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January 23, 2004

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

RE: Docket No. 030438-EI

Dear Ms. Bayó:

Enclosed are an original and fifteen copies of Citizens' Prehearing Statement for filing in the above-referenced docket.

Also enclosed is a 3.5 inch diskette containing Citizens' Prehearing Statement in WordPerfect for Windows 6.1. Please indicate receipt of filing by date-stamping the attached copy of this letter and returning it to this office. Thank you for your assistance in this matter.

Sincerely,

Stephen C. Burgess
Deputy Public Counsel

SCB/dsb
Enclosures

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Florida Public Utilities Company.
_______________________________/

DOCKET NO. 030438-EI
FILED: January 23, 2004

CITIZENS' PREHEARING STATEMENT

The Citizens of the State of Florida, through their attorney, the Public Counsel, hereby file this Prehearing Statement for the above-referenced docket.

APPEARANCES:

STEPHEN C. BURGESS, ESQUIRE
Deputy Public Counsel
Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street, Room 812
Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida

A. WITNESSES:

The Citizens intend to call the following witnesses, who will testify on the respective subject matter:

Hugh Larkin, Jr.,	-	Accounting.
Donna DeRonne	-	Accounting.
Mark Cicchetti	-	Cost of capital.

B EXHIBITS:

Hugh Larkin, Jr.	-	2 schedules on working capital and common plant allocation.
Donna DeRonne	-	16 schedules on various accounting issues.
Mark Cicchetti	-	9 schedules on cost of capital.

C. STATEMENT OF BASIC POSITION

FPUC's rate filing contains a number of errors, resulting in a substantial overstatement of its revenue needs.

D. E. F. FACTUAL/POLICY/LEGAL ISSUES

The Citizens are not aware of any purely legal or purely policy issues to be resolved in this case. The following issues are in dispute. While primarily factual, some of the issues may encompass elements that could be considered as policy or legal in nature.

CONSOLIDATION

ISSUE 1: Is it appropriate for FPUC to consolidate the rates and charges of its Northeast and Northwest Electric Divisions into a single Electric Division for ratemaking purposes?

POSITION: No position.

WATER DIVISION SALE

ISSUE 2: Are the Company's adjustments for discontinued operations appropriate?

POSITION: No. For both expenses and working capital, FPUC increased the portion allocated to electric operations, but has not reduced the overall total. This assumes that none of these accounts were affected by the discontinuation of water operations. This is an illogical conclusion. (Larkin)

ISSUE 3: Should the level of Corporate Costs before allocation be reduced for reduced costs following the sale of the water system?

POSITION: Yes. The water operations obviously contributed to the overall level of corporate costs. It is reasonable to assume that the level of contributed costs approximately equaled their allocated share. Either the Corporate Costs should be reduced by that amount, or the previous allocation factors should be used. This applies to working capital accounts, as well as expenses. (Larkin)

ISSUE 4: How should the gain from the sale of the water system land and water system be accounted for in the ratemaking process?

POSITION: No position at this time.

TEST PERIOD

ISSUE 5: Is FPUC's projected test period of the 12 months ending December 31, 2004 appropriate?

POSITION: No position.

ISSUE 6: Are FPUC's forecasts of Customers, KWH, and KW by Rate Class, for the December 2004 projected test year appropriate?

POSITION: No. FPUC has underestimated the 2004 customer and usage levels. (DeRonne)

QUALITY OF SERVICE

ISSUE 7: Is the quality of electric service provided by FPUC adequate?

POSITION: No position at this time.

RATE BASE

ISSUE 8: Has the Company removed all non-utility activities from rate base?

POSITION: No. As identified in several specific issues, non-electric activities should be removed from rate base.

ISSUE 9: Is FPUC's requested level of Plant in Service in the amount of $65,687,844 for the December 2004 projected test year appropriate?

POSITION: This is a fall-out number, dependent on the outcome on several specific issues to be considered by the Commission.

ISSUE 10: Is FPUC's requested level of Common Plant Allocated in the amount of $1,721,031 for the December 2004 projected test year appropriate?

POSITION: No. It is overstated.

ISSUE 11: Should an adjustment be made for Plant Retirements for the projected test year?

POSITION: No position at this time.

ISSUE 12: Should an adjustment be made to Plant, Accumulated Depreciation, and Depreciation Expense for canceled and delayed projects for the projected test year?

POSITION: Yes. Adjustments should be made pursuant to Staff Audit exceptions 1-4. (Larkin)

ISSUE 13: Is it appropriate for FPUC to use an average depreciation rate for the combined Marianna and Fernandina Beach total plant balances for 2002 and 2003? If not, what are the appropriate adjustments to depreciation expense and accumulated depreciation?

POSITION: No position at this time.

