

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 030438-EI
ORDER NO. PSC-04-0137-PHO-EI
ISSUED: February 11, 2004

Pursuant to Notice and in accordance with Rule 28-106.209, Florida Administrative Code, a Prehearing Conference was held on February 2, 2004, in Tallahassee, Florida, before Commissioner J. Terry Deason, as Prehearing Officer.

APPEARANCES:

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P.A., P.O. Box 1876, Tallahassee, Florida 32302-1876
On behalf of Florida Public Utilities Company.

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On behalf of the Office of Public Counsel.

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Commission, 2540 Shumard Oak Boulevard, Tallahassee,
Florida 32399-0850
On behalf of the Florida Public Service Commission.

KATHERINE FLEMING, ESQUIRE, Florida Public Service
Commission, 2540 Shumard Oak Boulevard, Tallahassee,
Florida 32399-0850
On behalf of the Florida Public Service Commission.

PREHEARING ORDER

I. CONDUCT OF PROCEEDINGS

Pursuant to Rule 28-106.211, Florida Administrative Code, this Order is issued to prevent delay and to promote the just, speedy, and inexpensive determination of all aspects of this case.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

II. CASE BACKGROUND

This proceeding commenced on August 14, 2003, with the filing of a petition for a permanent rate increase by Florida Public Utilities Company (FPUC). FPUC requested an increase in its retail rates and charges to generate \$4,117,212 in additional gross annual revenues. This increase would allow FPUC to earn an overall rate of return of 9.00% or a 12.00% return on equity (range 11.00% to 13.00%). FPUC has also requested a 100 basis point return on equity performance award that would increase the requested rate increase by approximately \$302,000. FPUC based its request on a projected test year ended December 31, 2004. FPUC stated in its petition that this test year is the appropriate period to be utilized because it represents the conditions to be faced by the Company and is representative of the actual revenues, expenses and investments to be realized under the new rates. A significant aspect of this proceeding is the consolidation of FPUC's heretofore separate Fernandina Beach (Northeast) and Marianna (Northwest) Electric Divisions into a single entity for ratemaking purposes. FPUC has not requested any interim rate relief.

III. JURISDICTION

This Commission is vested with jurisdiction over the subject matter by the provisions of Chapters 350 and 366, Florida Statutes. This hearing will be governed by said Chapters and Chapters 120, Florida Statutes, and Chapters 25-6, 25-22, and 28-106, Florida Administrative Code.

IV. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

A. Any information provided pursuant to a discovery request for which proprietary confidential business information status is requested shall be treated by the Commission and the parties as confidential. The information shall be exempt from Section 119.07(1), Florida Statutes, pending a formal ruling on such request by the Commission, or upon the return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been used in the proceeding, it shall be returned expeditiously to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record

of the proceeding, it shall be returned to the person providing the information within the time periods set forth in Section 366.093, Florida Statutes.

B. It is the policy of the Florida Public Service Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 366.093, Florida Statutes, to protect proprietary confidential business information from disclosure outside the proceeding.

1. Any party intending to utilize confidential documents at hearing for which no ruling has been made, must be prepared to present their justifications at hearing, so that a ruling can be made at hearing.

2. In the event it becomes necessary to use confidential information during the hearing, the following procedures will be observed:

- a) Any party wishing to use any proprietary confidential business information, as that term is defined in Section 366.093, Florida Statutes, shall notify the Prehearing Officer and all parties of record by the time of the Prehearing Conference, or if not known at that time, no later than seven (7) days prior to the beginning of the hearing. The notice shall include a procedure to assure that the confidential nature of the information is preserved as required by statute.
- b) Failure of any party to comply with 1) above shall be grounds to deny the party the opportunity to present evidence which is proprietary confidential business information.
- c) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the Court Reporter, in envelopes clearly marked with the nature of the contents. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall

be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.

- d) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise the confidential information. Therefore, confidential information should be presented by written exhibit when reasonably possible to do so.
- e) At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the Court Reporter shall be retained in the Division of Commission Clerk and Administrative Service's confidential files.

V. POST-HEARING PROCEDURES

Each party shall file a post-hearing statement of issues and positions. A summary of each position of no more than 50 words, set off with asterisks, shall be included in that statement. If a party's position has not changed since the issuance of the prehearing order, the post-hearing statement may simply restate the prehearing position; however, if the prehearing position is longer than 50 words, it must be reduced to no more than 50 words. If a party fails to file a post-hearing statement, that party shall have waived all issues and may be dismissed from the proceeding.

Pursuant to Rule 28-106.215, Florida Administrative Code, a party's proposed findings of fact and conclusions of law, if any, statement of issues and positions, and brief, shall together total no more than 100 pages, and shall be filed at the same time.

VI. PREFILED TESTIMONY AND EXHIBITS; WITNESSES

Testimony of all witnesses to be sponsored by the parties has been prefiled. All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Summaries of individual witness testimony shall be limited to five minutes. Summaries of panel testimony shall be limited to ten minutes. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. After all parties and Staff have had the opportunity to object and cross-examine, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer.

The Commission frequently administers the testimonial oath to more than one witness at a time. Therefore, when a witness takes the stand to testify, the attorney calling the witness is directed to ask the witness to affirm whether he or she has been sworn.

VII. ORDER OF WITNESSES

<u>Witness</u>	<u>Proffered By</u>	<u>Issues #</u>
<u>Direct</u>		
George M. Bachman and Robert J. Camfield (Panel)	FPUC	1, 4, 9, 20, 22, 23, 25, 28, 29, 30, 31, 48, 49, 51, 52, 54, 55, 56, 57, 58, 59, 60, 77, and 78

<u>Witness</u>	<u>Proffered By</u>	<u>Issues #</u>
Cheryl Martin, Mehrdad Khojasteh, and Jim Mesite, Jr. (Panel)	FPUC	9, 10, 11, 12, 13, 14, 15, 16, 17, 20, 21, 22, 23, 24, 25, 26, 27, 32, 33, 34, 37, 38, 40, 41, 42, 43, 44, 45, 46, 47, 48, 54, 55, 56, 63, 64, 65, 67, 68, 71, 72, 77, 78, 81, 82, 83, 85, 86, 88, 89, 93, 94, 98, 100, 103, 104, 105, 106, 110, 111, 112, 113, 115, 116, 117, 119, 120, 121, 122, 134, 136
P. Mark Cutshaw	FPUC	1, 6, 33, 36, 58, 61, 63, 64, 68, 78, 82, 85, 86, 90, 91, 92, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133
Hugh Larkin, Jr.	OPC	9, 10, 11, 12, 14, 15, 16, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 31, 32, 33, 36, 37, 38, 40, 41, 46, 47, 61, 63, 65, 78, 119, 120, 121, 122
Donna DeRonne	OPC	6, 9, 14, 17, 47, 48, 54, 55, 56, 57, 60, 63, 68, 81, 82, 83, 85, 86, 88, 94, 98, 99, 110, 111, 113, 116, 119, 120, 121, 122

