

REBUTTAL TESTIMONY

GEORGE BACHMAN  
CHERYL MARTIN  
P. MARK CUTSHAW  
MEHRDAD KHOJASTEH  
JIM MESITE, JR

TO

DIRECT TESTIMONY OF HUGH LARKIN

DOCKET NO. 030438-EI:

Petition of Florida Public Utilities Company For An Increase In its Rates and Charges In  
Their Consolidated Electric Division

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1 **INTRODUCTION**

2 **Q What is your name, title, and business address?**

3 A. Witness Bachman. My name is George Bachman. I am the Chief Financial  
4 Officer, Treasurer, and Corporate Secretary of Florida Public Utilities Company.  
5 My business address is 401 South Dixie Highway, West Palm Beach, Florida,  
6 33401.

7 Witness Martin. My name is Cheryl Martin. I am the Controller for Florida  
8 Public Utilities (FPU). My business address is 401 South Dixie Highway, West  
9 Palm Beach, Florida, 33401.

10 Witness Cutshaw. My name is P. Mark Cutshaw. I am the Director, Northwest  
11 Florida for Florida Public Utilities (FPU). My business address is 2825  
12 Pennsylvania Avenue, Marianna, Florida 32447.

13 Witness Khojasteh. My name is Mehrdad Khojasteh. I am the Corporate  
14 Accounting Supervisor for FPU, a position I have held since June 2003. My  
15 business address is 401 South Dixie Highway, West Palm Beach, Florida, 33401.

16 Witness Mesite. My name is Jim Mesite, Jr. I am the Senior Project Accountant  
17 in the Corporate Accounting department at FPU. My business address is 401  
18 South Dixie Highway, West Palm Beach, Florida, 33401.

19 **Q What is the purpose of your testimony?**

20 A Witness Bachman, Martin, Cutshaw, Khojasteh, Mesite. To provide additional  
21 testimony as rebuttal to the Direct Testimony provided by Hugh Larkin who  
22 represents the Office of Public Counsel.

1 **WORKING CAPITAL**

2 **Q. Were the trending methods used by FPU for projecting cash working capital**  
3 **for 2004 appropriate?**

4 A. Witness Mesite. Yes, they are appropriate. The trending factor is based on  
5 inflation and customer growth and fairly represents what would be an expected  
6 rate of increase for current assets and liabilities, including many revenue and  
7 expense items. Since cash is largely affected by changes in these accounts, we  
8 feel that using the inflation and customer growth factor is appropriate. Mr. Larkin  
9 states that by using an incorrect allocation factor, that this accounts for decreases  
10 in cash due to the water sale. First, the correct allocation factor should be used  
11 and if an adjustment is needed to cash it is a separate issue. Secondly, if cash is  
12 decreased for 2004 because of the water sale, additional cash would need to be  
13 added for 2004 over the trend rate due to the additional cash from higher electric  
14 rates. Mr. Larkin's recommendation to lower the allocation to electric by 2% for  
15 cash would be more than offset by adding the additional accounts receivable and  
16 cash from increased electric rates that exceed the allocation factor. Using the  
17 historic cash with normal trending factors and the correct allocation factor  
18 provides for a reasonable estimate of 2004 cash.

19 **Q. Do you agree with Mr. Larkin's assessment of the method used by FPU to**  
20 **report cash for working capital?**

21 A. Witness Mesite. Yes. FPU used a 13-month average for cash accounts when  
22 reporting working capital in the MFR. We computed the 13-month average for  
23 2002, and projected the amount to 2004 using a factor of inflation times expected

1 customer growth.

2 **Q. Is the method for reporting cash consistent with the method approved in**  
3 **previous rate cases?**

4 A. Witness Mesite. No. The currently approved method for computing cash is the  
5 lower of: the average of the previous five-year 13-month average, or the current  
6 13-month average.

7 **Q. Please summarize the reasons for not reporting cash using the method**  
8 **currently in effect.**

9 A. Witness Mesite. The following list contains the reasons that FPUC feels that cash  
10 should not be reported at the average five year method:

- 11 ■ It is not consistent with the reporting of other working capital items.
- 12 ■ It is a one sided accounting and does not provide for the offsetting entry. For  
13 example, if accounts payable increased by \$100,000 providing float of  
14 \$100,000 the working capital is unchanged and accurate. To arbitrarily reduce  
15 the cash by the lower of an average or actual artificially reduces working  
16 capital and is unfair.
- 17 ■ Accounts receivable and payable changes causes fluctuations in cash and  
18 without taking the offsetting comparison it unfairly reduces working capital.

19 **Q. Is using the lower of an average five-year or 13-month method for computing**  
20 **cash consistent with acceptable methods for computing working capital**  
21 **treatment of other assets?**

22 A. Witness Mesite. No. All working capital components are computed using a  
23 thirteen-month average. To isolate just one component does not fairly represent

1 the balance sheet. If cash is computed on a five year average, then it would be  
2 appropriate to compute the offsetting balance sheet component such as accounts  
3 payable on that same five year average, taking the lowest liability. To ensure that  
4 all components relate to each other and present a 'balanced' balance sheet, the  
5 computation of all working capital and rate base components must use the same  
6 basis. The thirteen-month average provides a reasonable basis to compute  
7 working capital including cash.

8 **Q. Is the five-year method of reporting cash consistent with acceptable**  
9 **accounting practice?**

10 A. Witness Mesite. No. Basic accounting rules require that all transactions be  
11 recorded as "double-entry". Cash and other accounts are interconnected in that  
12 what influences the cash account also equally affects the other accounts. It is not  
13 suitable to adjust cash from working capital without making the proper offsetting  
14 entry to its corresponding offsetting account such as accounts payable.

15 **Q. Was Mr. Larkin 's testimony concerning the application of the five-year**  
16 **average method appropriate?**

17 A. Witness Mesite. No, it was not. In his testimony, Mr. Larkin testified that the  
18 five-year average method "reflects a normalized level of cash  
19 balance...historically needed for operating purposes". It is not logical to  
20 conclude that cash requires normalization without also admitting that any account  
21 affected by a cash transaction must also require "normalization". The thirteen-  
22 month average vs. using the year-end balance is meant for this very purpose.

23 **Q. What is FPU's position concerning the alternative to be used?**

1 A. Witness Mesite. FPU proposes that Cash and all working capital accounts be  
2 reported at the 13-month average.

3 **Q. What is the impact to the financial environment when working capital is**  
4 **reduced?**

5 A. Witness Mesite. The arbitrary reduction of working capital has a negative impact.  
6 Lowering working capital results in a reduction in the rate base, reduces working  
7 funds, lessens the return to stockholders, and the reduces the value of the  
8 corporation to prospective investors. It is one sided and unfairly penalizes the  
9 company who has properly managed their cash funds.

10 **Q. Are there circumstances that affect the overall level of the cash balance?**

11 A. Witness Mesite. Yes, there are. From time to time, short-term and long-term  
12 situations arise that tend to change the general level of the cash account balance.  
13 It is not always possible to predict such activities or conditions. Such periodic  
14 oscillations must be accepted as part of the normal activity of any ongoing  
15 business. If cash is unusually high, then an offsetting account such as accounts  
16 payable would also have to be unusually high. There is an offset such as an  
17 increase to a liability account that counters these fluctuations.

18 **CASH ADJUSTMENTS TO REFLECT THE SALE OF THE WATER DIVISION**

19 **Q. Did FPU make any adjustments to cash for any known activities that may**  
20 **have had a direct impact on the cash balance?**

21 A. Witness Mesite. No, we did not. There are no adjustments known that would be  
22 appropriate to adjust to cash. We feel that adjusting for only certain activities  
23 would be arbitrary and would then need to be adjusted to the offsetting accounts.

1 **Q. Was the application of a higher allocation percentage appropriate when**  
2 **allocating cash and other working capital items as a result of the sale of the**  
3 **water division?**

4 A. Witness Mesite. With the elimination of the Water Division from the Florida  
5 Public Utilities, the allocation percentage, for certain working capital accounts for  
6 the electric divisions, was increased from 37% to 39%. FPU feels that this actual  
7 allocation percentage is appropriate and required. Due to the elimination of a  
8 division, it is necessary to realign the allocation percentages for all of FPU's  
9 remaining divisions. The result is a slight increase in allocation percentages to  
10 each division.