ISSUE 14: Is FPUC's requested level of accumulated depreciation for Plant in Service in the amount of $27,672,116 for the December 2004 projected test year appropriate?

POSITION: No.

ISSUE 15: Is FPUC's requested level of accumulated depreciation for Common Plant Allocated in the amount of $455,192 for the December 2004 projected test year appropriate?

POSITION: No position at this time.

ISSUE 16: Is FPUC's requested level of Customer Advances for Construction in the amount of $621,462 for the December 2004 projected test year appropriate?

POSITION: No position at this time.

ISSUE 17: Is FPUC's requested level of Construction Work in Progress in the amount of $620,769 for the December 2004 projected test year appropriate?

POSITION: No position at this time.

ISSUE 18: Should an adjustment be made to prepaid pension expense in the calculation of working capital?

POSITION: A balance in this prepayment develops when the current value of past contributions (made by ratepayers through their rates) to the pension trust fund exceeds the net periodic pension cost. This can result from a number of variables (e.g., higher actual trust earnings than had been projected), but it is never from actual cash advances required of FPUC's investors.

The purpose of including working capital in rate base is to allow the investors to obtain a return on the money that they were required to advance, in order to rune the operations. Since prepaid pensions do not represent dollars that were advanced by investors, they should not be included in working capital. (Larkin)

ISSUE 19: Should an adjustment be made to rate base for unfunded Other Post-retirement Employee Benefit (OPEB) liability?

POSITION: No position at this time.

ISSUE 20: Has the Company used an appropriate methodology for projecting its 2004 cash working capital needs? (OPC)

POSITION: No. In FPUC's last rate case, the Commission used a five-year historical average to set the cash working capital level. For this filing FPUC rejected the Commission method and relied exclusively on 2002 actual level for the starting point of the 2004 projections. While the 2002 level was $761,824, the average of the most recent five years (1998-2002) is $29,031. The 2002 is obviously an extreme anomaly and not reflective of normal operations. The five-year average levels out anomalies and should be used as the beginning point for the 2004 projection. (Larkin)

ISSUE 21: Does the Company's 2004 working capital projection properly allocate for the discontinuation of water operations? (OPC)

POSITION: No. In 2002, FPUC engaged in water operations that have since been discontinued. To account for this discontinuation of water services, FPUC increased the allocation factor for electric operations from 37% to 39%, but did not adjust any of the cash balances to reflect the discontinuation. This method assumes that the cash needs of

FPUC would remain the same, even after discontinuing water operations. It is logical that some of the cash needs were a result of the water operations and an adjustment should be made. The allocation factor should remain at 37% on the assumption that the cash balances that had been allocated to the water operations will be removed from FPUC's overall cash needs. (Larkin)

ISSUE 22: Is the Company's inclusion of Special Deposits (Acct. 1340.1) in working capital appropriate? (OPC)

POSITION: No. Special Deposits (Account 1340.1) did not have any balance at all in any month in 2002, but in December, 2001, it had a balance of $541,088. By reaching back into 2001, the thirteen-month average for 2002 becomes $41,622 for an account that was zero for the entire year. It has also been zero for every month available through 2003. Nevertheless, the $41,622 was escalated and included in the working capital projection for 2004. In discovery, FPUC has agreed that the $541,088 should not have been in the account in December, 2001. FPUC's working capital should be reduced to remove this balance. (Larkin)

ISSUE 23: Should the Project Fund-Restricted (Acct: 1340.3) balance be removed from the calculation of working capital? (OPC)

POSITION: Yes. This account (1340.3) had no balance at all from 1998 through October, 2001. In November, 2001, a balance appeared for Palm Beach County Industrial Development Bonds that were spent on specific projects. As the funds were spent, the account declined monthly until it had a negative balance at December, 2002. It has had a zero balance throughout 2003. Because this is specific to Palm Beach County and had its only balance in 2002, this should be removed from the 2004 projection. (Larkin)

ISSUE 24: Should the balance in Accounts 1310.4 through 1310.44 be removed from the calculation of working capital? (OPC)

POSITION: No. FPUC's allocation factor is based on the total revenue ratio. Because most of these insurance premiums are tied to liability policies and workers compensation, a more appropriate allocation factor would be payroll ratio. The proper payroll allocation factor for electric operations is 31%. (Larkin)

ISSUE 25: Should the cash account balance increase that was attributable to the sale of the water operations be removed from the working capital calculation? (OPC)

POSITION: Yes. Because this balance pertained to the sale of the water operations, it should be removed. (Larkin)

ISSUE 26: Has the Company properly escalated the balances for customer accounts receivable? (OPC)