<u>Witness</u>	<u>Proffered By</u>	<u>Issues #</u>
Mark Cicchetti	OPC	49, 52, 57, 59, 60, 65
Ruth K. Young	FPSC	8, 9, 10, 12, 14, 15, 40, 41, 42, 43, 44, 45, 46, 47, 61, 75, 79, 81, 83, 90, 91, 92, 93, 94, 95, 96, 98, 99, 100, 101, 102, 103, 104, 105, 107, 108, 110, 111, 114, 116
Jeffrey A. Small	FPSC	48, 51, 56, 60, 118
Daniel Lee	FPSC	58

Rebuttal

George M. Bachman and Robert J. Camfield (Panel)	FPUC
Cheryl Martin, Mehrdad Khojasteh, Jim Mesite, Jr., Mark Cutshaw, Jr., and George M. Bachman (Panel)	FPUC
George Bachman, Cheryl Martin, P. Mark Cutshaw, Jr., Mehrdad Khojasteh, and Jim Mesite, Jr. (Panel)	FPUC

VIII. BASIC POSITIONS

FPUC: The current rates and charges are not adequate to provide FPUC an opportunity to earn a fair rate of return and provide service that is reasonable, sufficient, adequate and efficient. In order for FPUC to have the opportunity

to earn a fair rate of return and provide services at a level required to be provided, it is necessary to increase its rates and charges by approximately \$4.1 million on an annual basis.

The Company's jurisdictional rate base for the calendar year 2004, the test period for this request, is projected to be \$39,840,870; and the jurisdictional adjusted net operating income is projected to be \$1,088,574 using the rates currently in effect. The resulting adjusted jurisdictional rate of return on average rate base is projected to be 2.73%. Such a return is so low that it severely jeopardizes the ability of the Company to maintain its financial integrity and finance future operations.

FPUC has not sought a rate increase in its Northeast Division since 1989 and in the Northwest Division since 1994 and its current rates and charges are among the lowest in the state. That the rates are so low and rate relief has not been sought is attributable to the efforts of management and the employees to control costs and provide services in the most efficient manner possible. The Company has sought to increase productivity and efficiency in all of its programs and will continue to do so. However, despite the successful efforts of management and employees of FPUC, the Company now faces increased expenses associated with providing utility service that makes this request necessary.

FPUC proposes in this proceeding to consolidate the two divisions and operate as one. This would enhance efficiencies and be beneficial to both the customers and Company and be consistent with the operational structure of other utilities. Consolidation will provide the Company with the flexibility and ability to continue to increase productivity and manage costs, which FPUC has historically done.

FPUC is committed to providing electric service in a reasonable, "sufficient adequate and efficient" manner," just as it is obligated to do by statute. There is also

an obligation to provide shareholders with a reasonable and adequate return on their investment. Customers benefit if FPUC can provide a reasonable return but without rate relief both customers and shareholders will suffer. FPUC has presented testimony and support that adequately supports an increase in rates and charges to produce additional annual revenue of approximately \$4.1 million and that request should be approved.

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

STAFF: Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

IX. ISSUES AND POSITIONS

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?

POSITIONS

FPUC: Yes, FPUC's proposal to consolidate the rates and charges of its two electric divisions into one consolidated set of electric rates and charges should be approved. The consolidation will provide both long term and short term benefits to all of its electric customers through cost reductions and other related benefits described in detail in the response to the staff's fifth interrogatory, question 47 & 49 on this same issue along with providing consistency with other electric utilities in the state. Moreover, consolidation would be consistent with orders of this Commission (See e.g. In re: Pet of Fla. Pub. Util.

Co. for a Declaratory Statement Dkt No. 950272-EG, Order No. PSC-95-1242-FOF-EG, In re: Pet. for rate increase by Peoples Gas, Dkt. No. 020384-GU, Order No. PSC-03-0038-FOF-GU, pp. 11-13. (Martin, Cutshaw, Bachman)

OPC: No position.

STAFF: No position at this time pending receipt and analysis of outstanding discovery.

WATER DIVISION SALE

ISSUE 2: DROPPED

ISSUE 3: DROPPED

ISSUE 4: DROPPED

TEST PERIOD

ISSUE 5: STIPULATION - CATEGORY 2 STIPULATION, NUMBER 1

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

POSITIONS

FPUC: Yes. The forecasts were prepared using a 10-year trend analysis of customer growth and a 10-year weather normalized trend analysis for all KWH and KW amounts by rate class. Actual amounts were analyzed for the 1993 through 2002-time period and then projections were prepared for 2003 and 2004 based on these trends. (Cutshaw)

OPC: No. FPUC has underestimated the 2004 customer and usage levels. Since the rate filing, it has been announced that a Family Dollar Distribution Center will open in Marianna in June, 2004. This building is 907,007 square feet or 27 acres, and the operations

will directly employ 450 people. FPUC is now asking for additional investment and expenses to provide this service. Certainly, the usage and revenues should be recognized and included for this case. (DeRonne)

STAFF: No position at this time pending further analysis.

QUALITY OF SERVICE

ISSUE 7: STIPULATION - CATEGORY 2 STIPULATION, NUMBER 2

RATE BASE

ISSUE 8: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 1

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?

POSITIONS

FPUC: Yes, the projected test year 2004 Plant account balances are appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues which are still under consideration. The effect of these adjustments had not been calculated.

In addition, the 2004 rate base should be increased by \$624,013 to reflect the 13-month average inclusion of the Family Dollar construction project. The 2004 Plant in Service relating to this project is \$395,333. The completion of the Family Dollar project will result in an increase in plant in service of \$1,166,000. This significant project materialized at the end of 2003 and was not known at the time of the filing. (Mesite)

OPC: No. As FPUC agrees, its original rate filing included several inappropriate entries for Plant in Service. The final Plant in Services is a fall-out number,

dependent on the outcome on several specific issues to be considered by the Commission. (Larkin, DeRonne)

STAFF: No position at this time pending outstanding discovery and further development of the issues.

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?

POSITIONS

FPUC: Yes, the projected test year 2004 Common Plant allocated is appropriate, with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues still under consideration. The effect of these adjustments has not been calculated. (Mesitye)

OPC: No. It is overstated.

STAFF: No position at this time pending outstanding discovery and further development of the issues.

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

POSITIONS

FPUC: Yes. The projected test year 2004 Plant retirements are appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues which are still under consideration. The effect of these adjustments has not been calculated. (Mesitye)

OPC: Yes. (Larkin)

STAFF: No position at this time pending outstanding discovery and further development of the issues.

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

POSITIONS

FPUC: Yes. Adjustments to the projected test year 2004 Plant, Accumulated Depreciation and Depreciation expense are appropriate for effects of agreed upon adjustments contained within the FPSC audit findings, revised projects, and some agreed upon issues which are still under analysis. The effect of these adjustments has not been calculated.