11 **Q. When projecting 2004, were the historical 2002 balances of shared common**  
12 **working capital accounts modified to reflect the elimination of the water**  
13 **division?**

14 A. Witness Mesite. No, they were not. FPU feels that as a practical matter the  
15 overall balance of the shared common working capital accounts would not be  
16 affected materially due to the elimination of water. Perhaps, due to the  
17 elimination of water, an asset account would be reduced, but this would be offset  
18 by an equal reduction in a liability account. The net result to working capital  
19 would be zero.

20 **CASH ADJUSTMENTS FOR VARIOUS COMPONENTS**

21 **Q. Mr. Larkin testified that accounts 1340.1 and 1340.3 should be removed from**  
22 **working capital. Would this adjustment be appropriate?**

23 A. Witness Mesite. No, the working capital should not be reduced. Account 1340.1

1 represents funds that had been transferred at the end of December 2002, out of the  
2 Company working cash account to the Company's transfer agent to be used for  
3 payment of dividends. Since the funds were removed from our cash account on  
4 12/31/02, it has been reduced by the amount of the deposit. So if the cash were  
5 not deposited in account 1340.1, it would still be included in the operation cash  
6 account and included in working capital.

7 Regarding account 1340.3, these funds should also not be removed from working  
8 capital. While it is true that the specific funds were restricted for use in our  
9 general cash fund until the gas divisions incurred construction expenditures, their  
10 actual use went into our general source of funds and was used by the total  
11 company. It is appropriate to treat these as any source of fund is treated,  
12 proportionally between all divisions and utilities of FPUC. We do not separate  
13 sources of funds by utility. Additionally, the gross amount of the restricted funds  
14 is included in Long-term debt and this was not decreased as being non-electric.

15 **Q. What is the position of FPU regarding cash working capital as shown in the**  
16 **MFR.**

17 A. Witness Mesite. FPU believes that the working capital cash balance as shown in  
18 the MFR was accurate and was computed using acceptable methods.

19 **Q. Do you agree with the treatment proposed by Mr. Larkin concerning three**  
20 **local cash accounts maintained at a local electric division.**

21 A. Witness Mesite. Consistent with the MFR, we feel that a specific adjustment for  
22 this item is not required. If elimination is made for the individual local cash  
23 accounts cash would need to be increased, since the cash obviously did not



1 'disappear' and was transferred to the main operating cash account. No  
2 adjustment is required and these should be included in working capital.

3 **ACCOUNTS RECEIVABLE WORKING CAPITAL**

4 **NON-CUSTOMER ACCOUNTS RECEIVABLE**

5 **Q. Mr. Larkin testified concerning certain accounts receivable accounts that he**  
6 **felt were inappropriate for inclusion in working capital. One account was**  
7 **account 1430.1. Do you concur with the proposed adjustments for this**  
8 **account?**

9 A. Witness Mesite. No, Mr. Larkin is not accurate in his assessment of the contents  
10 of this account. These amounts should not be removed from Working Capital  
11 because they are related to the operation of the business. The typical items  
12 represented by the employee accounts receivable account are not employee loans,  
13 but rather amounts due to the Company for employment related activity.  
14 Transactions into this account include advances for business travel, amounts due  
15 for medical, health and disability insurance premiums, the individuals' charge for  
16 required uniforms and equipment, and garnishment of wages as required by  
17 various governmental authorities, etc. The receivables from employees are  
18 incurred in the normal course of providing service to ratepayers. The Florida  
19 Public Service Commission (PSC) included a review of this account and  
20 presented their findings in Audit Exception No. 5. One aspect of their conclusion  
21 was that there was certain non-utility amounts contained in account 1430.1, as  
22 some of the employees were employed by the water division, which was sold in  
23 March 2003. We concurred with the PSC's finding regarding this portion of the

1 Exception, that 2002 working capital should be reduced by \$405.08.

2 **Q. Another accounts receivable account was 1430.2. Do you concur with the**  
3 **proposed adjustments for this account?**

4 A. Witness Mesite. No, we do not concur. This account is and should be includable  
5 in the computation of working capital. This account represents amounts due the  
6 Company for damage to utility facilities and property by third parties. The  
7 property damaged and represented by the accounts receivable was utility property  
8 that was purchased, installed, and maintained in the normal course of providing  
9 electric service to ratepayers. If these damages were not charged to this account  
10 and collected they would be increasing maintenance expenses. Other items in this  
11 account are receivable items awaiting payment such as contributions. Mr. Larkin  
12 also states that the revenue and expenses are recorded below the line for third  
13 party damages. This is not correct. The maintenance expenses for repairing the  
14 facility and the revenue received for reimbursement in this account is recorded  
15 above the line, to other operating revenue, account 4562, and maintenance  
16 expense.

17 **Q. Accounts receivable accounts 1420.2, 1420.21, and 1420.22 were discussed by**  
18 **Hugh Larkin. Do you concur with the proposed adjustments for these**  
19 **accounts?**

20 A. Witness Mesite. Yes, we concur with Mr. Larkin's assessment that these relate to  
21 merchandising and it is proper to remove \$52,203 from 2002 historical test year  
22 working capital.

1 **CUSTOMER ACCOUNTS RECEIVABLE / UNCOLLECTIBLE**

2 **Q. Does the company agree with Mr. Larkin's testimony regarding customer**  
3 **accounts receivable?**

4 A. Witness Mesite. No, we do not agree with the methods used for his analysis or  
5 with his application of the results. FPU reported 2002 Accounts Receivable as  
6 \$3,169,575; consisting of both customer accounts receivable of \$3,023,156, and  
7 other accounts receivable of \$146,419. Mr. Larkin testified that 2002 customer  
8 accounts receivable represents 7.39% of operating revenues, and we concur. Per  
9 the MFR, projected revenues for 2004, without rate relief, are projected at  
10 \$41,827,588; additional revenues of \$4,117,121 of rate relief are requested:  
11 resulting in 2004 total operating revenues of \$45,944,709.  
12 Mr. Larkin proposes using the 2002, 7.39% accounts receivable rate and apply the  
13 same rate to 2004. If this rate were applied to 2004 operating revenues, the result  
14 in a 2004 customer accounts receivable would be \$3,395,313 ( $\$45,944,709 \times$   
15  $7.39\%$ ). For customer accounts receivable we applied a factor of 107.2% (growth  
16 and inflation) to 2002 customer accounts receivable to arrive at 2004 projected  
17 customer accounts receivable of \$3,240,823 ( $\$3,023,156 \times 107.2\%$ ). The  
18 application of Mr. Larkin's theories to the correct 2004 projected total revenues  
19 results in an increase in working capital for 2004 accounts receivable of \$154,490.  
20 Another problem with Mr. Larkin looking at balances prior to 2001 is that they  
21 included water customers' accounts receivable.  
22 At this time, FPU does not propose any modification to 2004 working capital for  
23 customer accounts receivable in the MFR.

1 **Q. Does the company agree with Mr. Larkin's proposed changes to the**  
2 **provision for uncollectible working capital.**

3 A. Witness Mesite. No, we do not agree. First, the projection needs to be made on a  
4 consistent basis with revenues as in our MFRs. Secondly, the 2003 year was not  
5 used in the average, only 2001 and 2002. If 2003 is included the average rate is  
6 2.71%. There is no valid reason not to include the most current year in the data if  
7 using this methodology.

8 **PREPAID INSURANCE**

9 **Q. Was the allocation for Prepaid Workers Compensation Insurance based on a**  
10 **revenue allocation?**

11 A. Witness Bachman. No, the allocation for Prepaid Workers Compensation  
12 Insurance was based on the amount of payroll and number of claims for the  
13 electric division over the last 3 years. That allocation factor ended up being  
14 30.4%.

