080.	121,971.00	0.81%	9,133.99		0.00				
121.1420.	33.00	0.00%	2.47		0.00				
121.1430.	56,988.00	0.38%	4,267.64		0.00				
121.1630.1	121,854.00	0.81%	9,125.23		0.00				
121.1840.	122,613.00	0.81%	9,182.07		0.00				
121.1860.3	24,525.00	0.16%	1,836.59		0.00				
121.4010.	2,869,088.00	19.04%	214,856.27		0.00				
121.4020.	323,646.00	2.15%	24,236.75		0.00				
123.1070.	183,314.00	1.22%	13,727.76		0.00				
123.1080.	47,049.00	0.31%	3,523.34		0.00				
123.1430.	18,194.00	0.12%	1,362.49		0.00				
123.1550.3	9,626.00	0.06%	720.86		0.00				
123.1630.	43,033.00	0.29%	3,222.60		0.00				
123.1840.	32,422.00	0.22%	2,427.97		0.00				
123.1860.32	39,946.00	0.27%	2,991.35		0.00				
123.4010.0	1,380,047.00	9.16%	103,347.04		0.00				
123.4020.0	136,773.00	0.91%	10,242.47		0.00				
137.1070.	124,693.00	0.83%	9,337.84		0.00				
137.1080.	8,001.00	0.05%	599.17		0.00				
137.1840.5		0.00%	0.00		0.00				
137.4010.	209,073.00	1.39%	15,656.77		0.00				
137.4020.	178,587.00	1.19%	13,373.77		0.00				
141.4160.	536,458.00	3.56%	40,173.52		0.00				
143.4160.	120,165.00	0.80%	8,998.75		0.00				
145.4160.	3,904.00	0.03%	292.36		0.00				
155.4160.	9,210.00	0.06%	689.71		0.00				
945.4160.	41,254.00	0.27%	3,089.37		0.00				
946.4160.	1,943.00	0.01%	145.50		0.00				
991.1070.	195,119.00	1.29%	14,611.80		0.00				
991.1080.	24,637.00	0.16%	1,844.96		0.00				
991.1860.	5,288.00	0.04%	396.00		0.00				
991.4010.	935,758.00	6.21%	70,075.59		0.00				
991.4020.	184,648.00	1.23%	13,827.66		0.00				
993.1070.	47,598.00	0.32%	3,564.45		0.00				
993.1080.	14,889.00	0.10%	1,114.99		0.00				
993.1860.32	22.00	0.00%	1.65		0.00				
993.4010.	431,357.00	2.86%	32,302.86		0.00				
993.4020.	57,862.00	0.38%	4,333.09		0.00				
995.1070.	45,674.00	0.30%	3,420.37		0.00				
995.1080.	2,805.00	0.02%	210.06		0.00				
995.1630.	7,855.00	0.05%	588.23		0.00				
995.1860.	1,318.00	0.01%	98.70		0.00				
995.4010.	232,850.00	1.55%	17,437.35		0.00				
995.4020.	15,298.00	0.10%	1,145.62		0.00				
996.1070.	1,580.00	0.01%	118.32		0.00				
996.1080.	305.00	0.00%	22.84		0.00				
996.4010.	22,806.00	0.15%	1,707.86		0.00				
996.4020.	2,023.00	0.01%	151.50		0.00				
	$15,069,517.00	100.00%	$1,128,505.00		$213,437.55				
Tax on discontinued operations transferred to electric			-						
(240,261 salary x 7.24 net FICA, .14 net FUTA, .10 Net SUTA)					17,992.00				
					$231,429.55				
Allocated to			1,091,696.00	96.74%	223,880.90	147,279.00	76,601.90	106.09%	81,266.96
Allocated to			21,494.00	1.90%	4,407.91	(6,195.00)	10,602.91	100.00%	10,602.91
Allocated to			15,315.00	1.36%	3,140.74	(4,400.00)	7,540.74	100.00%	7,540.74
			$1,128,505.00	100.00%	$231,429.55	136,684.00	94,745.55		$99,410.61

AUDIT EXCEPTION NO. 20

SUBJECT: DEFERRED INCOME TAX EXPENSE

STATEMENT OF FACT: The utility's filing reflects the following for its deferred income tax balances on MFR Schedules C59 and C59(C-39).

Deferred Tax	Historical 2002	Projected 2003	Projected 2004
Federal	$277,982	($214,141)	($71,439)
State	37,586	(36,657)	(12,229)
Total	$315,568	($250,798)	($83,668)

Included in the calculation of the above deferred tax balances were the following balances for excess tax depreciation.

Historical 2002	Projected 2003	Projected 2004
$261,144	($264,669)	($272,609)
Calculated as:	{($256,960) x 1.03%}	{($264,669) x 1.03%}

The utility provided the following response to the audit staff's Document Request No. 76 which inquired about the excess depreciation balances noted above.

> The 2003 and 2004 projected balances for excess tax depreciation were determined using a 3 percent increase for each year, with 2002 being the base year.
>
> The original 2002 excess depreciation amount was ($256,960). In the final review, we discovered that this number was incorrect. The correct 2002 excess tax depreciation amount is $261,144.
>
> It appears that the consultants failed to use the 2002 updated amount as the basis for the 2003 and 2004 projected balances.

OPINION: The utility's projected 2003 and 2004 deferred tax balances are understated by $200,812 and $206,649, respectively, because of the incorrect projected balances for excess tax depreciation identified above. The correct deferred tax balances are ($49,986) and $122,981for 2003 and 2004, respectively. {($250,798) + $200,812 = ($49,986)} and {($83,668) + $206,649 = $122,981} See the audit staff's adjustment calculations on the following page. Additionally, the above audit staff adjustment will require a corresponding adjustment to the utility's current and deferred income tax balances of $76,693 and ($190,238) for projected 2003 and 2004, respectively, which are reflected on MFR Schedule C-59(C-42). The correct current and deferred income tax balances are $277,505 and $16,411 for 2003 and 2004, respectively. {$76,693 + $200,812 = $277,505} and {($190,238) + $206,649 = $16,411}

Schedule for Exception No. 20

Projected 2003		Federal		State	
	Year 2002	Tax Rate	Def. Taxes	Tax Rate	Def. Taxes
Property Related Items:					
Excess Tax Depreciation (Note 1)	$268,978	32.13%	$86,423	5.50%	$14,794
Taxable Contributions	(238,350)	32.13%	(76,582)	5.50%	(13,109)
Cost of Removal	28,946	32.13%	9,300	5.50%	1,592
Loss on ACRs	47,853	32.13%	15,375	5.50%	2,632
Fully Normalized Items:					
Underrecoveries	(462,827)	32.13%	(148,706)	5.50%	(25,455)
Outside Audit Fees	6,339	32.13%	2,037	5.50%	349
Conservation Program	11,266	32.13%	3,620	5.50%	620
Self Insurance	(434,585)	32.13%	(139,632)	5.50%	(23,902)
Pension	774,992	32.13%	249,005	5.50%	42,625
Vacation Pay	(42,431)	32.13%	(13,633)	5.50%	(2,334)
Uncollectibles	9,802	32.13%	3,149	5.50%	539
Nondeductible Meals	(7,702)	32.13%	(2,475)	5.50%	(424)
Loss on Reacquired Debt	(18,140)	32.13%	(5,828)	5.50%	(998)
Misc. Deferrals	(4,426)	32.13%	(1,422)	5.50%	(243)
General Liability	(72,550)	32.13%	(23,310)	5.50%	(3,990)
Total Deferred Income Tax per Audit		Federal	($42,680)	State	($7,306)
Total Deferred Income Tax per MFRs			(214,141)		(36,657)
Total Adjustment			$171,461		$29,351
Total Federal and State Deferred Tax per Audit				($49,986)	
Total Federal and State Deferred Tax per MFRs				($250,798)	
Total Federal and State Deferred Tax Adjustment for Projected 2003				$200,812	

Projected 2004		Federal		State	
	Year 2002	Tax Rate	Def. Taxes	Tax Rate	Def. Taxes
Property Related Items:					
Excess Tax Depreciation (Note 2)	$276,551	32.13%	$88,856	5.50%	$15,210
Taxable Contributions	(244,083)	32.13%	(78,424)	5.50%	(13,425)
Cost of Removal	29,642	32.13%	9,524	5.50%	1,630
Loss on ACRs	49,003	32.13%	15,745	5.50%	2,695
Fully Normalized Items:					
Underrecoveries	0	32.13%	0	5.50%	0
Outside Audit Fees	6,401	32.13%	2,057	5.50%	352
Conservation Program	2,502	32.13%	804	5.50%	138
Self Insurance	(438,824)	32.13%	(140,994)	5.50%	(24,135)
Pension	782,529	32.13%	251,427	5.50%	43,039
Vacation Pay	(42,842)	32.13%	(13,765)	5.50%	(2,356)
Uncollectibles	9,897	32.13%	3,180	5.50%	544
Nondeductible Meals	(7,933)	32.13%	(2,549)	5.50%	(436)
Loss on Reacquired Debt	(18,316)	32.13%	(5,885)	5.50%	(1,007)
Misc. Deferrals	(4,469)	32.13%	(1,436)	5.50%	(246)
General Liability	(73,241)	32.13%	(23,532)	5.50%	(4,028)
Total Deferred Income Tax per Audit		Federal	$105,006	State	$17,975
Total Deferred Income Tax per MFRs			(71,439)		(12,229)
Total Adjustment			$176,445		$30,204
Total Federal and State Deferred Tax per Audit				$122,981	
Total Federal and State Deferred Tax per MFRs				($83,668)	
Total Federal and State Deferred Tax Adjustment for projected 2004				$206,649	

Note 1 Excess tax depreciation is a product of $261,144 times the 2003 projection factor of 1.03 percent.
Note 2 Excess tax depreciation is a product of $261,144 times the 2004 projection factor of 1.06 percent.
All other line balances taken from MFR Schedule C-59 (C-39), except where totaled.