POSITION: No. A balance in this prepayment develops when the current value of past contributions (made by ratepayers through their rates) to the pension trust fund exceeds the net periodic pension cost. This can result from a number of variables (e.g., higher actual trust earnings than had been projected), but it is never from actual cash advances required of FPUC's investors. (Larkin)

ISSUE 27: Has the Company properly estimated its accumulated provision for uncollectibles? (OPC)

POSITION: No. The ratio of uncollectibles to customer accounts receivable should be based on the average of those ratios for 2001 and 2002. (Larkin)

ISSUE 28: Is the balance for prepaid insurance which is allocated to the electric operations based on an appropriate allocation methodology? (OPC)

POSITION: No. FPUC's allocation factor is based on the total revenue ratio. Because most of these insurance premiums are tied to liability policies and workers compensation, a more appropriate allocation factor would be payroll ratio. The proper payroll allocation factor for electric operations is 31%. (Larkin)

ISSUE 29: Does the balance for prepaid insurance which is allocated to the electric operations properly reflect the discontinuation of the water operations? (OPC)

POSITION: No. Like the cash accounts, FPUC has reflected the discontinuation of water operations by increasing the allocation factor (from 37% to 39%) without decreasing the total prepayment. Contrary to FPUC's assumption, some reduction will result from discontinuing water operations. (Larkin)

ISSUE 30: Does the balance in prepaid pension cost represent an investment that has been made by FPU's investors? (OPC)

POSITION: No. A balance in this prepayment develops when the current value of past contributions (made by ratepayers through their rates) to the pension trust fund exceeds the net periodic pension cost. This can result from a number of variables (e.g., higher actual trust earnings than had been projected), but it is never from actual cash advances required of FPUC's investors. (Larkin)

ISSUE 31: Should the balance in prepaid pension costs be removed from the working capital calculation? (OPC)

POSITION: Yes. The purpose of including working capital in rate base is to allow the investors to obtain a return on the money that they were required to advance, in order to run the operations. Since prepaid pensions do not represent dollars that were advanced by investors, they should not be included in working capital. (Larkin)

ISSUE 32: Has the Company properly escalated the balance for unbilled revenue? (OPC)

POSITION: No. The actual 2002 unbilled revenue should be escalated by the kilowatt hour growth projected for 2004. (Larkin)

ISSUE 33: Should the "Reimbursable Hurricane Assistance Entergy Louisiana" receivables be removed from the working capital calculation? (OPC)

POSITION: Yes. FPUC sent crews to Louisiana to assist Entergy in line restoration following a hurricane. All costs incurred (including the carrying costs) should be charged to Entergy. These costs should not be borne by Florida ratepayers. (Larkin)

ISSUE 34: Should the deferred debit for the Fernandina Office Addition be removed from the working capital calculation? (OPC)

POSITION: Yes. This account had a balance of $22,870 as of December, 2002. It is being amortized at a rate of about $22,000 per year, so it will be fully amortized before the projected test year starts. Rather than take the historical balance and escalate it for 2004, the amount should be removed from the working capital projection. (Larkin)

ISSUE 35: Is the Company's target level for its storm damage reserve based on a reasonable methodology? (OPC)

POSITION: OPC would drop this and include under issue on expense.

ISSUE 36: Has the Company properly estimated the amount of storm damage reserve that will be available for 2004? (OPC)

POSITION: No. While FPUC has proposed to increase the accrual from $121,625 to $225,000, it nevertheless projects a significant decrease in the reserve from 2002 to 2004. Even at the lower accrual of $121,625, the losses exceeded the accrual in only one year between 1990 and 2003. Accordingly, the reserve has steadily grown over the last decade. Against that backdrop, the projection of a decline in the reserve with a much larger accrual is illogical. The reserve should be set at the September, 2003 level of $2,170,246. (Larkin)

ISSUE 37: Is the Company's re-allocation of working capital (resulting from the discontinuation of water operations) based on a reasonable methodology? (OPC)

POSITION: No. Just as with the cash accounts, the other current assets and liabilities should be assumed to decline with the sale of the water operations. (Larkin)

ISSUE 38: Is the Company's working capital treatment of over and under recovery of fuel and conservation costs appropriate? (OPC)

POSITION: No. The longstanding policy and practice of the Commission should be applied to FPUC, just as it has been applied to electric utilities for many years. (Larkin)

ISSUE 39: Should cash be reduced to reflect the lower of the 13-month average test year balance or the average of the prior five years? (AD#4)

POSITION: No. The accumulated deferred taxes in FPUC's filing do not include any amount for the deferred taxes generated on common plant that should have been allocated to electric operations. The deferred tax balance should be increased by $90,477. (DeRonne)

ISSUE 40: Should Account 1430, Other Accounts Receivable, be reduced to exclude loans to employees? (AE#5)

POSITION: Yes.