Also, to reflect the inclusion of the effects of the Family Dollar construction project, 2004 13-month average plant should be increased by 395,333 and CWIP should be increased by \$230,500. 2004 Depreciation expense should be increased by \$10,435, and 2004 13-month average accumulated depreciation should be increased by \$1,821. This significant project materialized at the end of 2003 and was not known at the time of the filing. (Mesite)

OPC: Yes. Adjustments should be made pursuant to Staff Audit exceptions 1-4. Plant should be reduced by \$84,300; depreciation reserve increased by \$14,699; depreciation expense increased by \$2,596. (Larkin)

STAFF: No position at this time pending outstanding discovery and further development of the issues.

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?

POSITIONS

FPUC: Yes. Depreciation rates were applied appropriately for 2002 and 2003. For 2002, combined rates were not

used. Depreciation was actual historical results; the rates used were the separate divisional depreciation rates as approved in our last depreciation studies. The Depreciation rates for 2003 were combined using a simple average rate for each shared account. For transmission accounts, the full Fernandina Beach rate was applied to the transmission account balances. The results of this combination materially represent the same results had separate rates been used and accordingly, no adjustment is necessary. (Mesite)

OPC: No position.

STAFF: No position at this time pending outstanding discovery and further development of the issues.

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?

POSITIONS

FPUC: Yes. The projected test year 2004 Accumulated Depreciation is appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues, which are still under consideration. At this time we do not know the effects of all of these adjustments.

Also, 2004 13-month average accumulated depreciation should be increased by \$1,821 to reflect the inclusion of the effects of the Family Dollar construction project. The completion of the Family Dollar project will result in a full annual increase in accumulated depreciation for \$23,695 on this project. This significant project materialized at the end of 2003 and was not known at the time of the filing. (Mesite)

OPC: No. Certain adjustments must be made to reflect the effects of other issues. (Larkin, DeRonne)

STAFF: No position at this time pending outstanding discovery and further development of the issues.

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?

POSITIONS

FPUC: Yes. The projected test year 2004 accumulated depreciation for common plant is appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues, which are still under consideration. At this time we do not know the effects of all of these adjustments. (Mesite)

OPC: The balance should be increased.

STAFF: No position at this time pending outstanding discovery and further development of the issues.

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?

POSITIONS

FPUC: Yes, this 2004 amount is appropriate. (Mesite)

OPC: No position at this time. OPC is waiting for responses to discovery on this issue. (Larkin)

STAFF: No position at this time pending further analysis.

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?

POSITIONS

FPUC: Yes, the construction work in progress for 2004 is appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues which are still under consideration. The effect of these adjustments has not been calculated.

In addition, the 2004 13-month average CWIP should be increased by \$230,500 to reflect the inclusion of the affects of the Family Dollar construction project. The existence of this project was not known at the time of the filing. (Mesitye)

OPC: It is FPUC's proposed treatment of CWIP that is inappropriate. CWIP should not be included in rate base because it is not a currently used and useful asset. FPUC's financial coverage ratios are not such that CWIP should be included in rate base to relieve financial duress. Moreover, there are two additional reasons that these specific projects should not be included: (1) The "Jessy Terry Substation" rebuild (\$435,154) has a substantial retirement to correspond with it. If the CWIP is added to plant-in-service, FPUC will be charging its customers depreciation expense on both old and new assets, even though only one is in service at any particular time. (2) Some of the CWIP projects (e.g., SCADA system) will result in operational efficiencies. Customers should not be forced to pay for a new efficiency project, and simultaneously bear all the costs of an older less efficient system. The CWIP should be excluded from rate base. (DeRonne)

STAFF: No position at this time pending further analysis.

ISSUE 18: DROPPED

ISSUE 19: DROPPED

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

POSITIONS

FPUC: Yes. The treatment of cash should be the same as other typical balance sheet accounts when computing Working Capital: 13-month average. FPUC has continually demonstrated responsible cash management practices.

Requiring the lower of the 5-year 13-month average, or the current 13-month average, is inconsistent and is not valid in computing actual working capital. The Company questions the appropriateness of using a 5 year average compared to a 13 month average. A 13 month average should be used for computing working capital.

If this 13 month average is not applied consistently to all working capital components, the balance sheet would not balance. Adhering to double entry accounting and a proper balance sheet, if an adjustment is made to reduce (credit) one account, it is necessary and proper accounting treatment to increase (debit) another account.

To use a reduced 5 year average of cash as the normal balance, would require an offsetting adjustment for the same amount to an account such as accounts payable; thus negating any effect to working capital. (Martin, Khojasteh, Mesite, Bachman)

OPC: 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. This would reduce the 2002 cash working capital by \$732,793 on a total company basis. (Larkin)

STAFF: No position at this time pending further analysis.

ISSUE 21: DROPPED

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

POSITIONS

FPUC: Yes. Special deposits were properly included in working capital for 2002; however, when trended for the projection year 2004 they really represent general cash funds. These 2002 funds represent a portion of cash that was reclassified temporarily as 1340.1 during 2002, but should be treated as general cash for projection purposes and should be included in working capital as cash for 2004. (Mesity, Bachman)

OPC: 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. Remove \$41,622 from working capital. (Larkin)

STAFF: No position at this time pending further analysis.

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

POSITIONS

FPUC: No. The project fund-restricted represents funds that were available for future use by our consolidated company operations. The physical transfer of funds did not occur until there was certain construction performed, but the actual use of this cash and funds is shared by all divisions and utilities. These 2002 funds as trended to 2004 represent cash that was transferred to general cash in 2003 and should be included in working capital as cash for 2004. (Mesite, Bachman)

OPC: 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. The 2002 total company working capital should be reduced by \$3,507,475 to reflect this removal. (Larkin)

STAFF: No position at this time pending further analysis.

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

POSITIONS

FPUC: No. The balance in Accounts 1310.4 through 1310.44 are properly included in working capital. During 2002 the actual cash in these accounts was transferred to the general cash account, 1310.1. This amount should

be included in working capital as cash for the 2004 projected test year. (Mesite)

OPC: Yes. In 2003, FPUC determined that these accounts were no longer needed and closed the accounts. Accordingly, the escalated historical balances should be removed from the working capital calculation. Working capital should be reduced by \$26,461. (Larkin)

STAFF: No position at this time pending further analysis.

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?

POSITIONS

FPUC: No. This cash represents funds that are properly included in working capital. It does not matter, from a financing viewpoint, where the source of cash originated. Whether cash is received from debt, equity, an asset sale, or a contribution, is irrelevant, since the cash is part of invested working capital. (Mesite, Bachman)

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

STAFF: No position at this time pending further analysis.