DISCLOSURES

AUDIT DISCLOSURE NO. 1

SUBJECT: PROJECTED 2003 UTILITY PLANT IN SERVICE

STATEMENT OF FACTS: A comparison of projected plant and construction work in process balances at August 31, 2003 to actual plant and construction work in process balances at the same time showed that the projected was more than actual in the amount of $406,963 ($61,334,909 projected increase less actual increase of $60,927,945.58.) The projected net additions for August 30, 2003 were $1,401,887 and the actual net additions were $994,923.58; a difference of $406,963. The schedules following this disclosure show the components of this calculation.

The plant in service additions were projected for 2003 as follows (these are not net of retirements).

Capital Budget for 2003	$4,945,900
2003 additional CWIP not closed in 2003	(679,500)
2002 not closed in 2002 and closed in 2003	650,106
	$4,916,506

In order to determine if the capital budget was on target at August 31, 2003, the projected additions to the capital budget of $2,141,600 were compared to the actual additions to construction work in process of $1,778,265; a difference of $363,335. The details of these differences and the explanations are highlighted below and follow on the attached schedules.

Also, a comparison of the projected capital budget additions for the year 2003 was made to the actual additions at August 31, 2003. ($4,945,900 less $1,778,265= $3,167,636). The details of these differences and explanations also follow on the attached schedules.

North West Florida (Marianna)

Account 3731 - Street Lights above Ground. The company projected $12,000 for the eight months ended August 31, 2003, the actual at the same date was $6,610. The company explained that the 2003 projection was based on trended amounts from previous years and other projects being considered. Also, "the city of Marianna indicated that continued upgrades of the street lighting city would occur during 2003. To date, this has not occurred to the degree anticipated." The previous years were:

1999	$16,272
2000	$11,302
2001	$13,660
2002	$14,208
Projected 2003	$18,000

Account 397 - Communication Equipment. The projection for the year ended 2003 was $35,000. At August 31, 2003 there were no additions to this account. The contract for this work in the amount of $32,253 was reviewed. The company stated that the system was in the process of being installed, and a paid invoice showed that on November 13, 2003, the company paid $17,083.13.

Also, in answer to our request the company provided us with the amounts spent on certain other accounts from 9/1/03 through 11/30/03 showing lower than anticipated expenditures in 2003 than expected.

Account	*Description*	*(Amount Higher)* *Amount Lower*	
3646	Poles, Towers, Fixtures	27,096	
3647	Poles, Towers, Fixtures	(12,209)	
3648	Poles, Towers, Fixtures	42,082	
3656	O/H Conductors	35,341	
3657	O/H Conductors	16,208	
3681	Line Transformers-O/H	8,917	
3711	Installations	4,076	
3913	EDP Equipment	108,943	(Deferred until 2004)

North East Florida (Fernandina)

Account 356 - Overhead Conductors and Devices. $150,000 was projected for the year ended 2003. There was zero in the account at August 31, 2003. The company explained "The monies originally placed in the budget for this plant has been withdrawn. We cancelled this project due to needs in other projects."

2003 Projection	$150,000
Spent	0
Over Projection	$150,000

Account 3646 - Poles/Towers/Fixtures. The projection for 2003 was $120,000. The amount booked to this account at August 31, 2003 was $13,926; a difference of $106,074. The company indicated that there was less activity in the overhead construction than was anticipated, and that at the time of the audit did not anticipate spending any additional money for this account in 2003.

2003 Projection		$120,000
Spent		(13,926)
	Over Projection	$106,074

Account 3681 - Line Transformers - Overhead. The projection for eight months was $25,000 and the amount projected for the year was $43,000. At August 31, 2003 there was $6,993 in the account. The company has overhead transformers on order for $26,000 and expected to expend the remaining by the end of the year.

2003 Projection		$43,000
Spent		(6,993)
On Order		(26,000)
	Over Projection	$10,007

Account 3683 - Line Transformers - Buried. The projection for the year is $172,000. The projected estimate for eight month ended August 31,2003 is $172,000. The amount charged for the 8 months is $70,990. The company explained that "Ordering transformers is on a required basis. The placement cost in the budget is an educated guess each year." Paid invoices in the amount of $132,304 from September 1 through October 7 were reviewed.

2003 Projection		$172,000
Spent thru 8/31/03		(70.990)
Spent 9/1 thru 10/07		(132,304)
	Over Budget	$(31,294)

Also, in answer to our request the company provided us with the amounts spent on certain other accounts from 9/1/03 through 11/30/03 showing lower than anticipated expenditures in 2003 than expected.

Account	Description	(Amount Higher) Amount Lower	
3656	O/H Conductors and Dev	72,640	
3662	Underground Conduit	186,908	(Deferred until 2004)
3672	Underground Conductors	283,520	(Deferred until 2004)
3681	Line Transformers O/H	4,602	
370	Meters	35,105	
390	Structures and Improves	23,561	
3913	EDP Equipment	3,000	
3923	Transp Equip - Heavy Truck	120,000	(Deferred until 2004)
3942	Tools/Shop Garage	10,696	

OPINION: For Accounts 3731, 3681 and 397, the company should be asked to provide documentation at the time of hearing showing the amounts spent in these accounts. For account 3683 and 3647, the amount spent over projections should be considered. For the accounts over budgeted, the excess amounts should be removed from the 2003 capital budget. The deferred amounts should be removed from the 2003 capital budget and included in 2004.

COMPANY: FPUC - ELECTRIC
TITLE: PROJECTED PLANT AND CWIP
PERIOD: YEAR END 2003 AND 2004
DATE: OCTOBER 16, 2003

Exhibit to 2003 Projected Plant Disclosure

PLANT BALANCES - 2003

COMPARISON OF ESTIMATED CWIP AND PLANT AT 8/31/03
WITH ACTUAL AT SAME DATE

		Estimated Amount	Actual Amount 08/31/03	Estimated less Actual
Ending Balance CWIP at	08/31/03	486,714.00	754,316.00	(267,602.00)
Ending Balance Plant at	08/31/03	60,848,195.00	60,173,629.58	674,565.42
Sub-Total		61,334,909.00	60,927,945.58	406,963.42
Less:				
Beginning Bal CWIP at	12/31/02	650,106.00	650,106.00	0.00
Beginning Bal Plant at	12/31/02	59,282,916.00	59,282,916.00	0.00
Subtotal		59,933,022.00	59,933,022.00	0.00
Increase in Rate Base thru 8/31/03		1,401,887.00	994,923.58	406,963.42

COMPANY: FPUC - ELECTRIC
TITLE: PLANT IN SERVICE
COMPARE ACTUAL TO ESTIMATED
PERIOD: YEAR END 2003
DATE: OCTOBER 17, 2003

Exhibit to Projected 2003 Plant Disclosure

2003 PLANT ADDITIONS

Account No Description	Projected Adds for Year from Capital Budget 2003	Projected Adds at 8/31/03 from Capital Budget	Actual Adds at 8/31/03 from General Ledger (107)	Projected (less)/more Than Actual at 8/31/03
NORTHWEST - MARIANNA				
362	222,000.00	22,000.00	24,154.68	(2,154.68)
3646 *	141,600.00	99,400.00	75,730.86	23,669.14
3647 *	159,800.00	23,200.00	52,082.00	(28,882.00)
3648 *	125,600.00	78,000.00	39,012.00	38,988.00
3656 *	99,600.00	66,400.00	44,248.00	22,152.00
3657 *	200,400.00	25,600.00	46,600.00	(21,000.00)
3662	2,400.00	1,600.00	1,792.00	(192.00)
3672	58,800.00	39,200.00	32,269.11	6,930.89
3681 *	180,900.00	109,600.00	117,119.99	(7,519.99)
3683	80,400.00	49,200.00	46,369.79	2,830.21
3691	80,400.00	53,600.00	52,295.00	1,305.00
3693	62,400.00	41,600.00	45,276.59	(3,676.59)
370	103,500.00	61,900.00	98,241.33	(36,341.33)
3711 *	70,800.00	47,200.00	41,869.45	5,330.55
3713	2,400.00	1,600.00	11,546.00	(9,946.00)
3731	18,000.00	12,000.00	6,610.00	5,390.00
390	5,000.00	5,000.00	6,420.00	(1,420.00)
3913 *	175,000.00	75,000.00	3,014.54	71,985.46
3922	40,000.00	40,000.00	35,646.67	4,353.33
3923	121,500.00	121,500.00	128,325.00	(6,825.00)
3924	5,000.00	5,000.00	3,362.00	1,638.00
397	35,000.00	0.00	0.00	0.00
399	5,000.00	0.00	0.00	0.00
	1,995,500.00	978,600.00	911,985.01	66,614.99

* Detailed Schedule follows.

CONTINUED ON NEXT PAGE

COMPANY: FPUC - ELECTRIC
TITLE: PLANT IN SERVICE
COMPARE ACTUAL TO ESTIMATED
PERIOD: YEAR END 2003
DATE: OCTOBER 17, 2003

Exhibit to Projected 2003 Plant Disclosure

Account No Description	Projected Adds for Year from Capital Budget 2003	2003 PLANT ADDITIONS: Projected Adds at 8/31/03 from Capital Budget	Actual Adds at 8/31/03 from General Ledger (107)	Projected (less)/more Than Actual at 8/31/03
NORTH EAST - FERNANDINA				
353	72,700	17,000	5,751	11,249.00
355	0	0	12,965	(12,965.00)
356	150,000	150,000	0	150,000.00
362	659,500	121,000	14,568	106,432.00
3646	120,000	80,000	13,926	66,074.00
3647	64,000	16,000	80,727	(64,726.51)
3648	48,000	32,000	33,235	(1,235.00)
3656 *	88,800	59,000	11,037	47,963.00
3657	64,000	16,000	66,196	(50,196.00)
3658	18,000	12,000	7,725	4,275.00
3661	0	0	3,000	(3,000.00)
3662 *	381,000	34,000	63,517	(29,517.37)
3671	0	0	(501)	501.00
3672 *	495,000	110,000	109,320	680.28
3681 *	43,000	25,000	6,993	18,007.00
3683	172,000	172,000	70,990	101,010.00
3691	72,000	48,000	66,865	(18,865.17)
3693	132,000	88,000	121,832	(33,831.97)
370 *	119,000	79,000	59,786	19,213.72
3711	12,000	8,000	17,735	(9,735.00)
3713	18,000	12,000	52,266	(40,265.63)
3731	14,400	10,000	6,371	3,629.00
3733	18,000	12,000	26,163	(14,163.00)
390 *	26,500	25,000	3,439	21,561.00
3911	2,000	2,000	0	2,000.00
3912	2,000	2,000	0	2,000.00
3913 *	15,500	16,000	0	16,000.00
3922	0	0	0	0.00
3923 *	120,000	0		0.00
3924	0	0	8,070	(8,070.44)
3942 *	18,000	12,000	4,304	7,695.71
399 *	5,000	5,000	0	5,000.00
	2,950,400	1,163,000	866,280	296,720
TOTAL NORTHWEST AND NORTHEAST	4,945,900	2,141,600	1,778,265	363,335

* Detailed schedule follows.