ISSUE 41: Should Account 1430, Other Accounts Receivable, be reduced to remove the portion related to non-electric operations? (AE#6)

POSITION: Yes.

ISSUE 42: Should Unamortized Rate Case Expense be excluded from working capital allowance? (AD#3)

POSITION: No position at this time.

ISSUE 43: Should Accounts Payable be increased to correct a posting error? (AE#8)

POSITION: No position at this time.

ISSUE 44: Should Accounts Payable be increased to reflect the elimination of the water division? (AE#8)

POSITION: Yes.

ISSUE 45: Should Taxes Accrued - Gross Receipts Tax be reduced to remove the portion related to non-electric operations? (AE#7)

POSITION: Yes.

ISSUE 46: Is FPUC's requested level of Working Capital in the amount of $559,995 for the December 2004 projected test year appropriate?

POSITION: This is a fall-out number, dependent on the outcome on several specific issues to be considered by the Commission.

ISSUE 47: Is FPUC's requested rate base in the amount of $39,840,869 for the December 2004 projected test year appropriate?

POSITION: No. It is overstated. At this point, OPC is recommending adjustments reducing rate base to $34,741,040. (Larkin)

COST OF CAPITAL

ISSUE 48: What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

POSITION: OPC has recommended specific adjustments to increase the accumulated deferred taxes. The final balance depends on the outcome of those and other issues. At this point, OPC is recommending adjustments that would establish deferred taxes at $4,488,144. (DeRonne)

ISSUE 49: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure?

POSITION: At this point the Citizens are recommending a balance of $2,013 in unamortized tax credits at zero cost, and a balance of $180,701 in unamortized tax credits at an overall cost rate of 8.41%. (DeRonne)

ISSUE 50: Have rate base and capital structure been reconciled appropriately?

POSITION: No.

ISSUE 51: What is the appropriate cost rate for short-term debt for the December 2004 projected test year?

POSITION: 3.21%

ISSUE 52: What is the appropriate cost rate for long-term debt for the December 2004 projected test year?

POSITION: 7.87%.

ISSUE 53: Is the Company's 2004 projection for stock issuance expense appropriate? (OPC)

POSITION: No. FPUC's 2002 test year included a $48,657 expense for a stock equity issuance that was planned, but never actually issued. This amount was escalated and projected into the 2004 expenses. This is not an annual recurring expense, and no stock was actually issued. The escalated amount ($52,160) should be removed from the 2004 test year.

ISSUE 54: Does the Company's 2004 projected capital structure properly account for the Job Creation and Work Assistance Act of 2002? (Staff's issue 17 addresses, accumulated deferred taxes, but each of OPC's 3 capital structure issues are distinct) (OPC)

POSITION: No. In March, 2002, the Job Creation and Work Assistance Act of 2002 was enacted. That Act allows a first-year depreciation bonus of 30% of qualified property's adjusted basis. This will have a substantial effect on the tax depreciation for all qualified property. FPUC's projections did not consider the effects of this tax law in computing its accumulated deferred tax balance.

ISSUE 55: Does the Company's 2004 projected capital structure properly account for the Jobs and Growth Tax Relief Reconciliation Act of 2003? (OPC)

POSITION: No. In 2003, the Jobs and Growth Tax Relief Reconciliation Act was enacted. This law increased the first year bonus depreciation from 30% to 50% of the adjusted basis of qualified property. FPUC did not consider this law in its accumulated deferred tax balance. To reflect the effect of the 2002 and the 2003 law, FPUC's accumulated taxes should be increased by $1,671,792 to reflect the impact on additions directly tied to electric operations and increased by $51,611 for the impact on common plant additions allocated to electric operations. (DeRonne)

ISSUE 56: Does the Company's 2004 projected capital structure reflect deferred taxes resulting from common plant? (OPC)

POSITION: No. The accumulated deferred taxes in FPUC's filing do not include any amount for the deferred taxes generated on common plant that should have been allocated to electric operations. The deferred tax balance should be increased by $90,477. (DeRonne)

ISSUE 57: Is FPUC's proposed equity ratio reasonable for the December 2004 projected test year?

POSITION: No position at this time.

ISSUE 58: In setting FPUC's return on equity (ROE) for use in establishing FPUC's revenue requirements and FPUC's authorized range, should the Commission make an adjustment to reflect FPUC's performance?

POSITION: No.

ISSUE 59: What is the appropriate cost rate for common equity for the December 2004 projected test year?

POSITION: The proper cost rate is 9.00%.

ISSUE 60: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure?