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

POSITIONS

FPUC: Yes, the customer accounts receivable for the projected test year 2004 is appropriate. (Mesite)

OPC: No. FPUC used an escalation factor of customer growth and inflation. This is not a valid escalator because historically these accounts have shown no correlation

to customer growth and inflation. The accounts receivable balance has declined steadily over the last five years, notwithstanding positive customer growth and inflation. There is obviously no relationship. Instead, the customer accounts receivable should be projected based on its ratio to revenue in 2002, the most recent available year at the time of the filing. (Larkin)

STAFF: No position at this time pending further analysis.

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

POSITIONS

FPUC: Yes. The accumulated provision for uncollectibles for the projected test year 2004 is appropriate. (Mesite)

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

STAFF: No position at this time.

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

POSITIONS

FPUC: No, the Company has recomputed 2004 prepaid insurance for Liability, Property and Workmen's Compensation, based on actual December 31, 2003 balances and the data provided by insurance providers for 2004. The various allocation factors used are those in effect for the year 2004. Total 2004 Prepaid Insurance is \$179,445.

The recomputed 2004 13-month average for Liability, Property and Workmen's Compensation is \$158,598. The remaining general prepaid insurance items are \$20,065,

\$20,346, and \$20,847 for 2002, 2003, and 2004, respectively. The total decrease to working capital for the projected test year would be \$30,333. (Bachman, Mesite)

OPC: No. FPUC projected the balance for prepaid insurance based on its ratio to total revenue. 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)

STAFF: No position at this time pending further analysis.

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

POSITIONS

FPUC: Yes. The allocation of prepaid insurance to the electric operations is correct and water operations are not included this account. As presented in Issue 28, the 2004 balance for prepaid insurance has been recomputed using actual 2003 historical data in conjunction with information provided by FPU's insurance carriers. Water operations are not included in any of the data and have been removed from 2004 projections.

This recomputed prepaid insurance balance should not be adjusted for Audit exception #17 since the effect of this exception has already been accounted for and adjusted in Issue 28. There is an adjustment to the amount, not the allocation, to be made from FPSC audit exception #17. No other adjustments are needed due to the fact that audit exception #17 is based on the new policy period's actual invoices that excluded water components. The allocation factors used were calculated correctly as the premiums for insurance excluded the water division. (Bachman)

OPC: No. Like the cash accounts, FPUC has reflected the discontinuation of water operations by increasing the allocation factor without decreasing the total prepayment. As FPUC now recognizes, some reduction will result from discontinuing water operations. (Larkin)

STAFF: No position at this time pending further analysis.

ISSUE 30: DROPPED

ISSUE 31: Should an adjustment be made to prepaid pension expense in the calculation of working capital?

POSITIONS

FPUC: Yes, the prepaid pension asset in working capital should be reduced by \$451,268 to account for revisions based on the latest projections by our actuary. Prepaid pension expense is a valid working capital component as approved by the Florida Public Service Commission in prior rate proceedings. A prepaid pension represents, in essence, shareholder contributions in excess of the required funding and increases the invested working capital. (Bachman)

OPC: 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 run the operations. Since prepaid pensions do not represent dollars that were advanced by investors, they should not be included in working capital. (Larkin)

STAFF: No position at this time.

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

POSITIONS

FPUC: The Company believes that it has used proper escalation factors to project the balance for unbilled revenue. (Khojasteh)

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

STAFF: No position at this time pending further analysis.

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

POSITIONS

FPUC: No, this receivable is appropriately included in working capital. It represents a receivable due from a associate member of the Southeast Electric Exchange and represents reimbursable amounts incurred during mutual assistance by FPU when render storm assistance to Entergy Louisiana. The company and our customers would be the beneficiary of this same assistance from other companies if they were hit by a storm. (Cutshaw, Mesite)

OPC: 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)

STAFF: No position at this time pending further analysis.

ISSUE 34: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 16

ISSUE 35: DROPPED

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

POSITIONS

FPUC: Yes. The information for the proper amount of storm damage reserve has been provided but was not accurately reflected in the MFR schedules provided in the rate proceeding. The correct amount available for storm damage reserve for 2004 is estimated to be \$2,216,781. (Cutshaw)

OPC: 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, FPUC's projection of a decline in the reserve with a much larger accrual is illogical and should be corrected. The reserve should be set at the September, 2003 level of \$2,170,246. (Larkin)

STAFF: No position at this time.

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

POSITIONS

FPUC: Yes. The reallocation of 2002 working capital was appropriate with respect to the proper allocation factors applied to the common corporate balance sheet accounts. However, the actual balances of common corporate accounts were not adjusted for reductions or increases as a result of the sale of the water division. Since both assets and liabilities were treated the same and simply reallocated instead of

adjusting the balances first for the loss of water, the adjustment was not technically correct. However, the effect on the total adjustment for corporate common balance sheet accounts is immaterial and would have actually increased working capital slightly.

The Company is willing to eliminate the allocation adjustments that were applied to the shared common accounts. This will produce an estimate for the effect that the loss of water would have had on the actual balance sheet amounts. As an alternative, we are also willing to estimate the effect on these balances for the loss of water by a reduction to the actual common balances of 2%, and then apply the adjusted allocation factors to those reduced asset and liability balances. Both of these methods would produce similar results.

It would be appropriate to increase 2002 working capital as contained in the MFR by \$27,244 as a result of the estimated adjustments for the elimination of water.

In arriving at 2004 working capital, this adjustment should be trended using the appropriate factors and would result in an increase of approximately \$30,000 (the exact amount is not known at this time) to working capital. (Mesite)

OPC: 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)

STAFF: No position at this time.

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

POSITIONS

FPUC: No. Although the appropriate adjustment was made to remove all of the effects from the income statement related to the cost recovery clause; there should be an adjustment made to working capital to remove the effects of both over and under recoveries of fuel and conservation costs. These are handled through separate dockets and provide for interest in those separate proceedings. The over and under recoveries should be removed since interest has been provided and accumulated on these balances and will either be returned to customers or paid to the company as appropriate. The current method double penalizes the company by requiring them to in effect pay double the interest to customers on the over recovery balances.

The purpose of the fuel and conservation cost recovery clauses is to allow for the direct pass thru of costs, and to be revenue neutral to the company. Over and under recoveries are theoretically estimated to be 0 at the end of each projection period. Actual fluctuations from these result through timing differences and weather fluctuations which are out of the control of the company and can result in either over or under recoveries, but they are part of the normal course of business. FPUC does not have a specific issue with the PSC estimate for 2004 for fuel over-recoveries of \$490,094, and conservative over-recoveries of \$74,388; however, we do not feel it is appropriate to include these in working capital. It is appropriate that all of these components be removed for determining base rates. (Mesity)

If the commission feels the interest rate used in the separate fuel and conservation dockets is not adequate based on the commercial paper rate; we would suggest changing the rate in the fuel and conservation dockets

to equal the overall rate of return. This would provide the additional interest without double penalizing the company by including over recoveries in working capital.