15 **Q. Do you believe that general liability, directors and officers, crime, and**  
16 **fiduciary should be allocated based on payroll allocation?**

17 A. Witness Bachman. No, I do not. A payroll allocation is not appropriate since past  
18 practice has been to use base revenue to allocate the costs to electric and natural  
19 gas for Florida Public Utilities Company proceedings. Insurance companies  
20 include revenue, payroll, industry, and loss history to calculate liability insurance  
21 costs. Any of these items, or even a combination thereof, can be justifiable since  
22 each relate to the insurance cost. However, past allocations in rate proceedings  
23 must be consistent, otherwise costs get misallocated between entities. The

1 adjusted, or base, revenue was used for allocations in prior electric and natural gas  
2 proceedings which were approved by the FPSC. Labor costs do not necessarily  
3 have a better correlation to general liability risk and in our opinion base revenue is  
4 a reasonable basis to spread liability costs as it represents, in quantitative terms,  
5 the return on the invested funds and cost of services in an area. But more  
6 importantly, using revenue keeps a consistent methodology with the prior  
7 allocation in natural gas and is a reasonable basis.

8 **Q. Did you consider the actual insurance premiums accounting for the sale of**  
9 **the water division?**

10 A. Witness Bachman. Yes, the adjustments reflected in Audit Exception #17 are  
11 actual numbers based on our renewals, which were made at least six months after  
12 the sale of the water division. The renewals for General and Auto Liability,  
13 Crime, Fiduciary, and Directors and Officers were completed on September 1,  
14 2003. The renewal for Property insurance was completed on September 15, 2003.  
15 The renewal for Workers Compensation was done on October 1, 2003 and finally  
16 the renewal for Medical insurance was done December 1, 2003. The insurance  
17 companies calculated all of these premiums after the sale of the water division  
18 based on data excluding water operations, so the savings are reflected in the  
19 amounts.

20 **PREPAID PENSION**

21 **Q. Should the Prepaid Pension Plan be included in Working Capital?**

22 A. Witness Bachman. Yes. Prepaid pension is recorded according to Generally  
23 Accepted Accounting Principles, GAAP, and according to the Financial

1 Accounting Standards Board, FASB, this fairly represents the financial condition  
2 of the company on the balance sheet date. It is a legitimate regulatory asset and  
3 properly included in working capital. I agree with the definition by Mr. Larkin  
4 that working capital represents the investment that a utility must make in  
5 providing service. This is exactly the case with prepaid pension costs since these  
6 are an investment relating to compensation of employees. The assumption made  
7 by Mr. Larkin that customers are pre-paying for pension costs is not true.

8 Ratemaking involves setting rates to reimburse stockholders for prudent expenses  
9 of the company and provide a fair return on their investments. When a pension is  
10 established funding begins in the first year. For example, the typical practice  
11 today at the initiation of a pension plan would be to make a token contribution,  
12 say \$100 or maybe \$1,000, to make the plan's trust effective. The balance of the  
13 first year contribution would be determined within 8 ½ months after the end of the  
14 first plan year. This initial payment and following payments to the trust are from  
15 stockholders. When the expense is recorded on the company's books it is not  
16 reimbursed in rates until the company files its next rate case. Pension costs  
17 designated as prepaid represent past contributions by shareholders, not ratepayers,  
18 to pension trust funds whose value now exceeds the net periodic pension cost and  
19 therefore result in a prepaid pension asset. The company invests the trust funds to  
20 maximize the return to offset future pension costs. From mid 1992 until 2003 the  
21 return on trust assets exceeded the sum of the cost of benefit accruals and interest  
22 on plan liabilities and benefited the ratepayers through a credit to expense, while  
23 delaying additional funding to the pension trust.

1 **Q. When did Florida Public Utilities Company begin its pension plan and how**  
2 **was it funded?**

3 A. Witness Bachman. The pension plan became effective as of January 1, 1960.  
4 Payments under the plan in 1960 initially aggregated \$76,239, of which \$42,293  
5 was applicable to past service costs. Payments to the pension plan were made  
6 yearly thereafter and the company policy was to fund for all accrued pension  
7 costs. There were payments in 1961 of \$49,383, in 1962 \$66,465, 1963 \$62,996,  
8 and continuing yearly before there was any rate proceeding. By the time of the  
9 next electric rate proceeding in Marianna, the company's stockholders had been  
10 funding over \$100,000 a year. Marianna's rates were effective December 17,  
11 1975. In Fernandina Beach the first rate proceeding was in 1989. Beginning in  
12 those years it is assumed ratepayers began reimbursing the company for the  
13 periodic pension expense. Clearly the pension fund is from stockholder proceeds.

14 **Q. Is it proper to include prepaid pension or pension liability in working**  
15 **capital?**

16 A. Witness Bachman. Yes, both are working capital components. If, because of low  
17 discount rates or poor investment performance, the accumulated benefit obligation  
18 exceeds the funding, a pension liability can exist. This is an obligation of the  
19 company which would not been funded, and decreases working capital  
20 requirements. A prepaid pension represents, in essence, shareholder contributions  
21 in excess of the required funding and increases the invested working capital. To  
22 demonstrate, assume IRS rules allowed the amount of the prepaid pension to be  
23 withdrawn from the trust, thus eliminating the prepaid pension recorded on the

1 books. Then the money could be used to pay off short-term debt or other  
2 liabilities thereby still including the amount in working capital. Both items are  
3 legitimate working capital components and to exclude one over the other would  
4 not be consistent or correct. The past practice of including prepaid pension  
5 expense in working capital by the Florida Public Service Commission is correct.

6 **UNBILLED REVENUE**

7 **Q. Should the kilowatt-hours, used to calculate unbilled revenues, be increased**  
8 **by inflation and customer growth rather than unbilled revenues?**

9 A. Witness Khojasteh. Unbilled revenues are a product of many factors. Although  
10 kilowatt-hours may also be appropriate as a basis to project unbilled revenues, the  
11 basis we used is also appropriate. Unbilled is actually a result of many factors that  
12 are not taken into account, such as timing of billing cycles, the weather, usage,  
13 and revenue and the actual results will vary regardless of which of these methods  
14 is used. We feel our calculation is a reasonable estimation.

15 **DEFERRED DEBITS**

16 **Q. Do you concur with Mr. Larkin's proposed elimination from working capital**  
17 **of the deferred debit connected with assisting other electric utilities?**

18 A. Witness Mesite. No, The FPU electric divisions and a majority of other investor  
19 owned electric utilities located in the southeastern United States are members of  
20 Southeastern Electric Exchange, Inc. (SEE). One of the SEE goals is that of  
21 mutual assistance. Per the SSE website:

22 "Founded in 1933, the Southeastern Electric Exchange is a non-profit,  
23 non-political trade association of investor-owned electric utility companies. The



1 Mutual Assistance Committee was established to promote and encourage mutual  
2 assistance among member utilities while promoting safety for employees and  
3 customers; restoring service in an effective/efficient manner; and maintaining a  
4 strong customer focus (including repair, restoration, and review of events).”  
5 Please refer to Exhibit JVM-1 for further information on SEE. The amounts  
6 represented by this deferred debit represent a recurring and usual consequence of  
7 providing reliable electric service to ratepayers and therefore includable in  
8 working capital. FPU proposes that the \$3,149.02 represented by this item remain  
9 in the historical 2002 working capital 13-month average, as presented in the MFR.  
10 Our ratepayers receive the receptacle benefit by the sharing of risk associated with  
11 storms and our ability to use other company’s resources in the event we are hit  
12 with a storm and require assistance.

13

14 **STORM DAMAGE RESERVE**

15 **Q. The MFR indicated a reduction in the storm damage reserve account from**  
16 **historic 2002 to projected 2004. Was this data presented correctly?**

17 A. Witness Cutshaw. No, it was not. As indicated throughout the filing, FPU  
18 proposes an annual accrual for storm reserve of \$225,000, accrued at \$18,750 per  
19 month beginning June 1, 2004. Prior to that date the monthly accrual was to  
20 remain at the current \$10,135 per month level. This information was shown  
21 correctly in the NOI sections.