Florida Public Utilities Company
Consolidated Electric Rate Case
AUDIT DOCUMENT/RECORD REQUEST No. 56
Plant - Actual Through 11/30/03, Estimated December 2003

a.	b.	c.	d.	e.	f.	g.	h.	i.	j.
	ACCOUNT	MFR PROJECTED 2003	G/L THROUGH 8/31/03	REMAINING	9/1/03 THROUGH 11/30/03	REMAINING	ESTIMATED DECEMBER 2003	2003 PROJECTED (SHORT) / OVER FROM MFR	EXPLANATION OF MAJOR (SHORT)/OVER
	NORTHEAST FLORIDA								
1	3656	89,000	11,037	77,963	3,323	74,640	2,000	(72,640)	Lower than anticipated activity for Overhead Utilities on Revenue Producing projects.
2	3662	381,000	63,517	317,483	112,075	205,408	18,500	(186,908)	Expenditures deferred until 2004. Includes contributions of $40,500 for project with minimal expenditures in 2003 and substantial expenditures in 2004.
3	3672	495,000	109,320	385,680	(4,840)	390,520	107,000	(283,520)	Lower than anticipated activity for Overhead Utilities on Revenue Producing projects and Expenditures deferred until 2004. Includes contributions of $56,700 for projects with minimal expenditures in 2003 and substantial expenditures in 2004.
4	3681	43,000	6,993	36,007	26,905	9,102	4,500	(4,602)	Lower than anticipated activity
5	370	119,000	59,786	59,214	4,109	55,105	20,000	(35,105)	Lower than anticipated purchases
6	390	27,000	3,439	23,561	-	23,561	-	(23,561)	Lower than anticipated purchases
7	3913	16,000	-	16,000	9,312	6,688	3,688	(3,000)	Lower than anticipated non-specific purchases
8	3923	120,000	-	120,000	-	120,000	-	(120,000)	Deferred until February 2004
9	3942	18,000	4,304	13,696	-	13,696	3,000	(10,696)	Lower than anticipated need for tools
10	399	5,000	-	5,000	-	5,000	5,000	-	

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Consolidated Electric Rate Case
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Plant - Actual Through 11/30/03, Estimated December 2003

a.	b.	c.	d.	e.	f.	g.	h.	i.	j.
	ACCOUNT	MFR PROJECTED 2003	G/L THROUGH 8/31/03	REMAINING	9/1/03 THROUGH 11/30/03	REMAINING	ESTIMATED DECEMBER 2003	2003 PROJECTED (SHORT) / OVER FROM MFR	EXPLANATION OF MAJOR (SHORT)/OVER
	NORTHWEST FLORIDA								
11	3646	141,600	75,731	65,869	23,773	42,096	15,000	(27,096)	Lower than anticipated activity for Overhead Utilities on Revenue Producing projects.
12	3647	159,800	52,082	107,718	50,027	57,691	69,900	12,209	Higher than anticipated activity on blanket lrs
13	3648	125,600	39,012	86,588	12,506	74,082	32,000	(42,082)	Lower than anticipated activity on blanket lrs
14	3656	99,600	44,249	55,351	11,710	43,641	8,300	(35,341)	Lower than anticipated activity on blanket lrs
15	3657	200,400	46,600	153,800	65,392	88,408	72,200	(16,208)	Lower than anticipated activity on blanket lrs
16	3681	180,900	117,120	63,780	34,863	28,917	20,000	(8,917)	Lower than anticipated purchases
17	3711	70,800	41,869	28,931	20,855	8,076	4,000	(4,076)	Lower than anticipated activity on blanket lrs
18	3913	175,000	3,015	171,985	9,354	162,631	53,688	(108,943)	Deferred until 2004

AUDIT DISCLOSURE NO. 2

SUBJECT: PROJECTED 2004 UTILITY PLANT IN SERVICE

STATEMENT OF FACTS: The projected additions to plant in 2004 consist of construction work in process not closed in 2003, but closed in 2004 in the amount of \$679,500; and the capital budget for 2004 of \$4,281,900, for a total of \$4,961,400.

The company was asked to provide explanations, reasons and available documentation for capital budget items totaling \$2,863,500. A summary of the accounts and company responses are included in the schedule following this disclosure.

This summary shows that the work orders for two of the projects have been revised upwards, due to material costs being higher than the initial estimates. These work orders are in Northeast Florida in accounts 353 and 362.

Exhibit to Disclosure re 2004 Projected Plant Additions

Account	Account Description	Projected Amount in 2004	Description and/or Documentation Provided.
	NORTHWEST FLORIDA (MARIANNA)		
362	Substation Equip	200,000	Continuation of SCADA system installation that began in 2003. Bid information confirms amount.
3684	Poles, Towers, Fix	126,800	Replace decayed poles identified through pole inspections. $76,000 for FPUC crews and $50,000 for contract crews. According to the company, this is based on past experience.
36 81	Line Transmission Overhead	165,600	The company says this is based on historical trends. 2000=$147,529; 2001=$150,038; 2002 = $144,544; and 2003 through August = 95,003.
370	Meters	104,400	Based on historical trends plus the purchase of additional meters capable of being read remotely. 2000=$81,935; 2001=$29,857; 2002=$45,895; and 2003 through August=$62,083. Invoices from 2003 show that the cost of these meters could be $58 for Class 200, Single phase, 240 volt to $299 for Class 200, W/ERT compatible with ITRON F 53. The company expects to purchase the same quantity in 2004 and in 2003.
3913	Computer Equip	242,000	$12,000 is for purchase of miscellaneous computer equipment. $230,000 is for the second phase of a GIS Mapping System and associated software. Documentation shows the bid to be $230,000.
3923	Transportation Heavy Trucks	180,000	Replace a Digger-Derrick Truck. Truck has been ordered and purchase order supplied.
		1,018,800	
Capital Budget for 2004		1,781,600	
% detailed above		57.18%	

COMPANY: FPUC - ELECTRIC
TITLE: PROJECTED ADDITIONS FOR 2004
PERIOD; YEAR END 2004
DATE: NOVEMBER 15, 2003

Exhibit to Disclosure re 2004 Projected Plant Additions

Account	Account Description	Projected Amount in 2004	Description and/or Documentation Provided.
	NORTHEAST FLORIDA (FERNANDINA)		
353	Substation Equip	328,000	The company stated that this is for a 138KV line at Stepdown. The amount according to the company's work order has been revised to $487,500. It was explained this was revised because the breakers and material costs will be higher than the initial estimate.
362	Substation Equip	700,000	JL Terry Substation. The company's workorder has been revised to $1,367,000 for the 2004 portion. It was explained that this was revised because transformer costs will be higher than originally aniticipated.
3662	Underground Conduit-buried	206,000	Amelia Island Plantation Cable 5 year replacement program. Costing based on prior experience.
3672	Underground Conductor & Devices	273,700	Amelia Island Cable replacement program for 150,000; $117,700 for various anticipated revenue producing products, such as new sub-divisions, condominiums, apartments, individual homes, etc.
3683	Line Transmission Buried	200,000	Based on prior experience. 2001=354,143; 2002=291,385; and 2003 through August = 58,543.
370	Meters	119,000	Based on prior experience. 2001=85,198; 2002=75,211; and 2003 through August =59,205.
3942	Tools/Shop/etc	18,000	Portable Equipment based on prior experience. 2001=2534; 2002=5503; and 2003=4304.
		1,844,700	
Capital Budget for 2004		2,500,300	
% of detailed above		73.78%	
Total reviewed above		2,863,500	
Total Budget		4,281,900	
Total % of detailed above		66.87%	

AUDIT DISCLOSURE NO. 3

SUBJECT: WORKING CAPITAL - UNAMORTIZED RATE CASE EXPENSE

STATEMENT OF FACTS: In the company filing C59(B15) the company has included an average of $182,216 and $446,430 of unamortized rate case expenses for the years 2003 and 2004, respectively. During the course of the audit the company revised the total estimated rate case expenses to include an additional $17,000 for the estimated consulting fees from Christensen Associates. The revised average amounts are $188,792 and $462,544 for the years 2003 and 2004, respectively. This represents an increase to working capital of $6,576 and $16,114 for 2003 and 2004, respectively.

FPSC Order No. 22224 for Fernandina and FPSC Order No. 21532 for Marianna ruled that unamortized rate case expense should be excluded from the working capital calculation.

AUDIT DISCLOSURE NO. 4

SUBJECT: WORKING CAPITAL - CASH

STATEMENT OF FACTS: FPSC Order No. 94-0983-FOF-EI, for Fernandina and 94-0170-FOF-EI, for Marianna ruled that the company should include the five year average of cash or the actual amount, whichever is less.

In the company filing C59(B15) the company included a commission adjustment to reflect cash at the average of the prior 5 years's average which was lower, however, the company has also included a company adjustment to report the cash balance at the actual 13- month average; therefore, reversing the commission adjustment. The company adjustment increases the cash balance by $284,398 for 2002 to remove the effect of the 5-year average. The adjustments related to 2003 and 2004 are $296,233 and 304,981, respectively. The company trended the adjusted 2002 balance using the trend rates for customer growth and inflation.