OPC: 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)

STAFF: No. Commission practice is to exclude under-recoveries from and to include over-recoveries in working capital allowance. The Company projected zero under-recoveries and zero over-recoveries for both fuel and conservation for 2004, to eliminate all effects of the clauses. For years 1997 through 2002, the Company experienced average net over-recoveries of fuel of \$490,094 and average net over-recoveries of conservation of \$74,388. These net over-recoveries which are liabilities should be included in working capital allowance.

ISSUE 39: DROPPED

ISSUE 40: Should Account 1430, Other Accounts Receivable, be reduced to exclude loans to employees?

POSITIONS

FPUC: No. These did not represent employee loans. These amounts should not be summarily removed from Working Capital as non-utility functions. The amounts represented by this account are not employee loans, but rather amounts due to the Company from retirees and employees from employment related transactions in the normal course of business. Such transactions are the individual's share of Company paid medical, health and disability insurance, the individual's share of Company required uniforms and equipment; garnishment of wages as required by various governmental authorities; and prepaid expense advances to employees for business trips, etc. The reimbursement of these

amounts to the Company is from direct repayment by employees, or by payroll deduction and is in the normal course of business.

The Company does concur that a portion should be removed as non-utility, and that the computation of the amount to be removed as non-utility is correct. These amounts are: \$405, \$422, and \$434 for 200, 2003, and 2004, respectively. (Mesite)

OPC: Yes.

STAFF: No position at this time pending further analysis.

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

POSITIONS

FPUC: FPUC did not take issue with the audit exception to reduce working capital by \$7,782 for 2002, \$8,105 for 2003 and \$8,345 for 2004. (Mesite)

OPC: Yes.

STAFF: No position at this time pending further analysis.

ISSUE 42: Should Unamortized Rate Case Expense be excluded from working capital allowance?

POSITIONS

FPUC: No. It is appropriate to include unamortized rate case expense in working capital as it relates to reasonable and prudent expenses and it is a valid component of working capital. The offset to working capital for this item is cash and it has been removed. Excluding unamortized rate case expense from working capital would unfairly penalize the Company and does not follow appropriate working capital computations. It is also consistent with the treatment of

Unamortized Rate Case expense in our last rate proceeding in our Marianna division, Docket 930400-EI. The commission found that rate case expense was a necessary expense of doing business in the regulated arena; and as such, a utility should be allowed to earn a return on its unamortized balance. (Martin)

OPC: Agree with staff.

STAFF: Yes. Unamortized rate case expense should be excluded from working capital allowance. (Young)

ISSUE 43: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 2

ISSUE 44: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 3

ISSUE 45: STIPULATION - CATEGORY 2 STIPULATION, NUMBER 9

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

POSITIONS

FPUC: Yes, the projected test year 2004 Working Capital level is appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues, which are still under consideration. The effect of these adjustments has not been calculated. (Mesite)

OPC: No. FPUC's filing overstates its working capital needs, and must be adjusted for several issues. The final result is a fall-out number, dependent on the outcome on several specific issues to be considered by the Commission.

STAFF: No position at this time pending further analysis.

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

POSITIONS

FPUC: Yes, the projected test year 2004 requested rate base is appropriate with the exception of the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues which are still under consideration. The effect of these adjustments has not been calculated.

In addition, the 2004 rate base should be increased by \$624,013 to reflect the inclusion of the Family Dollar construction project. The annualized effect of this Family Dollar project would be an increase to rate base of \$1,142,305. This significant project materialized at the end of 2003 and was not known at the time of the filing. (Mesite)

OPC: No. The rate base used for FPUC's rate filing is overstated. At this point, OPC is recommending adjustments reducing rate base to \$34,741,040. (Larkin)

STAFF: No position at this time pending further analysis.

COST OF CAPITAL

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

POSITIONS

FPUC: The \$3,449,838 as filed on schedule D-1a, page 3 of 4 is appropriate for inclusion in the capital structure. Adjustments may be necessary to reflect the income tax true up associated with the 2002 income tax return. (Bachman, Khojasteh)

OPC: 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)

STAFF: No position at this time pending further analysis.

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

POSITIONS

FPUC: The appropriate balance amounts and cost rate for the unamortized investment tax credits, including zero cost and overall cost elements, are the balances shown for the year-end '04. These balances are \$2,308 and \$182,409, respectively. The cost rate for overall ITC cost element is 10.00%. (Bachman, Camfield)

OPC: 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%. (Cicchetti)

STAFF: The appropriate 13-month average balance for unamortized investment tax credits at zero cost is \$2,308, and the appropriate 13-month average balance for unamortized investment tax credits at weighted cost is \$207,227. The weighted cost will be developed using the ratios and cost rates established in Issue 60.

ISSUE 50: DROPPED

ISSUE 51: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 4

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

POSITIONS

FPUC: The appropriate cost rate for long-term debt is 8.00%.
(Bachman, Camfield)

OPC: 7.87%

STAFF: No position at this time pending further analysis.

ISSUE 53: DROPPED

ISSUE 54: Does the Company's 2004 projected capital structure account for the Job Creation and Work Assistance Act of 2002?

POSITIONS

FPUC: Yes. However, at the time of the rate case filing, the Company had not filed its 2002 tax return. The amounts in the filing are based on the Company's best estimate at the time; however, no adjustment is necessary.

Although the deferred tax may be understated, the effects will not be material since it will result in offsetting amount to current tax payable, cash, or notes payable, thus increasing working capital by the same amount or reducing notes payable by the same amount. (Bachman, Khojasteh)

OPC: 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.

STAFF: No position at this time pending further analysis.

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

POSITIONS

FPUC: Yes. The Company has not filed its tax 2003 tax return. The amounts represent Company's best estimates; however, no adjustment is necessary.

Although the deferred tax may be understated, the effects will not be material since it will result in offsetting amount to current tax payable, cash, or notes payable, thus increasing working capital by the same amount or reducing notes payable by the same amount. (Khojasteh, Bachman)

OPC: 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)

STAFF: No position at this time pending further analysis.

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

POSITIONS

FPUC: No. The past practice in rate proceedings included the allocated common plant deferred taxes only to the gas divisions. This is because the common plant items

are located within the South Florida gas division of the Company.

To allocate common plant deferred taxes to electric would result in double allocation since they were already included in the prior natural gas proceeding. (Khojasteh, Bachman)

OPC: 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)

STAFF: No position at this time pending further analysis.

ISSUE 57: What is the appropriate capital structure for the December 2004 projected test year?