22 On Schedule C-59(B-15), Working Capital: the 13-month average shown for  
23 account 2280.11, Storm Damage Reserve, for 2003 and 2004 was incorrect. The

1 amounts included in the filing were (\$1,894,196) and (\$1,844,196), for 2003 and  
2 2004, respectively. The corrected amounts are (\$2,076,606) and (\$2,216,871), for  
3 2003 and 2004, respectively. Attached is Exhibit JVM-2 detailing the derivation  
4 of these amounts.

5 **Q. What is the affect to projected test year 2004 working capital resulting from**  
6 **the storm damage reserve correction?**

7 A. Witness Mesite. This adjustment reduces 2004 Total Working Capital by \$372,585  
8 (\$1,844,196 - \$2,216,871).

9 **STORM DAMAGE RESERVE**

10 **Q. Was the storm reserve set at the worse case storm?**

11 A. Witness Cutshaw. No, the storm reserve was determined using a Maximum  
12 Historical Event model similar to the model used by Gulf Power Company in its  
13 1996 study in determining the appropriate Storm Reserve. The Maximum  
14 Historical Event was an actual recorded hurricane event. FPU did not use the  
15 Stochastic Hurricane Event, which consists of modeling for the projected worst-  
16 case theoretical event.  
17 This modeling process is appropriate in order to protect assets without adversely  
18 impacting customer rates should an event occur. As stated in Mr. Larkin's  
19 testimony, the annual storm reserve accrual amount was exceeded in 1995 due to  
20 Hurricane Opal. The track of this storm was approximately 110 miles west of  
21 Marianna and still impacted Marianna to the extent that the annual accrual amount  
22 was exceeded by \$21,225. If the track of the storm had been closer to Marianna,  
23 the storm damage would have been significant, which is contrary to the statement

1 in Mr. Larkin's testimony that "any storm would more than likely dissipate  
2 significantly by the time it reached the Marianna service territory". Numerous  
3 occurrences over the years have illustrated that major hurricanes are still capable  
4 of causing severe damage to distribution and transmission facilities after traveling  
5 up to 100 miles inland. Marianna is located approximately 50 miles inland from  
6 the coast.

7 **Q. What is the purpose of the storm reserve?**

8 A. Witness Cutshaw. The storm reserve is intended to serve as a Property Insurance  
9 Reserve for the expense involved with replacement of distribution and  
10 transmission facilities in the event of a storm event. Facilities represent a  
11 significant investment that cannot be reasonably and economically covered by  
12 normal property insurance. The reserve will provide coverage in the case of a  
13 major storm event without significantly affecting customer rates should the storm  
14 cause major damage to the distribution and transmission facilities.

15 **Q. Have you investigated the frequency of hurricane impacts in the two  
16 divisions?**

17 A. Witness Cutshaw. We have attached "Exhibit MC-1" which illustrates hurricane  
18 paths relative to both divisions. As shown, both divisions have experienced  
19 numerous Tropical Storms in or near the division. In addition to this, the  
20 Northwest Florida Division has sustained a direct impact by five Category 1 or 2  
21 storms. Although the Northeast Florida Division has not sustained a direct impact  
22 by a hurricane, the hurricane track of two Category 1 -2 storms and one Category  
23 3 -5 have passed with 30 miles of the island. Although the frequency seems to be

1 less in the Northeast Florida Division, the coastal location and density make this  
2 extremely vulnerable to severe damage.

3 **WATER DIVISION SALE**

4 **Q. Did FPU make modifications to the allocation of shared common working**  
5 **capital items as a result of the sale of the water division?**

6 A. Witness Mesite. When preparing the MFR, FPU normalized the 2002 values of  
7 shared common working capital components. The normalization was necessary  
8 for projection purposes in order to reflect the allocation of 2002 working capital  
9 items amongst various FPU divisions, as if the water division did not exist.

10 **Q. Did FPU adjust the balances of shared common working capital items to**  
11 **reflect the sale of the water division?**

12 A. Witness Mesite. When preparing the MFR, FPU did not adjust the 2002 balance  
13 of shared common working capital accounts.

14 The reasons are, first, we feel the 13-month average of any account would not  
15 materially change due to the sale of the water division. Due to the several  
16 operating units of the FPU organization many synergies exist covering various  
17 facets of our operation. The result of these synergies is that generally minor  
18 increases or decreases in the size of the organization do not produce a  
19 proportional increase or decrease in overall operational requirements of the  
20 Company.

21 Secondly, it is our position that any method used to adjust common accounts for  
22 the sale of the water division would be purely arbitrary and would affect both  
23 assets and liabilities included in working capital, thus netting out. Therefore,

1           regardless if adjustments were made or not, the net effect to the total 13-month  
2           average of 2002 shared working capital would not have any significant impact.

3

4   **Q.    Do you agree with Mr. Larkin description concerning FPU's means of**  
5           **allocating common working capital?**

6    A.    Witness Mesite. No, we do not. Mr. Larkin testified that in the allocation process,  
7           FPU made no adjustment to the basis of any working capital account and then the  
8           Company allocated a larger percentage of all working capital to the electric  
9           divisions. This is not the case. As discussed elsewhere in my testimony, common  
10          shared portion of shared working capital accounts were normalized to reflect the  
11          distribution between all FPU non-water divisions. Naturally, after normalization,  
12          the allocation percentage of shared common working capital for the electric  
13          divisions rose slightly. As for the electric utility working capital account, except  
14          for a \$200 increase in the local petty cash account located in Fernandina Beach,  
15          there were no increases as a result of the normalization procedure.

16   **Q.    With regard to adjustments made to 2002 working capital to reflect the sale**  
17          **of the water division, does FPU feel that correct methodology and procedures**  
18          **were used in the preparation of the MFR?**

19    A.    Witness Mesite. Yes. FPU feels that the methods and procedures employed result  
20          in an accurate and meaningful representation of normalized 2002 working capital.  
21          With respect to the normalized data presented, FPU proposes that 2002 13-month  
22          average common working capital accounts remain as filed in the MFR.

1 **UNDER RECOVERIES WORKING CAPITAL TREATMENT**

2 **Q. In the filing, FPU is proposing a change in the treatment of working capital**  
3 **under recoveries of fuel costs and conservation expenses. Does FPU feel that**  
4 **Mr. Larkin's analysis is accurate as to why the current treatment should be**  
5 **maintained?**

6 A. Witness Mesite. No. The current treatment assumes that the circumstances that  
7 create over-recoveries and circumstances that create under-recoveries are different  
8 when in fact they are the same. Both reflect a variance from an estimate. This  
9 rationale lacks fair treatment in that it requires dissimilar accounting treatment that  
10 allocates the responsibility to ratepayers for over-recoveries and to stockholders  
11 for under-recoveries.

12 **Q. Does the commission prescribe equivalent methods for the treatment of over**  
13 **and under recoveries in the fuel and conservation rate setting dockets?**

14 A. Witness Mesite. Yes, the Commission requires the same methods to be used for  
15 determining, reporting, and refunding or collecting over and under recoveries.  
16 Annually, the PSC creates separate dockets for fuel and conservation rate setting  
17 purposes. These dockets prescribe the methods and procedures to be followed for  
18 estimating future costs, for collecting revenues to cover estimated current costs,  
19 and for true-up for past over and/or under recovery of costs.  
20 The true-up procedures were implemented since it was understood that an exact  
21 matching of cost and revenues is not possible. When using a monthly, annual, or  
22 any other revenue cycle, a disparity will always exist between costs and revenues.  
23 The disparity is simply the product of the operational cycle, which is the

1 consequence of outside factors not under the control of the ratepayer or the  
2 company such as weather. The amount of the disparity may be controlled by  
3 regulation and oversight, but the direction cannot be controlled: there will always  
4 be either an over-recovery or an under-recovery.

5 **Q. Does FPU agree with the current methods used to determine over and under**  
6 **recoveries via the existing rate setting mechanism?**

7 A. Witness Mesite. Yes, FPU believes that the existing procedures for the setting and  
8 control of rates for fuel and conservation are appropriate.