AUDIT DISCLOSURE NO. 5

SUBJECT: SHORT-TERM DEBT

STATEMENT OF FACT: On April 23, 2003, the company executed an agreement with Bank of America, N.A. for a $12,000,000 secured line of credit that replaced an expiring unsecured line of credit.

The utility's short-term debt presentation in Schedule D-1a for Cost of Capital represented a declining short-term debt balance that is completely eliminated by December 31, 2004.

OPINION: The new line of credit mentioned above includes provisions that require the utility to pledge its accounts receivable and environmental funds as collateral and agree to increase its equity ratio. The cost of the loan includes an interest rate of 90 basis points above the LIBOR rate and annual fees based on the company's outstanding balance and unused balance.

AUDIT DISCLOSURE NO. 6

SUBJECT: COST OF CAPITAL PRESENTATION

STATEMENT OF FACT: The utility's original and revised cost of capital presentations for the projected period 2004 were prepared on a total company basis that includes regulated and non-regulated operations.

The schedules include jurisdictional factors of 33 and 34 percent that are applied to the company's common debt and equity components to calculate the regulated operations capital structure.

The jurisdictional factors are calculated as a ratio of the electric division rate base reduced by the direct components of the electric division's capital structure divided by the total company's debt and equity component balances. See example below.

Projected balances for:	Amount
Electric division rate base	$39,840,869
Electric division customer deposits, deferred taxes, and ITCs	$4,964,901
Total company debt and equity	$105,051,146

Calculation: ($39,840,869 - $4,964,901) / $105,051,146 = 32.98 percent

Order No. PSC-94-0170-FOF-EI, issued February 10, 1994, in the utility's last rate proceeding required that non-regulated investments shall be removed directly from equity rather than proportionately from debt and equity.

OPINION: The company's original and revised cost of capital presentations do not comply with the above-mentioned Order because the jurisdictional factors are applied to both the debt and equity components of the company's capital structure.

AUDIT DISCLOSURE NO. 7

SUBJECT: FORFEITED DISCOUNT

STATEMENT OF FACT: When the company forecast the revenue for Account 450 - Forfeited Discounts on Schedule C 59(C-10), the estimated amounts from April to December of 2003 were used to calculate the 2004 forfeited discounts.

OPINION: The 2004 forfeited discounts were recalculated using actual January to November 2003 and estimated December 2003. The results show that the forfeited discounts were understated by $34,364 ($289,468-$255,104). The effect of this is to increase the operating revenue by the same amount.

ADJUSTMENT TO FORFEITED DISCOUNTS
PROJECTED YEAR 2003

RECALCULATED W/JANUARY TO NOVEMBER 2003 ACTUAL AMOUNTS

	2001	2002	AVERAGE	INC/DEC FACTOR	2003 11 MTHS. ACT. 1 MTHS. EST.	* ESTIMATED MONTHLY RDN / INC	2003 ADJUSTED	** ESTIMATED CUSTOMER GROWTH	2004 ESTIMATED
JANUARY	$10,614	$9,467	$10,041		$11,226	2.00	$22,452	102.18%	$22,941
FEBRUARY	3,338	12,187	7,763		27,544	0.77	21,209	102.18%	21,671
MARCH	11,532	9,759	10,646		31,047	0.77	23,906	102.18%	24,427
APRIL	13,448	9,833	11,641		27,478	0.77	21,158	102.18%	21,619
MAY	10,607	4,253	7,430		29,069	0.77	22,383	102.18%	22,871
JUNE	10,959	6,438	8,699		27,467	0.77	21,150	102.18%	21,611
JULY	15,390	12,224	13,807		32,434	0.77	24,974	102.18%	25,518
AUGUST	10,605	11,551	11,078		30,567	0.77	23,537	102.18%	24,050
SEPTEMBER	11,856	12,517	12,187		31,113	0.77	23,957	102.18%	24,479
OCTOBER	12,443	11,575	12,009		36,468	0.77	28,080	102.18%	28,692
NOVEMBER	13,039	12,395	12,717 (A)		34,593	0.77	26,637	102.18%	27,218
DECEMBER	9,878	12,896	11,387 (A)	0.90 (A)	30,975 (B)	0.77	23,851	102.18%	24,371
TOTAL	$133,709	$125,095	$129,405		$349,981		$283,294		$289,468
							LESS: ESTIMATED AM'T ON SCHEDULE C-10		($255,104)
							DIFFERENT		$34,364

(A) 11,387 / 12,717 = 0.90
(B) 34,593 * 0.90 = 30,975

* THIS FACTOR CONSIDERS THE FACT THAT OVER TIME CUSTOMERS WILL MAKE PAYMENTS ON TIME IN ORDER TO AVOID THE NEWLY IMPLEMENTED MINIMUM CHARGE OF $5.
** THIS FACTOR REPRESENTS CUSTOMER INCREASE USING CUSTOMER GROWTH FACTOR

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EXHIBIT: RKY-1
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AUDIT DISCLOSURE NO. 8

SUBJECT: ADJUSTMENTS TO FILING FOR INCREASING RELIABILITY

STATEMENT OF FACT: The company has included adjustments to 2004 expense in its Net Operating Income schedule C-59(C-19) that relate to increases in reliability. They are:

593.2	Increase for 1.5 additional tree trimming crews	$160,000
590.0	Increase in transformer maintenance-contract in place	29,000
581.1	Salary for Eng. Tech to work on mapping system and supplies for mapping system	50,000
581.2	Portion of salary for employee to work on new relay protection system	20,000
Total adjustments related to increasing reliability		$259,000

AUDIT DISCLOSURE NO. 9

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

STATEMENT OF FACT: The company decreased salary expense for an executive that is retiring in 2004 to the salary that is being offered to the replacement.

OPINION: The person replacing the executive is already an employee and his position is being advertised. The low range of the advertised salary is $18,000 less than his current salary. Therefore, if the job is filled at the low range, expenses should be reduced by another $18,000.

AUDIT DISCLOSURE NO. 10

SUBJECT: 2002 ADJUSTMENTS FOR DISCONTINUED OPERATIONS

STATEMENT OF FACT: The company filing schedule C-59(C-19) adjusts 2002 expenses for the discontinuance of the water division. The adjusted amounts are trended upward for 2003 and 2004 trend factors. A company schedule detailing the adjustments shows that the payroll portion of the adjustments is a $240,261 increase to expense for employees that used to be charged to water and are now charged to electric.

OPINION: The actual payroll charged to electric for 2003 since the elimination of the water division was determined using the company journal entry nine detail. The amounts for April to October 2003 were annualized and compared to the actual amounts for 2002. Using all accounts charged to electric, including construction and retirement work in process, the increase in payroll would be $206,318. Since one position has been vacant for some time, this would show that the $240,261 is a good number in total.

However, the same calculation was done for accounts charged to expense only, since the entire $240,261 was expensed. Using these numbers, the increase since the elimination of the water division was only $130,441 or $109,820 less than the company charged to expense. Review of the construction work in process account shows that this account increased causing the actual numbers charged to expense to decrease. If the company continues to capitalize the wages of these employees in 2004, the expense accounts may be overstated by $109,820. Part of the reason for the difference is because one of the employees in Fernandina quit and has not been replaced. This caused a difference of $14,600 for operations and $9,124 for maintenance.

INCREASE IN PAYROLL ON MFR C-50(C-19) FOR LOSS OF WATER DIVISION	**240,261**
PAYROLL 4/03 TO 10/03 (AFTER WATER) FOR ACCTS. 114.1070 TO 115.4020 WITHOUT ACCRUALS OR VACATION ACCRUALS	1,939,566
DIVIDED BY 7 MONTHS TIMES 12 TO ANNUALIZE	3,324,970
PAYROLL 2002 (BEFORE WATER ELIM.) FOR ACCTS. 114.1070 TO 115.4020 WITHOUT ACCRUALS OR VACATION ACCRUALS	3,118,652
INCREASE IN TOTAL ELECTRIC ACCOUNTS AFTER WATER ELIMINATION	**206,318**
PAYROLL IN 401 AND 402 ELECTRIC ACCOUNTS ONLY 4/03 TO 10/03 WITHOUT ACCRUALS OR VACATION ACCRUALS	1,216,836
DIVIDED BY 7 MONTHS TIMES 12 TO ANNUALIZE	2,086,005
PAYROLL FOR 2002 FOR 401 AND 402 ACCOUNTS ONLY	1,955,564
INCREASE IN ELECTRIC AFTER WATER ELIMINATED TO EXPENSE ONLY	**130,441**
COMPANY INCLUDED	**240,261**
CO. OVERSTATED EXPENSE ACCOUNTS	**(109,820)**

DIFFERENCE DUE TO LARGE AMOUNT OF PAYROLL CHARGED TO
CONSTRUCTION WORK IN PROCESS IN 2003
INSTEAD OF BEING EXPENSED

AUDIT DISCLOSURE NO. 11

SUBJECT: ACCOUNT 921.5 TEMPORARY STAFF

STATEMENT OF FACT: The company paid $65,658.78 for temporary help and commission fees for staffing of which $16,414.70 was expensed to electric in account 921.5 on MFR C-50(C-19). In 2003, these charges were expensed to rate case expense causing 2003 expenses to be significantly lower than 2002.

OPINION: We were unable to determine if the temporary help was related to the rate case filing or if in 2004 the company will continue to use temporary staff. The account was trended at 1.039. Therefore, $17,054.87 was included in expense for these costs.