POSITIONS

FPUC: The appropriate capital structure for the test year is the year end capital structure as shown on Exhibit GB-RC-1 to the testimony of George Bachman and Robert Camfield. Further, we believe that equity participation level, as shown for the year end 2004 capital structure is appropriate. We have elaborated on this issue considerably. To reiterate, we believe that equity participation, stated on a traditional basis, should be near 50%, and on a regulated basis near 46%. We are not opposed to using a 13-month average but feel the year-end is more representative of the structure going forward.

Also, the consolidated capital structure should be used to allocate certain common capital components including common equity, long term debt, short term debt and preferred stock to all areas of the company. It is not appropriate to arbitrarily remove propane equity 100% from common equity before making this allocation. Flo-Gas (our wholly owned subsidiary) is also financed with long - term and short - term debt

of this consolidated company, and accordingly, they proportionately share in these components. (Bachman, Camfield)

OPC: No position at this time.

STAFF: All the balances in the capital structure should be calculated on a 13-month average basis.

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?

POSITIONS

FPUC: Yes. There is clear and unambiguous evidence showing that FPU has achieved exceptionally good overall price and cost performance. The recommended performance allowance is a positive 1.00 percentage point addition to the cost rate of common equity. (Bachman, Camfield, Cutshaw)

OPC: No. Despite some highly critical customer testimony, the OPC is not recommending an equity penalty at this time.

STAFF: No, see staff witness Daniel Lee's direct testimony. (Lee)

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

POSITIONS

FPUC: The rate of return for common equity is 12.00%, which would be increased by any performance award. (Bachman, Camfield)

OPC: The proper cost rate is 9.00%.

STAFF: No position at this time pending further analysis.

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

POSITIONS

FPUC: The overall cost of capital for regulatory purposes is 9.11%, which would be increased by any performance award.

The reconciliation of the rate base and the year-end '04 capital structure are appropriately balanced. Please note that there is a change to the balance for common equity made subsequent to the filing as the amount filed for common equity was inadvertently understated. Please reference FPUC's response to the Staff's fifth Interrogatory, Number 51. (Bachman, Camfield)

OPC: At this point, the Citizens recommend the capital structure presented in the exhibits sponsored by Mark Cicchetti. (Cicchetti)

STAFF: No position at this time pending further analysis.

NET OPERATING INCOME

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

POSITIONS

FPUC: Yes. Although the decrease expected in 2003 was not realized, a significant decrease is expected during 2004 in accordance with the original intent of the forfeited discount tariff. The decrease shown in 2003 still is appropriate for purposes of projecting 2004 amounts to allow for the realization of expected improvements in customer's payment habits; however, it will take customers an estimated period of one year to experience a late payment and then to take corrective

action in the future to ensure they make their future payments on time. Thus the reduction of late fees for the most part will have the largest impact in the second year following the implementation of the increased late fee.

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

Forfeited discount revenues in the amount of \$351,368 were collected in 2003. However, based on the continuation of the forfeited discount policy and a time lag associated with customer making payments of electric bills a priority in order to avoid the late fee, we expect a decrease of approximately one third during 2004 which will make the 2004 projection of \$255,104 a reasonable amount. (Cutshaw)

OPC: 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)

STAFF: No. Forfeited Discounts should be increased by \$34,364 for 2004. (Young)

ISSUE 62: DROPPED

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?

POSITIONS

FPUC: Yes, Revenue of \$14,491,294 projected for the December 2004 test year is appropriate. (Cutshaw, Khojasteh)

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

STAFF: No position at this time pending further analysis.

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

POSITIONS

FPUC: The escalation factors used in schedule C59 (C-19) are appropriate because they provide a reasonable basis to project actual expected expenditures. (Cutshaw, Khojasteh)

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

STAFF: The inflation factor for 2003 is 2%. The Company inflation factor of 1.3% for 2004 is appropriate.

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

POSITIONS

FPUC: Yes. The trend rates are appropriate as used. The results after application of these factors produced

anticipated and expected results for our 2004 operation and maintenance expenses, and accordingly the end results of the applied factors are reasonable. Annualizing the 2003 expenses or reviewing the results compared to the trended numbers, does not necessarily produce an accurate picture of the expected expenses as they relate to the 2004 projected amounts. We had some budgetary delays in 2003 as well as personnel shortages that contributed to abnormal results in 2003. (Khojasteh)

OPC: No. The Company did not separate out the payroll and non-payroll costs included in its expense accounts prior to trending. Additionally, the Company's application of the combined payroll and customer growth trend rate to seventeen separate expense accounts and its FICA expense account for projecting 2003 and 2004 costs is not appropriate and should be replaced with the payroll only trend factor. The Company's application of the combined inflation and customer growth trend rates to twenty-four expense accounts is also not appropriate and should be replaced with an inflation only factor.

STAFF: No position at this time pending further analysis.

ISSUE 66: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 5

ISSUE 67: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 6

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?

POSITIONS

FPUC: Yes, with exception of the agreed upon adjustments suggested by the staff in their audit report, the 2004 projected test year O&M expenses are appropriate. (Cutshaw, Khojasteh)

OPC: No. The PSC should make several adjustments identified in various issues. The final O&M is a fall-out number, dependent on the outcome on several specific issues to be considered by the Commission.

STAFF: This position is based upon the decisions in other O&M issues.

ISSUE 69: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 7

ISSUE 70: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 8

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

POSITIONS

FPUC: No. The 2004 projected test year amount of advertising expense is appropriate, valid and therefore, no adjustment is needed. (Khojasteh)

OPC: No position at this time.

STAFF: Advertising Expense in Account 9131, Promotional Advertising, should be reduced by \$179 for year 2002. Advertising Expense in Account 9132, Conservation Advertising, should be reduced by \$240 for year 2002. Advertising Expense remaining totals \$3,110 for 2002. The reductions for 2003 and 2004 as well as the amounts remaining to determine base rates are dependent upon the factors decided in Issues 64 and 65.

ISSUE 72: DROPPED

ISSUE 73: DROPPED

ISSUE 74: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 9

ISSUE 75: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 10

ISSUE 76: DROPPED

ISSUE 77: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 17

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

POSITIONS

FPUC: Yes. The storm reserve was determined using a Maximum Historical Event model similar to the model used by Gulf Power Company in its 1996 study in determining the appropriate Storm Reserve. The Maximum Historical Event was an actual recorded hurricane event. FPU did not use the Stochastic Hurricane Event, which consists of modeling for the projected worst-case theoretical event.

The modeling process involved identifying facilities in both divisions and using loss rates used in the Gulf Power Study. These models indicated a storm reserve amount in 2014 should be set at \$4,413,839.

This modeling process is appropriate in order to protect assets without adversely impacting customer rates should an event occur. As stated in Mr. Hugh Larkin's testimony, the annual storm reserve accrual amount was exceeded in 1995 due to Hurricane Opal. The track of this storm was approximately 110 miles west of Marianna and still impacted Marianna to the extent that the annual accrual amount was exceeded by \$21,225. If the track of the storm had been closer to Marianna, the storm damage would have been significant which is contrary to the statement in Mr. Larkin's testimony that "any storm would more than likely dissipate significantly by the time it reached the Marianna service territory". Numerous occurrences over the years have illustrated that major hurricanes are still capable of causing severe damage to distribution and transmission facilities after traveling up to 100 miles inland. Marianna is located approximately 50 miles inland from the coast.