POSITION: At this point, the Citizens recommend the capital structure presented in Schedule D-1 of the exhibits sponsored by Donna DeRonne. (DeRonne)

NET OPERATING INCOME

ISSUE 61: Has the Company properly estimated the amount of forfeited discounts in calculating the revenue for 2004? (OPC)

POSITION: No. FPUC projected its 2004 forfeited discounts based on its expectation of 2003. As it turns out, however, FPUC substantially underestimated the amount of revenue it garnered through these forfeitures in 2003. Based on actual numbers, the 2003 forfeitures will be in the range of $354,000. Applying the escalation factor, the 2004 forfeited discounts should be set at $358,956, rather than the $255,104 projected by FPUC. (Larkin)

ISSUE 62: Should Revenues be increased for forfeited discounts? (AD#7)

POSITION: Yes. The projected 2004 forfeited revenues should be increased by $103,852. (Larkin)

ISSUE 63: Is FPUC's projected level of Total Operating Revenues in the amount of $14,491,924 for the December 2004 projected test year appropriate?

POSITION: No. At this point OPC recommends a projected 2004 revenue of $14,718,713.

ISSUE 64: What are the appropriate inflation factors for use in forecasting the test year budget?

POSITION: At this point, OPC has not taken issue with the inflation factor used by FPUC.

ISSUE 65: Are the trend rates used by FPUC to calculate projected O&M expenses appropriate?

POSITION: Not in every case. OPC has recommended several expense adjustments that could be described as related to the trend rates.

ISSUE 66: Should an adjustment be made to remove Franchise Fees from operating revenues and taxes other than income?

POSITION: Yes.

ISSUE 67: Should an adjustment be made to remove the gross receipts tax from operating revenues and taxes other than income?

POSITION: Yes.

ISSUE 68: Is FPUC's requested level of O&M Expense in the amount of $7,684,194 for the December 2004 projected test year appropriate?

POSITION: This is a fall-out number, dependent on the outcome on several specific issues to be considered by the Commission.

ISSUE 69: Has FPUC made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Adjustment Clause?

POSITION: No. The longstanding policy and practice of the Commission should be applied to FPUC, just as it has been applied to electric utilities for many years. (Larkin)

ISSUE 70: Has FPUC made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Conservation Cost Recovery Clause?

POSITION: No position at this time.

ISSUE 71: Should an adjustment be made to advertising expenses for the December 2004 projected test year?

POSITION: No position at this time.

ISSUE 72: Has FPUC made the appropriate adjustments to remove lobbying expenses from the December 2004 projected test year?

POSITION: No position at this time.

ISSUE 73: Should an adjustment be made to FPUC's requested level of Salaries and Employee Benefits for the December 2004 projected test year?

POSITION: Yes.

ISSUE 74: Has the Company's 2004 projections double counted for costs for retiree medical benefits? (OPC)

POSITION: Yes. Retiree medical costs have been included on an accrual basis in Account 926.3 (post retirement benefits), and the same costs have also been included in Account 926.2 (employee medical expense) on a pay-as-you-go basis. The Commission should remove this double charge by reducing the projected 2004 expense in Account 926.2 by $20,386. (DeRonne)

ISSUE 75: Is the Company's 2004 projection for medical expense appropriate? (OPC)

POSITION: No. Account 926.2 (employee medical expense) had an actual expense balance of $256,801 for historic test year 2002. FPUC projects a 2004 balance of $431,346, or a 68% increase. The most recent actual data indicates that the projection is excessive. Consistent with PSC Staff Audit Exception 17, the expense should be reduced by $122,164. (DeRonne)

ISSUE 76: Should an adjustment be made to Other Post Employment Benefits Expense for the December 2004 projected test year?

POSITION: Yes. Retiree medical costs have been included on an accrual basis in Account 926.3 (post retirement benefits), and the same costs have also been included in Account 926.2 (employee medical expense) on a pay-as-you-go basis. The Commission should remove this double charge by reducing the projected 2004 expense in Account 926.2 by $20,386. (DeRonne)

ISSUE 77: Should an adjustment be made to Pension Expense for the December 2004 projected test year?

POSITION: No position at this time.

ISSUE 78: Should an adjustment be made to the accrual for property damage for the December 2004 projected test year?

POSITION: Yes. FPUC has applied the results of Gulf Power Company's study to its territory, and assumed a worst case scenario for Marianna and Fernandina Beach. There are several errors with this approach: (1) Fernandina and Marianna are not even nearly contiguous, so a worst case storm would not hit both areas simultaneously; (2) Marianna's population is much farther removed from the coast than the bulk of Gulf Power's population; and (3) Fernandina's area has the lowest incidence of hurricane strikes in Florida, so the Gulf Power study has no application.

ISSUE 79: Is the Company's 2004 projection for Insurance costs appropriate? (OPC)

POSITION: No. Consistent with Staff Audit Exception 17, the projected test year expense should be reduced by $203,978 to reflect a more realistic expectation. (DeRonne)

ISSUE 80: Should an adjustment be made to the accrual for the Injuries & Damages reserve for the December 2004 projected test year?