FPUC-ELECTRIC
ANALYSIS OF COMMON 921.5
TEST YEAR ENDED DECEMBER 31, 2002 PROJECTED 2004

ACCOUNTEMPS	ROTH STAFFING	
136.00	380.00	
414.72	380.00	
1,036.80	935.55	
(103.68)	399.00	
272.00	972.00	
1,036.80	6,120.00	
401.44	2,004.14	
911.60	418.00	
182.32	1,978.01	
376.35	836.16	
911.60	1,038.67	
451.62	555.26	
911.60		
401.44		
911.60		
489.26		
911.60		
729.28		
136.00		
401.44		
911.60		
129.68		
501.80		
501.80		
843.23		
911.60		
476.71		
911.60		
501.80		
546.96		
401.44		
136.00		
911.60		
426.53		
911.60		
602.16		
638.12		
1,003.60		
262.09		
829.44		
940.88		
843.23		
320.00		
256.00		
706.49		
802.88		
408.98		
911.60		
676.00		
128.00		
602.16		
1,003.60		
125.84		
676.00		
911.60		
392.00		
676.00		
854.63		
1,003.60		
843.23		
802.88		
911.60		
777.79		
868.02		
715.07		
911.60		
677.43		
240.00		
911.60		
890.70		
911.60		
401.44		
911.60		
602.16		
911.60		
677.43		
911.60		
120.00		
128.00		
49,641.98	16,016.79	
25.00%	25.00%	
12,410.50	4,004.20	16,414.70

AUDIT DISCLOSURE NO. 12

SUBJECT: EXPENSE PROJECTION FACTORS

STATEMENT OF FACT:

Inflation Factor for 2003
There is an error in the inflation factor on schedule C-59 (B-15, C-1, C-19) for the year end 2003. The projection factor in the filing is 2.5%, the intended projection factor was 2.25%. The 2003 typographical error does not affect the 2004 projected amounts as expenses for 2004 are a product of 2002 expenses times the 2004 projection factor. The projection factor for 2004 of 3.87% is as intended by the company.

Payroll Factor for 2003 and 2004
The factor for payroll is 3% for 2003 over 2002, and 6.09% for 2004 over 2002. This is based on estimated annual payroll increases.

Taxes Other than Income Factors for 2004
In recalculating the 2004 projected amounts in MFR C-59 (C-19), the projection factor on the MFR did not calculate to the total 2004 expense projected for Accounts 4080.5,6,7, Payroll Taxes. The MFR reads as follows:

2002 Adjusted Expense	Projection Factor	2004 Projected Expense
136,684	106.1	150,074

The product of this calculation is $145,022; a difference of $5,052. This is because the employment taxes are projected based on payroll only, while the FICA is based on payroll and customer growth. The prior audit exception regarding taxes other than income, recalculates FICA tax based on payroll only.

OPINION: There should be consistency in projecting payroll taxes.

AUDIT DISCLOSURE NO. 13

SUBJECT: DEPRECIATION RATES USED FOR 2003 AND 2004

STATEMENT OF FACT: The Company has calculated depreciation expense on total plant balances for Marianna and Fernandina together and has used an average depreciation rate of both Marianna and Fernandina instead of calculating the depreciation expense for each separately and using the applicable rate for each.

AUDIT DISCLOSURE NO. 14

SUBJECT: DEPRECIATION ON TRAINING PROGRAMS

STATEMENT OF FACT: The company filing, schedule C-59(B-8a-2004) includes $10,000 in account 399- Miscellaneous Tangible for the year 2004 for training programs that are being developed specifically for the company. The company and the vendors expect that within approximately five years, the programs will no longer be relevant, requiring re-evaluation and extensive updating and re-issuance.

This account has been depreciated over five years. Total depreciation expense for 2004 is $2,004 and is included in the company filing schedule C-34.

AUDIT DISCLOSURE NO. 15

SUBJECT: SUTA TAX RATE

STATEMENT OF FACT: The utility's SUTA tax rate for the historic 12-month period ended December 31, 2002, was 0.57 percent.

The utility's projected 2003 and 2004 payroll taxes in this rate proceeding were determined by applying projection factors of 1.03 percent and 1.06 percent, respectively, to the historic 2002 payroll tax balance.

The utility has received notification from the Florida Department of Revenue that its SUTA tax rate has been increased to 1.47 percent beginning January 1, 2004.

OPINION: The audit staff in Exception No. 20 of this report recalculated the utility's SUTA payroll tax as $7,541 based on its review of the utility's historic 2002 payroll salaries. In our adjustment we did not use the 2003 and 2004 projection factors because we determined that the SUTA and FUTA taxes are based on the first $7,000 of an employee's income and that the number of utility employees does not significantly change during the projected periods.

The historic year 2002 SUTA tax of $7,541 referenced above restated in terms of the new 2004 SUTA tax rate would be $19,448. ($7,541 divided by .57% times 1.47%)

EXHIBITS

Schedule C-59(B-3)

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: FLORIDA PUBLIC UTILITIES
Consolidated Electric Division
DOCKET NO.: 030438-EI

ADJUSTED RATE BASE

EXPLANATION: Provide a schedule of 13-month average rate base as adjusted for the test year, and the prior year if the test year is projected. Provide detail of all adjustments on Schedule B-4.

Type of Data Shown:

Projected Test Year 12/31/2004
Projected Prior Year 12/31/2003
Witness: Jim Mesite

Line No.		Projection Basis	(1) Total Company Per Books	(2) Commission Adjustments (B-4)	(3) Total As Adjusted By Commission (1) + (2)	(4) Company Adjustments (B-4)	(5) Total After Adjustments (3) + (4)	(6) Jurisdictional Rate Base Factor	(7) Adjusted Rate Base
27	UTILITY PLANT:		2004						
28									
29	PLANT CLOSED & IN SERVICE		65,722,932		65,722,932	(35,088)	65,687,844		65,687,844
30	COMMON PLANT ALLOCATED		1,721,031		1,721,031	-	1,721,031		1,721,031
31	1140 ACQUISTION ADJUSTMENT		3,691		3,691		3,691		3,691
32	1070 CONSTRUCTION WIP		621,692		621,692	(923)	620,769		620,769
33									
34	TOTAL PLANT		68,069,347	-	68,069,347	(36,011)	68,033,336		68,033,336
35									
36	DEDUCTIONS:								
37									
38	ACCUM. DEPR. UTIL. PLANT		(27,689,659)		(27,689,659)	17,543	(27,672,116)		(27,672,116)
39	ACCUM DEPR. COMMON PLANT		(455,192)		(455,192)	-	(455,192)		(455,192)
40	1150 ACCUM. AMORT ACQ. ADJUSTMENT		(3,691)		(3,691)		(3,691)		(3,691)
41	2520 CUST. ADVANCES FOR CONST.	13	(621,462)		(621,462)		(621,462)		(621,462)
42									
43	TOTAL DEDUCTIONS		(28,770,004)	-	(28,770,004)	17,543	(28,752,461)		(28,752,461)
44									
45	UTILITY PLANT - NET		39,299,342	-	39,299,342	(18,468)	39,280,874		39,280,874
46									
47	ALLOWANCE FOR WORKING CAPITAL:								
48									
49	WORKING CAPITAL- BALANCE								
50	SHEET METHOD		559,995		559,995		559,995		559,995
51									
52	**2004 TOTAL RATE BASE**		39,859,337	-	39,859,337	(18,468)	39,840,869		39,840,869

Supporting Schedules: C-59(B-4, B-8a, B-8b, B-9a, B-9b, B-13, B-15, C-1)

Recap Schedules: C-59(C-2)

Schedule C-59(B-3)

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: FLORIDA PUBLIC UTILITIES
Consolidated Electric Division

DOCKET NO.: 030438-EI

ADJUSTED RATE BASE

EXPLANATION: Provide a schedule of 13-month average rate base as adjusted for the test year, and the prior year if the test year is projected. Provide detail of all adjustments on Schedule B-4.

Type of Data Shown:

Projected Test Year 12/31/2004
Projected Prior Year 12/31/2003
Witness: Jim Mesite

Line No.		Projection Basis	(1) Total Company Per Books	(2) Commission Adjustments (B-4)	(3) Total As Adjusted By Commission (1) + (2)	(4) Company Adjustments (B-4)	(5) Total After Adjustments (3) + (4)	(6) Jurisdictional Rate Base Factor	(7) Adjusted Rate Base
1	UTILITY PLANT:		2003						
2									
3	PLANT CLOSED & IN SERVICE		60,571,468		60,571,468	(22,742)	60,548,726		60,548,726
4	COMMON PLANT ALLOCATED		1,514,213		1,514,213	-	1,514,213		1,514,213
5	1140 ACQUISTION ADJUSTMENT		3,691		3,691		3,691		3,691
6	1070 CONSTRUCTION WIP		617,919		617,919	(923)	616,996		616,996
7									
8	TOTAL PLANT		62,707,291	-	62,707,291	(23,665)	62,683,626		62,683,626
9									
10	DEDUCTIONS:								
11									
12	ACCUM. DEPR. UTIL. PLANT		(25,916,262)		(25,916,262)	13,579	(25,902,683)		(25,902,683)
13	ACCUM DEPR. COMMON PLANT		(361,768)		(361,768)		(361,768)		(361,768)
14	1150 ACCUM. AMORT ACQ. ADJUSTMENT		(3,691)		(3,691)		(3,691)		(3,691)
15	2520 CUST. ADVANCES FOR CONST.	13	(603,636)		(603,636)		(603,636)		(603,636)
16									
17	TOTAL DEDUCTIONS		(26,885,357)	-	(26,885,357)	13,579	(26,871,778)		(26,871,778)
18									
19	UTILITY PLANT - NET		35,821,934	-	35,821,934	(10,086)	35,811,848		35,811,848
20									
21	ALLOWANCE FOR WORKING CAPITAL:								
22									
23	WORKING CAPITAL- BALANCE								
24	SHEET METHOD		189,674		189,674		189,674		189,674
25									
26	**2003 TOTAL RATE BASE**		36,011,608	-	36,011,608	(10,086)	36,001,522		36,001,522

Schedule B-3

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: Florida Public Utilities Company
Consolidated Electric Division
DOCKET NO.: 030438-EI

ADJUSTED RATE BASE

EXPLANATION: Provide a schedule of 13-month average rate base as adjusted for the test year, and the prior year if the test year is projected. Provide detail of all adjustments on Schedule B-4.