Fernandina Beach (Northeast Florida Division) is located on an island directly along the eastern coast of Florida. Although we have not had recent historical storms significantly affecting this location, we have had several storms that have come in close proximity. If this island were to receive a direct or close impact, there would be significant damage and cost. It would not be prudent or responsible as a company to not provide for the possibility of a major storm in this area; it is a possibility. We cannot use the assumption that we expect that this location will never be hit by a major storm since recent history has not shown this as an actual event.

We believe the accrual should be adjusted; however, should the accrual be adjusted as requested, the Commission should recognize the possible need for relief should a storm cause depletion in the reserve and authorize a request for emergency relief in that event. (Cutshaw)

OPC: Yes. The accrual is too high because the reserve target level is too high. 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. Accordingly, FPUC has overstated a reasonable target level for its reserve. FPUC's losses have exceeded its accrual in only one year between 1990 and 2003. The accrued balance has grown to an acceptable level, so the accrual does not need to be increased for 2004. (Larkin)

STAFF: Agree with OPC's position.

ISSUE 79: DROPPED

ISSUE 80: DROPPED

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

POSITIONS

FPUC: No. The cost was slightly overstated for payroll outsourcing. The annual cost of payroll outsourcing company wide is expected to be \$ 40,000, effective early 2004. The consolidated electric portion of this expenditure is \$13,200. A reduction to its 2004 projected test year expenses is necessary in the amount of \$800. (Martin)

OPC: 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)

STAFF: No position at this time.

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

POSITIONS

FPUC: Yes. The additional \$160,000 for tree-trimming activities identified in MFR Schedule C-59 (C-19) item N is appropriate. FPU is currently utilizing 2.5 tree trimming crews in the Northwest Florida Division and 1 tree trimming crew in the Northeast Florida Division. The 2.5 tree trimming crews in Northwest

Florida requires that 2 crews be utilized for 6 months and 3 tree trimming crews be used for 6 months. FPU plans to add 1.5 tree-trimming crews in the Northwest Florida Division in order to have 4 crews in Northwest Florida and 1 crew in Northeast Florida. The will allow both divisions to complete tree trimming activities at an acceptable level. The Northwest Florida Division used three (3)-tree trimming crews at the end of 2003 in order to complete the yearly complement of 2.5 tree-trimming crews. This makeup will allow FPU to provide a four (4) year trim cycle on overhead distribution lines and improve overall system reliability. (Cutshaw, Khojasteh)

OPC: 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)

STAFF: No position at this time pending receipt of discovery and further analysis.

ISSUE 83: Should Account 923.3, Outside Audit and Accounting, be reduced for certain tax-related accounting fees?

POSITIONS

FPUC: No. An adjustment is needed relating to staff's audit exception 16 on tax consulting expense. The 2004 test year expense should be reduced by \$9,389, which is the electric allocated portion of the common expense reduction of \$26,000. (Khojasteh)

OPC: 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)

STAFF: No position pending further analysis.

ISSUE 84: DROPPED

ISSUE 85: Should the Company be allowed to charge its customers for the projected economic development expenses?

POSITIONS

FPUC: Yes. The requirements for the recovery of economic development expenses are included in FPSC Rule 25-6.0426. Amounts shown in this rate proceeding meet the requirements of this rule and should be included. (Cutshaw, Khojasteh)

OPC: 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)

STAFF: Yes. The Company's projected costs meet the requirements of Rule 25-6.0426, Florida Administrative Code.

ISSUE 86: Is the amount projected for 2004 economic development expenses reasonable?

POSITIONS

FPUC: Yes. The requirements for the recovery of economic development expenses are included in FPSC Rule 25-6.0426.

Rule 25-6.0426 states that a utility may recover "90 percent of the expenses incurred for the reporting period so long as such expenses do not exceed the lesser of 0.15 percent of gross annual revenues or \$3 million".

Amounts shown in this rate proceeding meet the requirements of this rule and should be included. These expenses provide benefits to the customers by encouraging growth and attracting business to the area. (Cutshaw, Khojasteh)

OPC: 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.

STAFF: Yes. The amount included for year 2004 in Account 930.23, Economic Development, is less than the \$25,000 the Company intends to spend in economic development activities in 2004. The description of and the basis for the \$25,000 projected cost was provided by the Company in response to OPC's Interrogatory No. 32.

ISSUE 87: DROPPED

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

POSITIONS

FPUC: Both the allocation factors used and the amount of retained water expenses are appropriate for the

projected 2004 test year for the common corporate and common local expenses. Before applying the new allocation factors to the amount of retained water expenses, we removed any savings or reduced expenses that resulted from the loss of the water division at both the common local and corporate level.

At the local level, before making any local allocation of retained expenses, we eliminated any expenses that we no longer were going to incur including employees that were no longer employed or expenses that would no longer be incurred. We also looked at specific expenses such as utilities on an item-by-item basis and allocated only those that would be retained and then allocated those to the electric division as an adjustment. We used various allocation factors at a local level for retained expenses as appropriate.

At the corporate common level, we eliminated any common expense that would not be retained such as insurance and pension and employee benefits, and then allocated the retained corporate expenses using the new allocation factors as appropriate. Some corporate common expenses were not going to be reduced as they related to corporate personnel and their office expenses. These were reallocated to the retained divisions using revised allocation factors without the water division.

Nature Coast was inadvertently overlooked for these common expenses for the purposes of allocations. However, the factors when recomputed for including Nature Coast did not change. There is no adjustment needed for the inclusion of Nature Coast.

Allocation factors were adjusted for the loss of water and were applied to only retained expenses after the sale of the water division; accordingly our water related adjustments to expenses are appropriate and represent only those expenses we will retain.
(Khojasteh)

OPC: 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, 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 the 2002 level on the assumption that the expenses that had been allocated to the water operations will be removed from FPUC's overall expenses. (DeRonne)

STAFF: No position at this time pending further analysis.

ISSUE 89: DROPPED

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

POSITIONS

FPUC: No. The projections are accurate and no adjustment is necessary. Although we delayed the start of this position, we have begun interviewing for this position and expect to fill by early 2004. This position is necessary in the operation of our mapping, customer outage and Scada systems. All of these systems are to improve the monitoring of system reliability, which was noted as a deficiency in our recent PSC reliability audit. (Cutshaw)

OPC: No position at this time.

STAFF: No position at this time pending receipt of discovery and further analysis.

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?