9 **Q. Is the current method of accounting for over and under recoveries proper in**  
10 **the ratemaking process?**

11 A. Witness Mesite. No, it is not. The current method unfairly penalizes the  
12 company. According to Mr. Larkin's testimony, over-recoveries must be  
13 included in working capital since the over recovery creates funds that the  
14 Company can use until the over-recovery is returned to the ratepayer. The  
15 company is paying twice for these funds under this methodology. By including  
16 the liability as a reduction to normal levels of working capital then the company  
17 losses return on this amount while also paying interest to the customer through the  
18 fuel docket. This is the same reasoning Mr. Larkin used when he testified that if  
19 the asset representing an under-recovery were included in working capital, the  
20 result would be the Company being paid twice by the ratepayer. In both cases if  
21 interest is being paid and it is adjusted again in working capital, there is  
22 duplication. We agree with that reasoning of excluding under recoveries but the  
23 same should be true for over recoveries.

1 **Q. The commission staff has stated that a rationale for excluding under**  
2 **recoveries from working capital is to promote accurate projections for the**  
3 **cost recovery clause and to penalize inaccurate projections. Is this a valid**  
4 **argument?**

5 A. Witness Mesite. No. The Staff, in this rationalization, has referred to the actual  
6 reason that this position is not valid: the cost recovery true-up dockets. The  
7 establishment of these dockets allows the Commission to review, regulate and/or  
8 modify all aspects of the cost recovery process. This would include the  
9 determination of the reasonableness of projected costs or expenses as projected by  
10 the utility which can be challenged if inappropriate. There is also a 10% limit on  
11 an over or under recovery before a new fuel filing must be performed. If the FPSC  
12 feels that the interest paid is not adequate for amounts owed from one party to the  
13 other and do not provide sufficient returns, then a change should be made in the  
14 interest rate calculation in the fuel and conservation dockets.

15 **Q. What is the position of FPU with respect to working capital under or over**  
16 **recoveries?**

17 A. Witness Mesite. The Company believes that under and over recoveries should be  
18 excluded from working capital. These are handled outside of rate base by the fuel  
19 docket.

20 **OTHER OPERATING REVENUE**

21 **FORFEITED DISCOUNT**

22 **Q. What was used to determine the amount of forfeited discounts?**



1 A. Witness Cutshaw. The original intent of the change in forfeited discounts was to  
2 provide customers with the incentive to pay electric bills prior to the due date. In  
3 October 2000 a late fee provision was added in the amount of 1.5%, which did not  
4 have the desired effect. In November 2002 the commission granted a change to  
5 include a \$5.00 minimum or 1.5%, whichever is greater, to provide additional  
6 incentive. We relied on the high number of calls from customers concerned with  
7 this change to make the assumption that over time customers will pay bills by the  
8 due date to avoid this penalty. Forfeited discounts were determined based on the  
9 logical conclusion that customers would begin prioritizing payment of the  
10 electrical bills along with other bills that included a late fee provision rather than  
11 postponing payment.

12 **Q. Have the forfeited discounts continued to increase or are they leveling out?**

13 A. Witness Cutshaw. During 2003, there has not been a reduction of forfeited  
14 discounts. Forfeited discount revenues in the amount of \$351,368 were collected  
15 in 2003. However, based on the continuation of the forfeited discount policy and  
16 a time lag associated with customer making payments of electric bills a priority,  
17 in order to avoid the late fee, we expect a decrease of approximately one third  
18 during 2004, which will make the 2004 projection of \$255,104 a reasonable  
19 amount.

20 **Q Does this conclude your testimony?**

21 A Witness Bachman, Martin, Cutshaw, Khojasteh, Mesite. Yes

## **Southeastern Electric Exchange MUTUAL ASSISTANCE GUIDELINE**

Revised: March 27, 2001

### **1.00 SCOPE**

- 1.01 This guideline covers the generally accepted methods and procedures that member companies of the Southeastern Electric Exchange will use to provide assistance to each other when requested. It covers some pre-determined agreements that if generally followed will aid in the communication process, speed up the actual assistance sending process, minimize trouble and misunderstandings before, during, and after assistance has been sent.
- 1.02 This guideline also covers the practices and procedures for joint storm resource planning and mobilization (Joint Mobilization) by Southeastern Electric Exchange member companies for significant weather events that are projected to impact multiple members' territories.
- 1.03 This guideline will be maintained by the Mutual Assistance Committee, which will consist of employees of the member companies. Any questions regarding this guideline or membership on the Mutual Assistance Committee may be directed to the Southeastern Electric Exchange office. The Committee will meet at intervals it deems appropriate and necessary in order to accomplish tasks. The Mutual Assistance Committee shall determine the schedule for Storm Preparedness Workshops.

### **2.00 COMPANY INFORMATION FACT SHEET**

- 2.01 Refer to company information fact sheets from the EEI Mutual Assistance Roster.
- 2.02 S.E.E. member utilities participating in Joint Mobilization will provide additional information to supplement the EEI Mutual Assistance Roster that will facilitate efficient communications and response. This includes the names, contact numbers (work phone, home phone, cellular phone, pager), and e-mail address for three (3) individuals authorized to participate in regional storm planning along with the telephone number for the 24 hour operations/dispatch center for the member company.

### **3.00 INITIATION OF REQUEST FOR MUTUAL ASSISTANCE**

- 3.01 For routine storm events, defined as storm events impacting, or projected to impact, a single member utility service territory, initiation of Mutual Assistance will be the responsibility of the impacted utility (requesting utility) at their discretion utilizing the EEI Mutual Assistance Roster and/or the S.E.E. Mutual Assistance Roster.
- 3.02 For significant storm events (defined as weather events impacting, or projected to impact, multiple member utility service territories), initiation of Mutual Assistance should be in accordance with the Joint Mobilization Procedures located in Appendix A of this Guideline. Initiation under the Joint Mobilization Procedures should be prompted by the member utility expected to be impacted first and/or most severely.

S.E.E. Mutual Assistance Guideline  
Page 2

**4.00 CONTRACTUAL ISSUES**

- 4.01 Each company will operate under the guidelines subsection as outlined in the EEI Mutual Assistance Roster, unless specified differently in these (S.E.E.) guidelines.
- 4.02 Requesting company will establish expectations for work, including start time and duration.
- 4.03 Normal vehicle maintenance shall be the responsibility of the responding company and is assumed to be covered in the standard hourly/daily rates. (Caution should be exercised by the responding company not to double charge for routine maintenance or fuel.)
- 4.04 Requesting company will pay for visiting personnel to make up to 5 minutes (daily average per person) of personal long distance telephone calls.
- 4.05 The length of stay by the responding company personnel shall be mutually agreed to by both companies. Generally this period should not exceed 10-14 consecutive days. In addition personnel should be replaced rather than having the current crews take a two-day rest on site.
- 4.06 When the requesting company requests contractor assistance, the responding company shall, if possible, temporarily release its current contractors to allow them to work for the requesting company. The requesting company will negotiate any contracts directly with the Contractor.

**5.00 TELECOMMUNICATIONS**

- 5.01 Responding companies' telecommunications personnel shall contact requesting company telecommunications personnel and local FCC authorities to make temporary telecommunications arrangements.
- 5.02 The responding company will handle all communication needs within their teams. This could include acquiring additional communications equipment, such as portable repeaters, to ensure continuous communication capabilities.

**6.00 SAFETY**

- 6.01 Switching procedures will be handled as the requesting company designates, provided that the procedures do not violate the safety rules of the responding company.
- 6.02 Requesting company will provide information on their switching and tagging rules. Requesting company switching/blocking tags will be used.
- 6.03 Responding company will follow its own safety rules, except as noted in 6.01 and 6.02 of this guideline.
- 6.04 The responding company is responsible for following its own personal protective grounding practices.

S.E.E. Mutual Assistance Guideline  
Page 3

6.05 Responding company will immediately report any and all accidents to requesting company (both incidence and injury).

**7.00 ADDITIONAL REQUIREMENTS - REQUESTING UTILITY**

7.01 Requesting company will provide materials unless specifically noted otherwise.

7.02 Requesting company will provide a guide with communications capability or portable radios/cellular telephones to assist responding team leaders.

7.03 Requesting company will handle all food, lodging and incidental support needed by responding company unless both companies agree for responding company to handle the logistics. Requesting company and responding company should mutually agree when and how laundry service is to be provided.