POSITION: No position at this time.

ISSUE 81: Is the Company's 2004 projection for payroll outsourcing costs appropriate? (OPC)

POSITION: No. FPUC projected the full amount of these outsourcing costs for 2003 and escalated a projection for 2004. At this point, however, no costs have been incurred, there is no contract with ADP (the provider), and FPUC does not know when an agreement will be entered into. FPUC is still processing its payroll internally and no reduction is reflected for the internal cost savings that should result from outsourcing. The $14,000 projected for 2004 as the portion allocated to electric operations should be removed. (DeRonne)

ISSUE 82: Is the Company's 2004 projection for tree-trimming expense appropriate? (OPC)

POSITION: No. Originally, FPUC projected an increase of $160,000 which represented the cost of 1 1/2 additional crews. FPUC now believes that one additional crew will be sufficient. A reduction of $53,333 to Account 593.2 will reflect this adjusted projection. (DeRonne)

ISSUE 83: Is the Company's 2004 projection for tax consulting expense appropriate? (OPC)

POSITION: No. During 2002, FPUC incurred actual costs of $2,500 (total company) for tax accounting services. FPUC projected an increase to $77,000 for 2003 and $84,000 in 2004, purportedly caused by outsourcing more tax work. There are at least 3 reasons to adjust the projections: (1) FPUC was unable to provide support for $14,000 of the increase; (2) the portion of this fee attributable to the property tax audit is to be calculated as 1/2 of the property tax savings, but none of the savings is reflected; and (3) the internal costs do not reflect a commensurate reduction to reflect the internal savings resulting from outsourcing. (DeRonne)

ISSUE 84: Is the Company's 2004 projection for the expense associated with Regulus Billing Service appropriate? (Audit Exception 10) (OPC)

POSITION: No. As the PSC Staff Audit Exception 10 points out, the actual have declined substantially since the historic test year (2002). The PSC should adopt the recommended audit adjustment of $39,080. (DeRonne)

ISSUE 85: Should the Company be allowed to charge its customers for the projected economic development donations? (OPC)

POSITION: No. For 2002, FPUC's actual donations for economic development were $10,000. For 2004, FPUC has projected $22,641 an increase of 126%. This projection included $5,000 to Opportunity Florida and another $5,000 to Enterprise Jackson County, with the entire company-wide donation being allocated exclusively to electric operations. As an additional example, FPUC projects to donate $15,000 to Florida's Great Northwest. These types of expenses should not be borne by FPUC's customers, whose rates should only reflect the cost of providing electric service (DeRonne)

ISSUE 86: Is the amount projected for 2004 economic development donations reasonable? (OPC)

POSITION: No. The amount projected is 126% higher than that which FPUC chose to donate in 2002. Even if the Commission allows economic development costs, it should limit the amount to an escalated 2002 level.

ISSUE 87: Is the level of accounting and auditing expenses for the December 2004 projected test year appropriate?

POSITION: No. During 2002, FPUC incurred actual costs of $2,500 (total company) for tax accounting services. FPUC projected an increase to $77,000 for 2003 and $84,000 in 2004, purportedly caused by outsourcing more tax work. There are at least 3 reasons to adjust the projections: (1) FPUC was unable to provide support for $14,000 of the increase; (2) the portion of this fee attributable to the property tax audit is to be calculated as 1/2 of the property tax savings, but none of the savings is reflected; and (3) the internal costs do not reflect a commensurate reduction to reflect the internal savings resulting from outsourcing. (DeRonne)

ISSUE 88: Is the level of overhead cost allocations for the 2004 projected test year appropriate?

POSITION: No. In 2002, FPUC engaged in water operations that have since been discontinued. To account for this discontinuation of water services, FPUC increased the allocation factor for electric operations from 37% to 39%, but did not adjust any of the cash expenses to reflect the discontinuation. This method assumes that the expenses of FPUC would remain the same, even after discontinuing water operations. It is logical that some of the expenses were a result of the water operations and an adjustment should be made. The allocation factor should remain at 37% on the assumption that the expenses that had been allocated to the water operations will be removed from FPUC's overall expenses. (DeRonne)

ISSUE 89: Is the level of plant maintenance expenses for the 2004 projected test year appropriate?

POSITION: No position at this time.

ISSUE 90: Should Account 588.1, Distribution Maps & Records, be reduced for the salary of an engineering technician? (AD#8)

POSITION: Yes.

ISSUE 91: Should Account 588.2, Other Distribution Office Supplies, be reduced for the portion of an employee's salary related to work on a new relay protection system? (AD#8)

POSITION: Yes.