Type of Data Shown:
Historical Year Ended 12/31/2002

Witness: Jim Mesite

Line No.	(1) Total Company Per Books	(2) Commission Adjustments (B-4)	(3) Total As Adjusted By Commission (1) + (2)	(4) Company Adjustments (B-4)	(5) Total After Adjustments (3) + (4)	(6) Jurisdictional Rate Base Factor	(7) Adjusted Rate Base
UTILITY PLANT:	2002						
PLANT CLOSED & IN SERVICE	56,121,961		56,121,961		56,121,961	100%	56,121,961
COMMON PLANT ALLOCATED	1,495,874		1,495,874		1,495,874	for	1,495,874
1140 ACQUISTION ADJUSTMENT	3,691		3,691		3,691	All	3,691
1070 CONSTRUCTION WIP	2,205,998		2,205,998		2,205,998		2,205,998
TOTAL PLANT	59,827,524	-	59,827,524	-	59,827,524		59,827,524
DEDUCTIONS:							
ACCUM. DEPR. UTIL. PLANT	(24,173,624)		(24,173,624)		(24,173,624)		(24,173,624)
ACCUM DEPR. COMMON PLANT	(308,641)		(308,641)		(308,641)		(308,641)
1150 ACCUM. AMORT ACQ. ADJUSTMENT	(3,691)		(3,691)		(3,691)		(3,691)
2520 CUST. ADVANCES FOR CONST.	(579,520)		(579,520)		(579,520)		(579,520)
TOTAL DEDUCTIONS	(25,065,475)	-	(25,065,475)	-	(25,065,475)		(25,065,475)
UTILITY PLANT - NET	34,762,049	-	34,762,049	-	34,762,049		34,762,049
ALLOWANCE FOR WORKING CAPITAL:							
WORKING CAPITAL- BALANCE SHEET METHOD	(827,786)		(827,786)	455,027	(372,759)		(372,759)
TOTAL RATE BASE	33,934,263	-	33,934,263	455,027	34,389,290		34,389,290

Supporting Schedules: B-4, B-8a, B-8b, B-15

Recap Schedules:

Schedule C-59(D-1a)

COST OF CAPITAL - 13-MONTH AVERAGE and YEAR END

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Provide the company's 13-month average cost of capital for the test year, the prior year, and historic base year.

Type of Data Shown:

Projected Test Year Ended 12/31/04
Prior Year Ended 12/31/03

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY
CONSOLIDATED ELECTRIC DIVISION

DOCKET NO: 030438-EI

Witness: Bachman; Camfield

Line No.	Class of Capital	(A) Company Total Per Books	(B) Specific Adjustments	(C) Pro Rata Adjustments	(D) System Adjusted	(E) Jurisdictional Factor	(F) Jurisdictional Capital Structure	(G) Ratio	(H) Cost Rate	(I) Weighted Cost Rate
	TEST YEAR: 2004 CAPITAL STRUCTURE AND COST RATE									
	Long Term Debt	50,086,856			50,086,856	0.33	16,520,339	41.47%	7.87%	3.26%
	Short-Term Debt	-			-	-	-	0.00%	3.21%	0.00%
	Preferred Stock	600,000			600,000	0.33	197,900	0.50%	4.75%	0.02%
	Common Equity	55,051,146			55,051,146	0.33	18,157,729	45.58%	12.00%	5.47%
	Customer Deposits	1,330,347			1,330,347		1,330,347	3.34%	6.00%	0.20%
	Deferred Taxes	3,449,838			3,449,838		3,449,838	8.66%	0.00%	0.00%
	ITC at Zero Cost	2,308			2,308		2,308	0.01%	0.00%	0.00%
	ITC at Overall Cost	182,409			182,409		182,409	0.46%	10.00%	0.05%
	Total	110,702,903			110,702,903		39,840,869	100.0%		9.00%

CONVENTIONAL CAPITAL STRUCTURE AND OVERALL COST OF CAPITAL

Capital Vehicle	Amounts	Capitalization Share	Cost Rate	Weighted Cost Rate
Long Term Debt	50,086,856	47.37%	7.87%	3.73%
Short-Term Debt	-	0.00%	3.21%	0.00%
Preferred Stock	600,000	0.57%	4.75%	0.03%
Common Equity	55,051,146	52.06%	12.00%	6.25%
Total	105,738,002	100.00%		10.00%

Supporting Schedules:

Recap Schedules: C-59(C-2)

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Provide the company's 13-month average cost of capital for the test year, the prior year, and historic base year.

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY
CONSOLIDATED ELECTRIC DIVISION

DOCKET NO: 030438-EI

Type of Data Shown:

Projected Test Year Ended 12/31/04
Prior Year Ended 12/31/03

Witness: Bachman; Camfield

Line No.	Class of Capital	(A) Company Total Per Books	(B) Specific Adjustments	(C) Pro Rata Adjustments	(D) System Adjusted	(E) Jurisdictional Factor	(F) Jurisdictional Capital Structure	(G) Ratio	(H) Cost Rate	(I) Weighted Cost Rate
	PRIOR YEAR 2003 CAPITAL STRUCTURE AND COST RATE									
	Long Term Debt	50,144,629			50,144,629	0.32	15,948,920	44.30%	7.87%	3.49%
	Short-Term Debt	5,791,000			5,791,000	0.32	1,841,876	5.12%	2.22%	0.11%
	Preferred Stock	600,000			600,000	0.32	190,835	0.53%	4.75%	0.03%
	Common Equity	40,075,011			40,075,011	0.32	12,746,194	35.40%	12.00%	4.25%
	Customer Deposits	1,556,282			1,556,282		1,556,282	4.32%	6.00%	0.26%
	Deferred Taxes	3,458,323			3,458,323		3,458,323	9.61%	0.00%	0.00%
	ITC at Zero Cost	2,485			2,485		2,485	0.01%	0.00%	0.00%
	ITC at Overall Cost	256,606			256,606		256,606	0.71%	9.23%	0.07%
	Total	101,884,337			101,884,337		36,001,522	100.0%		8.20%

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CONVENTIONAL CAPITAL STRUCTURE AND OVERALL COST OF CAPITAL

Capital Vehicle	Amounts	Capitalization Share	Cost Rate	Weighted Cost Rate
Long Term Debt	50,144,629	51.90%	7.87%	4.08%
Short-Term Debt	5,791,000	5.99%	2.22%	0.13%
Preferred Stock	600,000	0.62%	4.75%	0.03%
Common Equity	40,075,011	41.48%	12.00%	4.98%
Total	96,610,640	100.00%		9.23%

Supporting Schedules: Recap Schedules:

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Provide the company's 13-month average cost of capital for the test year, the prior year, and historic base year.

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY
CONSOLIDATED ELECTRIC DIVISION

DOCKET NO: 030438-EI

Type of Data Shown:
Historical Year Ended 12/31/02
Projected Test Year Ended 12/31/04
Prior Year Ended 12/31/03

Witness: Bachman; Camfield

Line No.	Class of Capital	(A) Company Total Per Books	(B) Specific Adjustments	(C) Pro Rata Adjustments	(D) System Adjusted	(E) Jurisdictional Factor	(F) Jurisdictional Capital Structure	(G) Ratio	(H) Cost Rate	(I) Weighted Cost Rate
	2002 CAPITAL STRUCTURE AND COST RATE									
	Long Term Debt	50,050,496			50,050,496	0.30	14,773,770	42.96%	7.87%	3.38%
	Short-Term Debt	15,833,256			15,833,256	0.30	4,673,618	13.59%	2.05%	0.28%
	Preferred Stock	600,000			600,000	0.30	177,106	0.52%	4.75%	0.02%
	Common Equity	30,662,403			30,662,403	0.30	9,050,845	26.32%	12.00%	3.16%
	Customer Deposits	1,552,316			1,552,316		1,552,316	4.51%	6.00%	0.27%
	Deferred Taxes	3,850,318			3,850,318		3,850,318	11.20%	0.00%	0.00%
	ITC at Zero Cost	2,417			2,417		2,417	0.01%	0.00%	0.00%
	ITC at Overall Cost	308,899			308,899		308,899	0.90%	8.21%	0.07%
	Total	102,860,104			102,860,104		34,389,290	100.0%		7.19%

CONVENTIONAL CAPITAL STRUCTURE AND OVERALL COST OF CAPITAL

Capital Vehicle	Amounts	Capitalization Share	Cost Rate	Weighted Cost Rate
Long Term Debt	50,050,496	51.52%	7.87%	4.05%
Short-Term Debt	15,833,256	16.30%	2.05%	0.33%
Preferred Stock	600,000	0.62%	4.75%	0.03%
Common Equity	30,662,403	31.56%	12.00%	3.79%
Total	97,146,154	100.00%		8.21%

Supporting Schedules: Recap Schedules:

Schedule C-59(C-2)

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: FLORIDA PUBLIC UTILITIES
Consolidated Electric Division
DOCKET NO.: 030438-EI

ADJUSTED JURISDICTIONAL NET OPERATING INCOME

EXPLANATION: Provide the calculation of jurisdictional net operating income and the revenue requirement for the test year and the prior year.