7.04 Requesting company will provide vehicle security for parking areas unless specifically noted otherwise.

7.05 Requesting company will make contacts with their appropriate state officials concerning Commercial Driver's License and other transportation issues that will ease the responding companies' trip to and from the requesting company.

7.06 Requesting company should make every effort to coordinate emergency material and specialized equipment needs during such emergencies with the respective Southeastern Electric Exchange guidelines and groups that have been established for those purposes.

7.07 Checklists should be developed by each company covering general guidelines to be reviewed with responding companies. Items to be covered would include contractual issues, safety issues, contact personnel, vehicle fueling arrangements, typical standard construction, meal and lodging arrangements, and other items that will be of benefit to the responding personnel and their supervision.

**8.00 ADDITIONAL REQUIREMENTS - RESPONDING COMPANY**

8.01 Responding company will maintain daily records of time and expenses for personnel and equipment. Detailed documentation will be provided with billing.

8.02 Responding company may opt to provide a person to act as coordinator with the requesting company. The requesting company may also opt to provide a single point of contact (Coordinator) to interact with the responding company.

8.03 Responding company will not load extra emergency stock on trucks unless specifically requested by the requesting company.

8.04 Preparation time - time charged to the requesting company should begin when normal work activities for responding company stop and preparations dedicated to supporting the off system effort begin. This would include preparation time to prepare the trucks and personnel for travel to the requesting company.

S.E.E. Mutual Assistance Guideline  
Page 4

Time after return - time charged to the requesting company should stop as soon after return as the trucks are made ready to resume normal activities.

- 8.05 Each company should complete an S.E.E. Mutual Assistance Responding Company Information Sheet when it becomes a responding company.
- 8.06 If requested, responding company will provide a copy of completed "Personnel Listing Form" as soon as the information becomes available.

**9.00 INVOICING**

- 9.01 Responding company will submit "preliminary invoice" to requesting company within 60 calendar days from date on which responding company personnel are released by requesting company. Responding company will provide all available documentation at the time the preliminary invoice is mailed. Requesting utility should receive final invoice within 90 calendar days from invoice date of preliminary invoice.
- 9.02 Requesting company will pay invoice(s) from responding company within 30 calendar days after receipt of invoicing, provided proper supporting documentation is included.
- 9.03 Refer to EEI Mutual Assistance Guideline Item 6 for details regarding what is billable.
- 9.04 An S.E.E. Invoice Cover Sheet (attached) shall be included with the responding company's billing package.

(This Appendix Is An Addition To Existing Guideline)

**Southeastern Electric Exchange  
MUTUAL ASSISTANCE GUIDELINE  
Appendix A – Joint Mobilization Procedure**

**A 1.00 DEFINITION**

A 1.01 "Joint Mobilization" is a cooperative effort by S.E.E. member utilities to prepare and mobilize resources for significant forecasted weather events that may impact multiple utility service territories (examples: hurricanes, winter storms, etc.). The purpose and intent of this supplemental procedure is to provide a structure by which member utilities can work together to plan an effective restoration response, maximize available resources, and minimize financial risk for participating utilities.

A 1.02 This Procedure consists of three primary components which are explained in subsequent Sections of this appendix:

- (1) Joint Mobilization Conference Call(s)
- (2) Resource Planning
- (3) Mobilization

A 1.03 This procedure is a supplement to the Mutual Assistance Guidelines and does not supersede any portion of the Guidelines unless specifically noted herein.

**A 2.00 COMPANY INFORMATION**

A 2.01 In support of Joint Mobilization, participating utilities shall provide a minimum of three authorized contacts to facilitate storm planning and mobilization. The following information should be provided for these individuals:

- Name
- Title
- Daytime telephone number
- Nighttime telephone number
- Cellular telephone number (if available)
- Pager number (if available)
- E-mail address

In addition, a telephone number for the utility's 24-hour operations/dispatch center should be provided.

A 2.02 This information will be maintained by member utilities and the S.E.E. staff as described under Section 2.03 of the Guideline.

**A 3.00 JOINT MOBILIZATION CONFERENCE CALLS**

A 3.01 The purpose of Joint Mobilization Conference Calls is to allow member utilities the opportunity to: (1) discuss and evaluate the potential impact of forecast weather

events, (2) to identify available restoration resources throughout the region and their status, (3) to collaborate in the planning of regional response to meet requesting utility(s) needs, and (4) potentially mitigate the financial risk for Requesting and Responding Utilities associated with advance mobilization. The goal of the Joint Mobilization Conference Call is to effectively allocate and establish timeframes to mobilize available restoration resources to meet the needs of requesting utilities, while ensuring that the mobilization goals of impacted member utilities are not compromised.

- A 3.02 Any S.E.E. member utility threatened by a significant weather event (i.e. hurricane, winter storm) may engage this procedure by initiating a Joint Mobilization Conference Call. During normal business hours (8-5 ET), the S.E.E. staff is available to assist in initiating the Call. This member becomes the "Initiating Utility" for the purposes of this Procedure.
- A 3.03 Appendix B – Storm Conference Call Template describes the guidelines and procedures for Joint Mobilization Conference Calls and provides a structure to aid member utilities.
- A 3.04 All information shared between member utilities during Joint Mobilization Conference Calls is considered confidential and proprietary and should not be released for public consumption except as mutually agreed.
- A 4.00 RESOURCE IDENTIFICATION**
- A 4.01 Member utilities participating in Joint Mobilization Conference Calls should be prepared to identify all employee and contractor resources (line and tree trimming personnel only) which can be made available for storm response commitment, also providing estimated timeframes for their dispatch. These resources are defined as those available for "first wave" response once the Responding Utility territory is no longer threatened.
- A 4.02 No resources are to be dispatched by Responding Utilities unless committed to a Requesting Utility.
- A 5.00 RESOURCE ALLOCATION AND MOBILIZATION**
- A 5.01 Available restoration resources will be allocated to Requesting Utilities, as agreed by the conference call participants. In general, resources will be allocated on the basis of need, storm timing, travel time, and availability of other non S.E.E. member controlled resources. The intent is to allocate the resources to meet member company needs in the most efficient manner possible.
- A 5.02 Resources allocated to a Requesting Utility are mobilized under the requirements stated in the Mutual Assistance Guidelines. Final dispatch of committed resources is to be coordinated directly between the Requesting Utility and the Responding Utility (or its contractor, where applicable).
- A 5.03 Requesting Utility shall be responsible for all costs for committed resources unless they are reassigned to another Requesting Utility or until they return to their point of origin.

**A 6.00 STAGING**

- A 6.01 Participating member utilities may provide staging sites and support personnel as needed in their service territories. Prospective staging sites will be agreed to during the Joint Mobilization Conference Call. The purpose of these staging sites is to provide interim (non-operational) processing sites on the periphery of the anticipated damage zone and to facilitate staging of storm response resources more centrally to enhance regional response flexibility.
- A 6.02 Staging costs (i.e. labor and miscellaneous expenses provided by the host utility to operate the staging area, but not including any responding crew costs) will be borne by the requesting utility(s) on a prorated share for their committed resources entering (logged into) the staging site. That is, the utility responsible for inbound crews (per A 5.03) to the staging site pays the proportionate cost of staging.
- A 6.03 Requesting Utilities are not obligated to utilize staging areas agreed to by other member utilities during Joint Mobilization Conference Calls.

**A 7.00 POST EVENT ACTIVITIES**

- A 7.01 In order to promote constant improvement in this procedure, it is recommended that all participating S.E.E. member utilities submit a critique of the Joint Mobilization process as soon as practical after the completion of restoration activities. The S.E.E. staff should publish this information to the Mutual Assistance Committee for review and development of appropriate improvement plans.



## **Southeastern Electric Exchange MUTUAL ASSISTANCE GUIDELINES Appendix B - Joint Mobilization Conference Call Procedure**

**SCOPE:** The intent of this document is to provide a process for joint conference calls between S.E.E. members to discuss effective mobilization of crews to support member utilities during major storms/events. These conference calls are intended to provide a format that will result in the most efficient identification and utilization of resources needed by impacted utilities. Participants will discuss the availability of their native construction work force as well as their contractor work force. A primary goal should be the most effective deployment of the available resources to the utilities requesting assistance.