ISSUE 92: Should Account 590.0, Maintenance Supervision and Engineering, be reduced for the transformer maintenance contract? (AD#8)

POSITION: Yes.

ISSUE 93: Should Account 920, Administrative and General Salaries, be reduced to reflect the hiring of a replacement person at the advertised low range of the salary? (AD#9)

POSITION: Yes.

ISSUE 94: Should payroll expense be adjusted for discontinued operations? (AD#10)

POSITION: Yes.

ISSUE 95: Should Account 903, Customer Records and Collection Expenses, be reduced to reflect a change in vendor cost for the printing and mailing of company bills? (AE#10)

POSITION: Yes. During 2002, FPUC incurred actual costs of $2,500 (total company) for tax accounting services. FPUC projected an increase to $77,000 for 2003 and $84,000 in 2004, purportedly caused by outsourcing more tax work. There are at least 3 reasons to adjust the projections: (1) FPUC was unable to provide support for $14,000 of the increase; (2) the portion of this fee attributable to the property tax audit is to be calculated as 1/2 of the property tax savings, but none of the savings is reflected; and (3) the internal costs do not reflect a commensurate reduction to reflect the internal savings resulting from outsourcing. (DeRonne)

ISSUE 96: Should Account 903, Customer Records and Collection Expenses, be reduced to remove costs related to propane, merchandising and jobbing, and conservation? (AE#11)

POSITION: Yes. The Home and Health Store is used for propane, merchandising and jobbing, and conservation related programs (see Audit Exception 11). The projected 2004 expense should be reduced by $8,703. (DeRonne)

ISSUE 97: Is the Company's 2004 projection for leasehold improvements for its Home and Health store appropriate? (AE#11) (OPC)

POSITION: No. The Home and Health Store is used for propane, merchandising and jobbing, and conservation related programs (see Audit Exception 11). The projected 2004 expense should be reduced by $8,703. (DeRonne)

ISSUE 98: Should Account 903, Customer Records and Collection Expenses, be increased for payroll related to discontinued operations that was charged to Account 904? (AE#12)

POSITION: No position at this time.

ISSUE 99: Should Account 920, Administrative and General Salaries, be reduced to correct the allocation factor? (AE#13)

POSITION: Yes.

ISSUE 100: Should Account 921.5, Miscellaneous Office Expense, be reduced for costs related to temporary staff? (AD#11)

POSITION: Yes.

ISSUE 101: Should Account 921.5, Miscellaneous Office Expense, be reduced to remove the uncollected franchise fees? (AE#14)

POSITION: Yes.

ISSUE 102: Should Account 921.5, Miscellaneous Office Expense, be reduced to remove non-utility and out-of-period costs? (AE#15)

POSITION: Yes.

ISSUE 103: Should Account 921.3, Office Computers and Supplies, be reduced to remove non-recurring training costs? (AE#15)

POSITION: Yes.

ISSUE 104: Should Account 921.6, Company Training Expense, be reduced to remove non-recurring training costs? (AE#15)

POSITION: Yes.

ISSUE 105: Should Account 923.2, Legal Fees and Expenses, be reduced to remove bond issuance costs? (AE#15)

POSITION: Yes.

ISSUE 106: Should Account 923.3, Outside Audit and Accounting, be reduced certain tax-related accounting fees? (AE#16)

POSITION: Yes. During 2002, FPUC incurred actual costs of $2,500 (total company) for tax accounting services. FPUC projected an increase to $77,000 for 2003 and $84,000 in 2004, purportedly caused by outsourcing more tax work. There are at least 3 reasons to adjust the projections: (1) FPUC was unable to provide support for $14,000 of the increase; (2) the portion of this fee attributable to the property tax audit is to be calculated as 1/2 of the property tax savings, but none of the savings is reflected; and (3) the internal costs do not reflect a commensurate reduction to reflect the internal savings resulting from outsourcing. (DeRonne)

ISSUE 107: Should Account 924, Property Insurance, be reduced to reflect the current property insurance premium? (AE#17)

POSITION: Yes. Consistent with Staff Audit Exception 17, the projected test year expense should be reduced to reflect a more realistic expectation. (DeRonne)

ISSUE 108: Should Account 925.1, Injuries and Damages, be reduced to reflect current insurance premiums? (AE#17)

POSITION: Yes. Consistent with Staff Audit Exception 17, the projected test year expense should be reduced to reflect a more realistic expectation. (DeRonne)

ISSUE 109: Should Account 926.2, Employee Benefits - Other, be reduced to reflect the current medical insurance premium? (AE#17)

POSITION: Yes. Consistent with Staff Audit Exception 17, the projected test year expense should be reduced to reflect a more realistic expectation. (DeRonne)

ISSUE 110: Should Account 930.2, Miscellaneous General Expense, be reduced for costs related to a non-recurring Security Exchange Commission fee? (AE#15)

POSITION: Yes.