Type of Data Shown:
Historical Year 12/31/2002
Projected Test Year 12/31/2004
Projected Prior Year 12/31/2003
Witness: Mehrdad Khojasteh

Line No.		(1) Total Electric 2002 Per Books	(2) Commission Adjustments (Schedule C-4)	(3) Company Adjustments (Schedule C-4)	(4) Adjusted Amount 1 + 2 + 3	(5) Total Electric 2003 Projections	(6) Commission Adjustments (Schedule C-4)	(7) Company Adjustments (Schedule C-4)	(8) Adjusted Amount 5 + 6 + 7	(9) Total Electric 2004 Projections	(10) Commission Adjustments (Schedule C-4)	(11) Company Adjustments (Schedule C-4)	(12) Adjusted Amount 9 + 10 + 11
1	Operating Revenues:												
2	Base Revenue (incl Buried GR)	11,007,360	-	(87,374)	10,919,986	11,187,284	-	(91,183)	11,096,101	11,361,793	-	-	11,361,793
3	Fuel & Conservation	27,486,753	(27,486,753)	-	-	25,442,763	(25,442,763)	-	-	27,112,504	(27,112,504)	-	-
4	Conservation Revenue	509,976	(509,976)	-	-	458,269	(458,269)	-	-	466,940	(466,940)	-	-
5	Gross Receipts Revenue	696,246	-	334,365	1,030,611	954,079	-	347,730	1,301,808	973,531	-	243,780	1,217,311
6	Franchise Fees	1,635,365	-	-	1,635,365	1,328,932	-	-	1,328,932	1,354,781	-	-	1,354,781
7	Other Operating Revenues	(376,020)	761,311	-	385,291	2,147,001	(1,557,241)	-	589,760	558,039	-	-	558,039
8	Provision for Rate Refund	(30,000)	22,000	8,000	-								
9	Total Operating Revenues	40,929,680	(27,213,418)	254,991	13,971,253	41,518,328	(27,458,273)	256,547	14,316,602	41,827,588	(27,579,444)	243,780	14,491,924
10													
11													
12	Operating Expenses:												
13	Operation	4,125,825	143,313	455,852	4,724,990	5,498,490			5,498,490	5,927,426			5,927,426
14	Fuel Expenses	26,497,775	(26,497,775)	-	-	26,728,458	(26,728,458)		-	26,852,624	(26,852,624)	-	-
15	Conservation Expenses	486,636	(486,636)		-	454,620	(454,620)		-	463,182	(463,182)		-
16	Maintenance	1,363,161	4,244	66,593	1,433,998	1,498,028	-		1,498,028	1,756,768	-		1,756,768
17	Depreciation & Amortization	2,187,524	-	4,180	2,191,704	2,463,836	-		2,463,836	2,708,403	-		2,708,403
18	Taxes Other Than Income Taxes (Excluding	622,965	(6,705)	42,180	658,440	676,269	(18,649)	-	657,620	695,818	(19,857)	-	675,961
19	Gross Receipt & Franchise Taxes (incl Buri	2,665,977	(246,991)	246,991	2,665,977	2,630,740	(256,547)	256,547	2,630,740	2,572,092	(243,780)	243,780	2,572,092
20			-	-			-	-			-	-	
21	Income Taxes		-	-			-	-			-	-	
22	4090.1 Federal	567,731	207,867	(188,574)	587,024	279,665			279,665	(90,954)			(90,954)
23	4090.2 State	96,657	-	(6,169)	90,488	47,826			47,826	(15,616)			(15,616)
24	Deferred Income Taxes-Net		-	-									
25	Federal	(277,982)	-	-	(277,982)	(214,141)			(214,141)	(71,439)			(71,439)
26	State	(37,586)	-	-	(37,586)	(36,657)			(36,657)	(12,229)			(12,229)
27	Investment Tax Credit-Net	(56,525)	-	-	(56,525)	(52,124)			(52,124)	(47,062)			(47,062)
28													
29	Total Operating Expenses	38,242,158	(26,882,683)	621,053	11,980,528	39,975,011	(27,458,274)	256,547	12,773,284	40,739,014	(27,579,444)	243,780	13,403,350
30													
31	Net Operating Income	2,687,522	(330,735)	(366,062)	1,990,725	1,543,317	1	-	1,543,318	1,088,574	-	-	1,088,574

Note (A): All sales of electricity in the Northwest/Marianna and Northeast/Fernandina Beach divisions are subject to regulation by the Florida Public Service Commission. Therefore, the Jurisdictional Factor is 100%.

Supporting Schedules: C-59(C-4, C-10, C-19,C-38a, C-39, C-42)

Recap Schedules:

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DOCKET NO. 030438-EI: Petition for rate increase by Florida Public Utilities Company.

WITNESS: **Direct Testimony Of Ruth K. Young,** Appearing On Behalf Of Staff

EXHIBIT: RKY-2 - Audit Report for Audit of Reliabilty Indices

FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING

Miami District Office

FLORIDA PUBLIC UTILITIES

AUDIT OF RELIABILITY INDICES FOR MARIANNA AND FERNANDINA

FOR THE YEAR END DECEMBER 31, 2002

AUDIT CONTROL NO. 03-002-4-2

UNDOCKETED

Ruth K. Young, Audit Manager

Toni Sobrino, Engineering Staff

Jim Ruehl, Engineering Staff

Kathy L. Welch, Miami District Supervisor

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DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING

May 28, 2003

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the reliability indices submitted by Florida Public Utilities Company for the year ended December 31, 2002.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use. There is confidential information filed with this report.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report.

Scanned - The documents or accounts were read quickly looking for obvious errors.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Reviewed - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

Examined - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied and account balances were tested to the extent further described.

Confirmed - Evidential matter supporting an account balance, transaction, or other information was obtained directly from an independent third party.

Verified - The items were tested for accuracy, and compared to the substantiating documentation.

General: Obtained the data base for all reported outages included in the SAIDI and SAIFI indices submitted to the Commission. Selected a sample of 52 outage tickets from the Marianna data base, and a sample of 30 outage tickets from Fernandina. The number of outages in the data base was compared to the number of outages in the ticket file. The duration of the outage on the data base was agreed to the original outage tickets. The number of customers for each outage was traced to appropriate supporting data where available. Field observations were made for a small number of outages. Recalculated all indices using the company data base. All exclusions the company said it had were reviewed to ensure they were Commission approved types.

AUDIT DISCLOSURE 1

SUBJECT: NUMBER OF OUTAGES IN 2002

STATEMENT OF FACTS: The company does not have a system which would ensure that all outages reported are included in the data base in which the indices are calculated. Outage tickets are not pre-numbered or kept in such a manner that the company knows that every outage is accounted for.

OPINION: We could not verify that all outages that occurred were in the data base. It is recommended that the outage tickets be numbered sequentially and each one listed in the data base. All the numbers should be listed with keys noting (1) loss of service and reason (2) no loss of service (3) cancellation of ticket and reason, (4) PSC rule exclusions (5) problem in the customers home, and (6) any other explanation that might be necessary. These keys should be in a separate column so that the data base could be sorted by key, and indices easily calculated.

AUDIT DISCLOSURE 2

SUBJECT: EXCLUSIONS

STATEMENT OF FACTS: The company does not input its exclusions in the data base. The outage tickets and company summaries for exclusions are kept in a separate file in Fernandina. In Marianna they are clipped and included with all outages in the file. There is no way to be sure that all the exclusions in both divisions are accounted for, and therefore no way to be sure that all the exclusions are in accordance with Commission Rule 25-6.0455(2).

OPINION: All outages should be included in the data base. The exclusions should be included as part of the sequential outage tickets and keyed on the data base as explained in Audit Disclosure 1.

AUDIT DISCLOSURE 3

SUBJECT: DURATION OF OUTAGES

STATEMENT OF FACTS: The durations of the outages are from the time the first caller reports an outage to the time the journeyman in the field reports the service restored. The actual loss of service time cannot be determined from the systems in place. Some companies can determine the actual time of interruption based on equipment failure reports.

Fernandina: A review of 30 outage tickets showed that for one outage the dispatch time was not reported.

Marianna: A review of outage tickets for the months of June and July 02, showed that there were eight tickets out of 52 in June, and 26 tickets out of 71 in July which did not show the restoration time. A scan of other months showed that there were more tickets with no restoration time. When asked, the company representative stated that the restoration times are not necessarily recorded by the same person who records the outage time. Many times he gets a stick-on note with the customer name and restoration time. He puts this together with the outage report and completes his outage summary every day. This way, it is easy to look back and query the journeymen if there are any questions.

OPINION: A system should be implemented to ensure that all tickets include an outage time and a restoration time.

AUDIT DISCLOSURE 4

SUBJECT: NUMBER OF CUSTOMERS AFFECTED BY OUTAGES

STATEMENT OF FACTS:

Fernandina and Marianna
Each outage is relayed to the utility personnel on duty by the customer service personnel who answer the outage calls and record the time of the call. The personnel on duty consists of a journeyman electrician and workers who work under the 's supervision. In Fernandina the journeyman answering the service call estimates the number of customers affected by an electrical power outage, and relays this to the customer service personnel who records the number of customers and restoration time on the outage tickets. The information is reviewed by the Supervisor and then entered into the data base. In Marianna, the number of customers for transformer outages is determined by the journeyman and operations manager. Feeder breakers and recloser outages are based on the load/customer percentages. All other outages are based on the company maps and transformer size.

Fernandina : The number of customers affected by an outage is estimated on the premise that the loads on a given three-phase loop or service area are balanced between the phases. For example, if a three-phase circuit serves 180 customers and the power outage involves one of the three phases, it is assumed that one third of the customers (60 customers) were affected by the outage. Additionally, the utility breaks up its underground loop circuits at the halfway point, so that only half of the customers are affected, or 30 customers out of the 60 customers per phase. The company has an estimation of the number of customers on each feeder used in 2002. However, this is five to six years old. The company came up with new estimates in 2003 by prorating the number of new customers to each feeder. Upon review, the company found that some of these prorations could not be possible. The company does not have "as-built" record of its system.

In reviewing the data provided by the utility, we evaluated 30 of the 182 power outages reported. The utility plotted the selected 30 outages on a system map which also identified the feeder(s) serving the area(s) of the outages. We evaluated 21 of these outages by reviewing the data provided against our knowledge of the existing system, the particular electric feeder involved, the description of the work performed, the duration of the outage, etc. We also decided to visit the other nine outage locations in the field for actual verification of the number of affected customers reported. This field inspection yielded the following results:

1. Four outages were accurately reported.

2. Two outages reported MORE customers affected than in actuality.

3. Two outages reported LESS customers affected than in actuality.

4. One outage reported 40 customers affected, with no apparent basis for the estimate. This outage affected a sewage lift station, with no other customers affected by the outage.

In the last six months the utility implemented several changes and procedures in order to improve the accuracy of the data recorded. These are listed below:

1. The "on-call" personnel who responds to a service call to remedy a power outage is supervised by a journeyman electrician with greater experience and knowledge of the electrical distribution system. The utility has implemented a two-tier training program for its electricians. Once this training program is successfully completed, the employee is qualified for promotion to the journeyman level, as openings at that level may occur. All of the present journeymen have extended experience with the utility and knowledge of the existing system.