### **WHEN TO INITIATE CONFERENCE CALLS:**

Conference calls should be initiated whenever a significant event (ice storm, hurricane, etc.) is threatening to severely impact one or more utilities, and the impacted utility(s) anticipate needing resources (crews) beyond the capabilities of their neighboring utilities to restore their system(s). Note that conference calls will not be necessary when the impacted utility can repair or restore damage using their own work force supplemented by crews from their immediate neighbors.

### **WHO INITIATES CONFERENCE CALLS:**

Any S.E.E. member may initiate conference calls to discuss an impending event. The person initiating and leading the conference call will be referred to as the **"moderator"**. Typically, the conference call should be initiated by the utility that expects to be impacted first by the storm event. Conference calls subsequent to the first one can have different conference call "moderators" as determined by the impacted utilities (either at the end of the conference call or possibly between conference calls).

### **ROLE OF THE MODERATOR:**

The moderator is responsible for the following:

- Establish the time and date of the calls, establish a conference call line, and make sure that S.E.E. utility members are notified of the conference call.
- Coordinate the actual conference call(s) using the attached conference call template as a guide for the format of the call.
- Identify someone to take notes during the conference call and distribute them to participants promptly after the call.
- Request utility participants to be prepared to discuss crew needs/releases-providing specific numbers for discussion.

### **HOW TO INITIATE CONFERENCE CALLS:**

- (1) **During normal working hours (M-F):** Establish a 1-800 conference call line for each member utility to call. Notify any S.E.E. staff member (phone number 404-233-1188) that you wish to initiate a conference call for storm response. Give the staff member the 1-800 conference call number, date, time for the call (specify time zone), and how you can be contacted to confirm arrangements. The S.E.E. staff will make phone contact with all other S.E.E. members, give them the details for the call, and request that they be prepared to give details relating to their (estimated) resource needs, or the availability of their native and contractor crews as outlined on the enclosed "Resource Summary Sheet." S.E.E. will send

and all other details. The S.E.E. will send out an e-mail following each conference call, providing a brief summary of the conference call discussion.

**(2) After normal working hours:** It is the initiating utility's responsibility to contact other member utilities by phone (1<sup>st</sup> option) and e-mail to inform them of the conference call, and all pertinent information as described above.

#### TRIGGER POINTS FOR INITIATING THE CONFERENCE CALL PROCESS:

Identified below are some suggested "trigger points" as to when to schedule conference calls. These are as follows:

- **Event Start-Up Call:** At this call, utilities need to discuss conditions, impact time/date, and begin to gather information on anticipated damages and availability of personnel to support restoration efforts. Suggested time of this call is approximately 72 hours prior to the event impacting a utility for hurricanes, and less for other events.
- **Pre-Commitment Call:** At this call, utilities will again discuss conditions, impact time/date. More detailed discussions should occur on projected resource needs by utilities. Some early resource requests (and filling these requests) may occur at this point. Staging area considerations need to be discussed as well. For most events, this call occurs around 48 hours prior to the event impacting a utility.
- **Commitment Call:** Resource requests and commitments are discussed. To the extent possible, requests are being filled. Staging areas are finalized. This call occurs around 24 hours prior to the event impacting a utility.
- **Post Event Call(s):** Once the event has hit the first utility, there will be a need to continue conference calls (recommended 1 per day) until the storm has passed through all S.E.E. utility member service areas. Plans need to be discussed for supporting the areas that are hit after the initial impact.

**Note:** The above times when these conference calls should take place are rough estimates. The times can be significantly different based on the event and can even occur after an event has hit, such as might be the case for tornadoes.

#### CONFERENCE CALL ETIQUETTE:

It is important to the goal of brief, productive conference calls that participants be mindful of the following:

1. During conference calls, each speaker should announce who they are before beginning to speak.
2. Each utility should have only one "spokesperson". If others from the same utility are also listening in, it is requested that only the "spokesperson" introduce him/herself to maximize the use of our time during the conference call. As each spokesperson calls in, they should announce that they are on the line.
3. Conference calls should be as brief as possible. (goal: 30 minutes)
4. Avoid calling in with cellular phones.
5. Individuals using office speakerphones should mute the phones when not talking to keep down background noises.
6. Conference calls should typically be scheduled for one per day; however, conditions may require two per day on certain days.

FLORIDA PUBLIC UTILITIES COMPANY  
 CONSOLIDATED ELECTRIC RATE CASE  
 13-Month Average Computation  
 Storm Damage Reserve - 2003 and 2004

Rebuttal to the Testimony of Hugh Larkin, Jr.  
 Office of Public Counsel  
 Florida Public Utilities, Consolidated  
 Electric Rate Case  
 Docket No. 030438-EI  
 Exhibit (JVM-2)  
 Witness: James V. Mesite, Jr.

2003														
DESCRIPTION	Dec '02	Jan '03	Feb '03	Mar '03	Apr '03	May '03	Jun '03	Jul '03	Aug '03	Sep '03	Oct '03	Nov '03	Dec '03	13-Month Avg.
STORM RESERVE	(2,015,796)	(2,025,931)	(2,036,066)	(2,046,201)	(2,056,336)	(2,066,471)	(2,076,606)	(2,086,741)	(2,096,876)	(2,107,011)	(2,117,146)	(2,127,281)	(2,137,416)	(2,076,606)
2004														
DESCRIPTION	Dec '03	Jan '04	Feb '04	Mar '04	Apr '04	May '04	Jun '04	Jul '04	Aug '04	Sep '04	Oct '04	Nov '04	Dec '04	13-Month Avg.
STORM RESERVE	(2,137,416)	(2,147,551)	(2,157,686)	(2,167,821)	(2,177,956)	(2,188,091)	(2,206,841)	(2,225,591)	(2,244,341)	(2,263,091)	(2,281,841)	(2,300,591)	(2,319,341)	(2,216,781)

**Florida Public Utilities Company**  
**Consolidated Electric Rate Case**  
**Effect on 2004 Rate Base and NOI Due to Additional Plant**

Rebuttal to the Testimony of Hugh Larkin, Jr.  
 Office of Public Counsel  
 Florida Public Utilities, Consolidated  
 Electric Rate Case  
 Docket No. 030438-EI  
 Exhibit \_\_\_\_\_ (JVM-3)  
 Witness: James V. Mesite, Jr.

**PROJECT: Additional Plant Due to Family Dollar Warehouse Approval**

<u>Account 364: Poles</u> \$270,000 - \$30,000 per Month January through September 2004						<b>Annual Depreciation Rate (Per Depr. Study Effective 1/1/04)</b> <b>4.2%</b>		
2004	1010		1070			1080		CURRENT MONTH
	ACTIVITY	BALANCE	INCREASES	DECREASES	BALANCE	ACTIVITY	BALANCE	ACCRUAL
December 2003								
January 2004			30,000.00		30,000.00			
February 2004			30,000.00		60,000.00			-
March 2004			30,000.00		90,000.00			-
April 2004			30,000.00		120,000.00			-
May 2004			30,000.00		150,000.00			-
June 2004			30,000.00		180,000.00			-
July 2004			30,000.00		210,000.00			-
August 2004			30,000.00		240,000.00			-
September 2004	270,000.00	270,000.00	30,000.00	(270,000.00)		(945.00)	(945.00)	(945.00)
October 2004		270,000.00				(945.00)	(1,890.00)	(945.00)
November 2004		270,000.00				(945.00)	(2,835.00)	(945.00)
December 2004	-	270,000.00				(945.00)	(2,835.00)	(945.00)
<b>Total This Year</b>	<b>270,000.00</b>		<b>270,000.00</b>	<b>(270,000.00)</b>		<b>(2,835.00)</b>		<b>(2,835.00)</b>
<b>13-Month Average</b>		<b>90,000.00</b>			<b>90,000.00</b>		<b>(472.50)</b>	
<b>Increase in 2004 Rate Base for this Account</b>			<b>179,527.50</b>					
<b>Change in 2004 NOI</b>			<b>(2,835.00)</b>					