ISSUE 111: Should Account 930.2, Miscellaneous General Expenses, be reduced for the write-off of stock offering costs? (AE#18)

POSITION: Yes. FPUC's 2002 test year included a $48,657 expense for a stock equity issuance that was planned, but never actually issued. This amount was escalated and projected into the 2004 expenses. This is not an annual recurring expense, and no stock was actually issued. In addition, FPUC's current equity position is very strong, so no additional equity should be needed anytime soon. The escalated amount ($52,160) should be removed from the 2004 test year.

ISSUE 112: Should an adjustment be made to Rate Case Expense for the December 2004 projected test year?

POSITION: Yes.

ISSUE 113: What is an appropriate period for the amortization of rate case expense? (OPC)

POSITION: Five years. The last rate case was ten years ago for the Marianna division and over fourteen years ago for the Fernandina Beach division. FPUC's four-year request is not a realistic period. It should be extended by at least one year. (DeRonne)

ISSUE 114: Should an adjustment be made to Account 904, Uncollectible Accounts, for the 2004 projected test year? (AE#12)

POSITION: Yes.

ISSUE 115: What adjustments, if any, should be made to the depreciation expense to reflect the Commission's decision in Docket No. 020853-EI?

POSITION: No position at this time.

ISSUE 116: Should an adjustment be made to Depreciation Expense for the December 2004 projected test year?

POSITION: No position at this time.

ISSUE 117: Should the total amount of Gross Receipts tax be removed from base rates and shown as a separate line item on the bill?

POSITION: No position.

ISSUE 118: Should an adjustment be made to Taxes Other Than Income Taxes for the December 2004 projected test year?

POSITION: No position at this time.

ISSUE 119: Should an adjustment be made to Income Tax expense for the December 2004 projected test year?

POSITION: No position at this time.

ISSUE 120: Is FPUC's projected Net Operating Income in the amount of $1,088,574 for the December 2004 projected test year appropriate?

POSITION: This is a fall-out number, dependent on the outcome on several specific issues to be considered by the Commission.

REVENUE REQUIREMENTS

ISSUE 121: What is the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for FPUC?

POSITION: No position at this time..

ISSUE 122: Is FPUC's requested annual operating revenue increase of $4,117,121 for the December 2004 projected test year appropriate?

POSITION: No.

COST OF SERVICE AND RATE DESIGN

ISSUE 123: Are FPUC's estimated revenues from sales of electricity by rate class at present rates for the projected 2004 test year appropriate?

POSITION: OPC believes the sales projection is understated.

ISSUE 124: What is the appropriate cost of service methodology to be used in designing FPUC's rates?

POSITION: No position.

ISSUE 125: If a revenue increase is granted, how should it be allocated among the rate classes?

POSITION: No position.

ISSUE 126: What are the appropriate customer charges?

POSITION: No position.

ISSUE 127: What are the appropriate demand charges?

POSITION: No position.

ISSUE 128: What are the appropriate energy charges?

POSITION: No position.

ISSUE 129: What are the appropriate service charges?

POSITION: No position.

ISSUE 130: What are the appropriate transformer ownership discounts?

POSITION: No position.

ISSUE 131: What are the appropriate Street and Outdoor Lighting rates?

POSITION: No position.

ISSUE 132: Should FPUC's transitional rate for non-profit sports fields be eliminated?

POSITION: No position.

ISSUE 133: What are the appropriate standby service rates?

POSITION: No position.

ISSUE 134: What is the appropriate adjustment to account for the increase in unbilled revenues due to the recommended rate increase?

POSITION: No position.

ISSUE 135: What is the appropriate effective date for FPUC's revised rates and charges?

POSITION: No position.

OTHER ISSUES

ISSUE 136: Should FPUC be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?

POSITION: Yes.

ISSUE 137: Should this docket be closed?

POSITION: Not yet.

G. STIPULATED ISSUES: None.

H. PENDING MOTIONS: None.

I. PENDING REQUESTS FOR CONFIDENTIALITY: None.

J. STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE:

The Citizens are not aware of any requirements of the Order Establishing Procedure with which the Office of Public Counsel cannot comply.

K. OBJECTIONS TO WITNESS QUALIFICATIONS:

The Office of Public Counsel does not object to any of the prefiled testimony on the grounds of witness qualifications to render opinion testimony.

Respectfully submitted,

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CERTIFICATE OF SERVICE
DOCKET NO. 030438-EI

I HEREBY CERTIFY that a true and exact copy of the above and foregoing Citizen's Prehearing Statement has been furnished by hand delivery* or U.S. Mail to the following parties of record this 23rd day of January, 2004.

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