2. When a service call involving a power outage is completed, the number of affected customers and the duration of the outage is immediately reported by the journeyman directly to the line supervisor who is in charge of all the working crews. The line supervisor can then question the information reported as to its accuracy and also make adjustments based on his own knowledge and experience with the system.

3. The Fernandina office has designed and implemented new forms to record the information received from service calls. The new forms are simpler and provide more accurate information.

Marianna: The number of customers affected by outages was estimated by the journeyman who answered the call and the supervisor, based on the information detailed above. There is no audit trail from the outage ticket to the company map. The company had to show the auditor and engineer where the transformer was located on the map and then depending upon the size and type of transformer, the number of customers could be estimated by the PSC staff engineer. Fifty of 514 outages were evaluated. PSC staff estimates were compared to the company number of customers reported on the outage tickets. A small number of outages were selected to count the number of customers in the field. For the three outages where the customers were counted, the company estimated amount and the PSC staff engineer counts were different by two or three customers, either less or more. More counts were not undertaken because the customers in Marianna are much more spread apart and the count would be much more time consuming than in Fernandina.

The company plans to install a SCADA system so that it may monitor all breakers and be able to know when an outage occurs before a customer calls in. Also contemplated is a computer mapping system, which will give a more accurate record of the customers. The third item is to install the software necessary to connect the mapping system to the billing system. The company plans to start these upgrades with the next year or two. After the systems are installed in Marianna, they will start to be implemented in Fernandina.

OPINION- FERNANDINA: While the method of estimating the number of customers affected by an outage discussed above is based on ideal conditions, it is highly unlikely that the loads on a three-phase electrical distribution system are perfectly balanced. However, in the absence of an exact customer count, or a complete system "as-built" record, this method of estimating the number of affected customers is presently being used. The new procedures implemented within the last six months could yield more accurate customer count estimates in the future.

OPINION -MARIANNA: As with Fernandina, the number of customers affected by an outage is an estimate. Without the exact customer count, or a complete system "as-built" record, an estimation is the only methodology. Implementation of the computerized systems in the next year or two should yield a more accurate customer count.

OPINION FOR BOTH: While the company is using the only methods it can based on its system, the accounting staff believes that these estimates being performed by many different journeymen are educated, but subjective. Based on this disclosure, the disclosure regarding the exclusions, the disclosure noting the lack of control over the number of outages, and the disclosure indicating the lack of documentation for duration of outages, there appears to be a lack of consistency in the reporting. Therefore, without consistency, the indices filed with the Commission up to 2002 cannot be compared with each other.

Because of its small customer base (approximately 26,000 customers), and some of the lowest rates in Florida, it may not be possible to install sophisticated systems without causing a rate increase. This issue needs to be investigated.

AUDIT DISCLOSURE 5

SUBJECT: COMPARISON OF INFORMATION ON DATA BASE TO ORIGINAL OUTAGE TICKETS

STATEMENT OF FACTS:

Fernandina: A random number generator was used to select a sample of 30 outage tickets out of 182 outage tickets. Each ticket was reviewed to ensure that the information on the data base reflects the original outage tickets.

The following differences were found:

1. The customer count was different on the outage ticket for one outage
2. Outage tickets could not be located for two items on the data base.
3. The dispatch time was left off the original outage ticket for one outage.
4. The number of customers was not included on the outage ticket for two outages.
5. The duration of the outage on the tickets was different from the duration on the data base for two outages.
6. Five entries were found to be duplicates.

The file containing the exclusions was reviewed. There were two outages which reason on the ticket showed they belonged in the index.

A comparison was also made of the number of tickets on the data base with the actual number of tickets in the file. It was determined that four outage tickets from the file were not entered into the data base.

Observations in the field showed that one of nine field observations would result in a change in the number of customer to less customers than reported in the data base.

Marianna: A random number generator was used to select a sample of 52 outage tickets out of 514 outage tickets. Each ticket was reviewed to ensure that the information on the data base reflects the original outage tickets. Besides the information that was missing reported in Audit Disclosure 3, the following were found:

The number of customers for an outage on the data base was overstated compared to the outage ticket.

The PSC engineer believes that there were three outages where the number of customers might be overstated.

The file containing exclusions was reviewed. There was one outage which reasons showed it belonged in the index.

OPINION-FERNANDINA: The differences found were both reporting too many minutes and/or customers to reporting less minutes and /or customers that should have been reported. These differences could not be reconciled. Certain outage differences would be determined. These outages were five duplicates, two exclusions that should be accounted for, and four outage tickets that were left out of the index. The data base and indices were recalculated with the correct items. These schedules follow this disclosure.

OPINION-MARIANNA: Only one difference could be reconciled. That was an item in the exclusion category that should have been included. The data base and indices were recalculated with the one item included.

OPINION FOR BOTH: The recalculation on the schedules following this disclosure shows that the SAIDI decreased from 76.64 to 74.89. The SAIFI remained the same. Since here were a number of differences that could not be reconciled, we believe that the company should consider controls mentioned in the beginning of this report.

COMPANY: FPUC
TITLE: FERNANDINA AND MARIANNA CHANGES
DATE: APRIL 3, 2003

FERNANDINA AND MARIANNA COMBINED

Recalculation of Total		Fernandina Revised	Marianna Revised	Total
	CMI	794,875	1,167,203	1,962,078
	CI	8,227	23,696	31,923

Recalculation of Combined Total	Combined Revised		Combined Filed		Difference
COMBINED SAIDI	1,962,078		2,007,770		
	26,198	74.89	26,198	76.64	(1.74)
COMBINED SAIFI	31,923		31,898		
	26,198	1.22	26,198	1.22	0.00

COMPANY: FPUC
TITLE: FERNANDINA AND MARIANNA CHANGES
DATE: APRIL 3, 2003

FERNANDINA

Sample Number	Point of Interruption	Date	In the City?	Type of Service	The Feeder Number	Number of Customers	Outage Duration	No. Cust.* Duration	Cause
Duplicate Items on Data Base									
46	Buckthorn Dr	06/11/02	No	Underground		(15)	(113)	(1,695)	9) Corrosion
48	N. 15th St	06/14/02	Yes	Overhead	212	(50)	(60)	(3,000)	2) Tree or Lim
50	S. Fletcher Av	06/17/02	Yes	Overhead	311	(1)	(89)	(89)	9) Corrosion
52	Wax Myrtle	06/20/02	No	Overhead		(15)	(164)	(2,460)	9) Corrosion
54	N. 13th St	06/21/02	Yes	Overhead	211	(1)	(17)	(17)	2) Tree or Lim
Add outage tickets in file but not included in Data Base									
		10/10/02				15	31	465	
		08/26/02				10	33	330	
		05/11/02				59	19	1,121	
		05/01/02				20	136	2,720	
Outage tickets in excluson file									
		09/15/02				1	69	69	
		09/17/02				1	74	74	
						24	(81)	(2,482)	
Information used by Company to calculate SAIDI and SAIFI						8,203	18,342	797,357	
REVISED TOTALS						8,227	18,261	794,875	

Recalculation of Total		Revised Fernandina		Fernandina As Filed	
SAIDI	CMI/C	794,875 / 14,000	56.78	840,609 / 14,000	60.04
SAIFI	CI/C	8,227 / 14,000	0.59	8,203 / 14,000	0.59

MARIANNA

Date		Number of Customers	Outage Duration	No. Cust.* Duration	Cause
Information used by Company to submit SAIDI and SAIFI		23,695	28,696	1,167,161	
Plus Excluded item which cause was lightening a 06/01/02	Highway No. 20	1	42	42	
REVISED TOTALS		23,696	28,738	1,167,203	

Recalculation of Total	Marianna Revised		Marianna Filed	
SAIDI	1,167,203 / 12,198	95.69	1,167,161 / 12,198	95.68
SAIFI	23,696 / 12,198	1.94	23,696 / 12,198	1.94

EXHIBITS

Service Reliability Indices

Utility Name FLORIDA PUBLIC UTILITIES CO. Year 2002

District or Service Area (a)	SAIDI (b)	CAIDI (c)	SAIFI (d)	MAIFIe (e)	CEMI5 (f)
N.W. Florida	95.68	49.26	1.94	N/A	N/A
N.E. Florida	60.04	102.48	0.59	N/A	N/A
System Averages	76.64	62.94	1.22	N/A	N/A

PSC/ECR 102-3 (11/2002)

ANNUAL DISTRIBUTION RELIABILITY REPORT 2002
Attachment 1 CALULATIONS

	Northeast Division		Northwest Division		FPUC	
SAIDI = System Average Interruption Duration Index						
= Sum of All Customer Minutes Interrupted (CMI) / Total number of Customers Served (C)	840,609 / 14,000	= 60.04	1,167,161 / 12,198	= 95.68	2,007,770 / 26,198	= 76.64
CAIDI = Customer Average Interruption Duration Index						
= Sum of All Customer Minutes Interrupted (CMI) / Total number of Customers Interruptions (CI)	840,609 / 8,203	= 102.48	1,167,161 / 23,695	= 49.26	2,007,770 / 31,898	= 62.94
SAIFI = System Average Interruption Frequency Index						
= Total number of Customers Interruptions (CI) / Total number of Customers Served (C)	8,203 / 14,000	= 0.59	23,695 / 12,198	= 1.94	31,898 / 26,198	= 1.22

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Florida Public Utilities Company.	DOCKET NO. 030438-EI FILED: January 9, 2004

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Direct Testimony of Ruth K. Young was furnished to **Norman H. Horton, Jr.**, Messer, Caparello & Self, P.A., P.O. Box 1876, Tallahassee, Florida 32302-1876, and **Stephen C. Burgess, Esquire**, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400, by U.S. Mail, on this 9th day of January, 2004.

JENNIFER BRUBAKER, STAFF COUNSEL

FLORIDA PUBLIC SERVICE COMMISSION
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