<u>Account 365: Conductor and Devices</u> \$270,000 - \$30,000 per Month January through September 2004						<b>Annual Depreciation Rate (Per Depr. Study Effective 1/1/04)</b> <b>3.8%</b>		
2004	1010		1070			1080		CURRENT MONTH
	ACTIVITY	BALANCE	INCREASES	DECREASES	BALANCE	ACTIVITY	BALANCE	ACCRUAL
December 2003								
January 2004			30,000.00		30,000.00			-
February 2004			30,000.00		60,000.00			-
March 2004			30,000.00		90,000.00			-
April 2004			30,000.00		120,000.00			-
May 2004			30,000.00		150,000.00			-
June 2004			30,000.00		180,000.00			-
July 2004			30,000.00		210,000.00			-
August 2004			30,000.00		240,000.00			-
September 2004	270,000.00	270,000.00	30,000.00	(270,000.00)		(855.00)	(855.00)	(855.00)
October 2004		270,000.00				(855.00)	(1,710.00)	(855.00)
November 2004		270,000.00				(855.00)	(2,565.00)	(855.00)
December 2004		270,000.00				(855.00)	(2,565.00)	(855.00)
<b>Total This Year</b>	<b>270,000.00</b>		<b>270,000.00</b>	<b>(270,000.00)</b>		<b>(2,565.00)</b>		<b>(2,565.00)</b>
<b>13-Month Average</b>		<b>90,000.00</b>			<b>90,000.00</b>		<b>(427.50)</b>	
<b>Increase in 2004 Rate Base for this Account</b>			<b>179,572.50</b>					
<b>Change in 2004 NOI</b>			<b>(2,565.00)</b>					

**Florida Public Utilities Company**  
**Consolidated Electric Rate Case**  
**Effect on 2004 Rate Base and NOI Due to Additional Plant**

Rebuttal to the Testimony of Hugh Larkin, Jr.  
 Office of Public Counsel  
**Florida Public Utilities, Consolidated**  
 Electric Rate Case  
 Docket No. 030438-EI  
 Exhibit \_\_\_\_\_ (JVM-3)  
 Witness: James V. Mesite, Jr.

**PROJECT: Additional Plant Due to Family Dollar Warehouse Approval**











<u>Account 362: Sub-Station</u> \$270,000 - \$30,000 per Month January through September 2004						Annual Depreciation Rate (Per Depr. Study Effective 1/1/04) <b>3.0%</b>		
2004	1010		1070			1080		CURRENT MONTH
	ACTIVITY	BALANCE	INCREASES	DECREASES	BALANCE	ACTIVITY	BALANCE	ACCRUAL
December 2003								
January 2004								
February 2004								
March 2004								
April 2004								
May 2004								
June 2004								
July 2004			202,000.00		202,000.00			
August 2004			202,000.00		404,000.00			
September 2004	606,000.00	606,000.00	202,000.00	(606,000.00)	-	(1,515.00)	(1,515.00)	(1,515.00)
October 2004	-	606,000.00			-	(1,515.00)	(3,030.00)	(1,515.00)
November 2004	-	606,000.00			-	(1,515.00)	(4,545.00)	(1,515.00)
December 2004	-	606,000.00			-			
<b>Total This Year</b>	<b>606,000.00</b>		<b>606,000.00</b>	<b>(606,000.00)</b>		<b>(4,545.00)</b>		<b>(4,545.00)</b>
<b>13-Month Average</b>		<b>202,000.00</b>			<b>50,500.00</b>		<b>(757.50)</b>	
Increase in 2004 Rate Base for this Account			<u>251,742.50</u>					
Change in 2004 NOI			<u>(4,545.00)</u>					

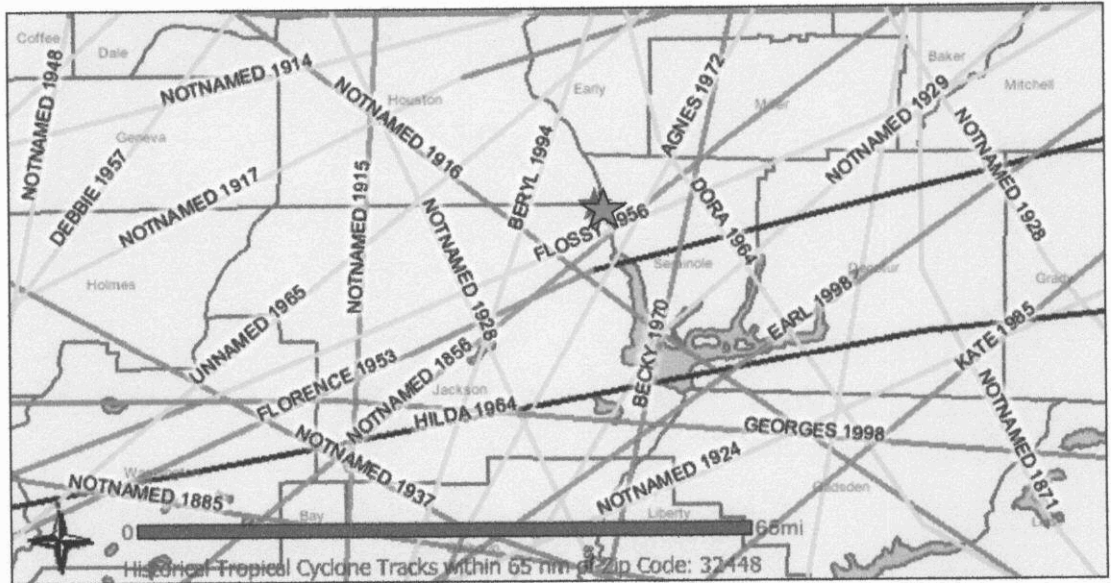
  

<u>Account 368: Transformers</u> \$20,000 May 2004						Annual Depreciation Rate (Per Depr. Study Effective 1/1/04) <b>4.2%</b>		
2004	1010		1070			1080		CURRENT MONTH
	ACTIVITY	BALANCE	INCREASES	DECREASES	BALANCE	ACTIVITY	BALANCE	ACCRUAL
December 2003								
January 2004								
February 2004								
March 2004								
April 2004								
May 2004	20,000.00	20,000.00	20,000.00	(20,000.00)		(70.00)	(70.00)	(70.00)
June 2004	-	20,000.00			-	(70.00)	(140.00)	(70.00)
July 2004	-	20,000.00			-	(70.00)	(210.00)	(70.00)
August 2004	-	20,000.00			-	(70.00)	(280.00)	(70.00)
September 2004	-	20,000.00			-	(70.00)	(350.00)	(70.00)
October 2004	-	20,000.00			-	(70.00)	(420.00)	(70.00)
November 2004	-	20,000.00			-	(70.00)	(490.00)	(70.00)
December 2004	-	20,000.00			-			
<b>Total This Year</b>	<b>20,000.00</b>		<b>20,000.00</b>	<b>(20,000.00)</b>		<b>(490.00)</b>		<b>(490.00)</b>
<b>13-Month Average</b>		<b>13,333.33</b>					<b>(163.33)</b>	
Increase in 2004 Rate Base for this Account			<u>13,170.00</u>					
Change in 2004 NOI			<u>(490.00)</u>					











<b>TOTAL FOR ALL ACCOUNTS</b>	
Change in 2004 Plant in Service For This Project	<u>395,333.33</u>
Change in 2004 CWIP For This Project	<u>230,500.00</u>
Change in 2004 Reserve For This Project	<u>(1,820.83)</u>
Net Change in 2004 Rate Base for this Account	<u>624,012.50</u>
Change in 2004 NOI	<u>(10,435.00)</u>

## MARIANNA

-  Category 3-5
-  Category 1-2
-  Tropical Storm
-  Tropical Depression
-  Subtropical Storm
-  Subtropical Depression
-  Extratropical Storm
-  Tropical Low
-  Tropical Wave
-  Tropical Disturbance



## FERNANDINA

-  Category 3-5
-  Category 1-2
-  Tropical Storm
-  Tropical Depression
-  Subtropical Storm
-  Subtropical Depression
-  Extratropical Storm
-  Tropical Low
-  Tropical Wave
-  Tropical Disturbance