POSITIONS

FPUC: No. The projections are accurate and no adjustment is necessary. Due to budgetary concerns in 2003, some maintenance and construction projects were delayed; however, as we continue to improve our system reliability, we expect to be fully operational with this system in 2004. (Cutshaw)

OPC: No position at this time.

STAFF: No position at this time pending receipt of discovery and further analysis.

ISSUE 92: Should Account 590.0, Maintenance Supervision and Engineering, be reduced for the transformer maintenance contract?

POSITIONS

FPUC: No. The projections are accurate and no adjustment is necessary. Although this particular item is periodic and not annual, we have other recurring maintenance that is scheduled between these types of projects. The overall level of maintenance expense which includes this item is recurring and necessary, perhaps just not the specific item or type of maintenance. (Cutshaw)

OPC: No position at this time.

STAFF: No position at this time pending receipt of discovery and further analysis.

ISSUE 93: DROPPED

ISSUE 94: Should payroll expense be adjusted for discontinued operations?

POSITIONS

FPUC: No. Although the Company feels that an adjustment may be needed to payroll expense related to staff's Audit Disclosure 10, we do not believe that we can agree on this issue until we have additional details related to this adjustment. We are concerned that the adjustment has not taken into account issues such as vacant positions and may also result in duplicating adjustments already agreed to through other issues.

We will be able to provide a position pending further discussion with the staff to clarify the issue.
(Khojasteh)

OPC: Yes. The OPC has recommended that the Company's adjustment for discontinued operations, which changes the allocation factors applied for electric operations, be removed in its entirety. This also impacts the amount of payroll expense allocated to electric operations.

STAFF: Yes. Payroll Expense for 2004 should be reduced by \$109,820 for discontinued operations.

ISSUE 95: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 11

ISSUE 96: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 12

ISSUE 97: DROPPED

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

POSITIONS

FPUC: Yes. \$2,523 adjustment needs to be added to account 903 so expenses should be increased by an additional \$2,523. (Khojasteh)

OPC: The OPC has recommended that the Company's adjustment for discontinued operations, which changes the allocation factors applied for electric operations, be removed in its entirety. This also impacts the amount of payroll expense allocated to electric operations.

STAFF: Yes. Account 903 should be increased by \$2,523 for payroll related to discontinued operations that was charged to Account 904 in 2004. Uncollectible Accounts Expense is taken up in Issue 114. (Young)

ISSUE 99: Should Account 920, Administrative and General Salaries, be reduced to correct the allocation factor?

POSITIONS

FPUC: Yes. In 2003, actual expense for this account for electric was \$832,636. However, an increase of \$19.057 (\$48,864 times the electric allocation factor of 39%) should be made to this account for temporary vacant positions in 2003. This will increase the 2003 amount to \$851,693. the projected 2004 amount for this account using the same factors as filed originally would be \$877,244 (\$851,693 times the payroll factor of 3%). Therefore, the reduction to this account should be \$108,795. (Khojasteh)

OPC: Yes.

STAFF: No position pending receipt of discovery and further analysis. (Young)

ISSUE 100: Should Account 921.5, Miscellaneous Office Expense, be reduced for costs related to temporary staff?

POSITIONS

FPUC: No. All temporary help used for rate case would have been charged to rate case expense. The Company uses temporary help for many different reasons. Peaks in workload, loss of employees, temporary projects are all valid reasons for the use of temporary employees. Therefore, this is a normal part of operating expense and no adjustment is necessary. (Khojasteh)

OPC: Yes.

STAFF: No position pending receipt of discovery and further analysis.

ISSUE 101: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 18

ISSUE 102: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 19

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

POSITIONS

FPUC: No. Training is an ongoing activity. Although the Company may not be involved with the specific types of training provided by ORCOM Solutions, Akerman Senterfit, and SEC on a recurring basis, there are different training seminars in which we may participate. Also, the fact that New Horizons, a vendor which provided computer related training is out of business does not mean that the Company will not use another firm to provide this service. The Company uses various vendors to supply computer related training and this is a valid recurring expenditure. (Khojasteh)

OPC: Yes.

STAFF: No position at this time.

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

POSITIONS

FPUC: No. Training is an ongoing activity. Although the Company may not be involved with the specific types of training provided by ORCOM Solutions, Akerman Senterfit, and SEC on a recurring basis, there are different training seminars in which we may participate. Also, the fact that New Horizons, a vendor which provided computer related training is out of business does not mean that the Company will not use another firm to provide this service. The Company uses various vendors to supply computer related training and this is a valid recurring expenditure. (Khojasteh)

OPC: Yes.

STAFF: No position at this time.

ISSUE 105: Should Account 923.2, Legal Fees and Expenses, be reduced to remove bond issuance costs?

POSITIONS

FPUC: No. Although this may not be an annual expenditure, the Company should be allowed recovery of this prudent expenditure over an amortization period of four years. (Khojasteh)

OPC: Yes.

STAFF: Yes. Bond Issuance Costs are a component of the effective interest cost. Account 923.2 should be reduced by \$561 for 2004.

ISSUE 106: DROPPED

ISSUE 107: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 13

ISSUE 108: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 20

ISSUE 109: DROPPED

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

POSITIONS

FPUC: No. This expense was for SEC registration fee associated with stock offering. Even though this is not an annual recurrence, we consider this to be normal, prudent expense and recovery should be allowed. Recovery should be allowed at a minimum through amortization over five years for rate making purposes. Equity has not been adjusted to account for this item, and recovery should be allowed through expense. (Khojasteh)

OPC: Yes.

STAFF: Yes. Bond Issuance Costs are a component of the effective interest cost. Account 923.2 should be reduced by \$561 for 2004.

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

POSITIONS

FPUC: No. Even though this is not an annual recurrence, we consider this to be normal, prudent expense. Recovery should be allowed to be amortized at a maximum over five years for rate making purposes. Equity has not been adjusted to account for this item, and recovery should be allowed through expense. (Khojasteh)

OPC: Yes. FPUC's 2002 test year included a \$58,657 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. Further, the Commission generally allows for issuance costs in establishing a utility's ROE. To also allow an issuance expense would be a double charge to the ratepayers. The escalated amount (\$52,160) should be removed from the 2004 test year.

STAFF: Yes. Account 930.2 Miscellaneous General Expense, should be reduced for the write-off of stock offering costs. These costs were associated with a stock offering that did not materialize. The appropriate amount to be disallowed for 2004 is to be determined.

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

POSITIONS

FPUC: Yes, Rate Case Expense should be adjusted to reflect the latest projection. A large component of the rate case expense relates to consulting fees, and since the original estimate was made and reflected in the original MFR filing, there have been significant increases made in the scope of that original engagement. The Consultants are being used to assist with the preparation of additional testimony, document requests and interrogatory responses. The estimated cost for consulting work has increased \$40,000 and accordingly it is appropriate to increase the overall rate case expense to \$530,000 or \$132,500 annually as amortization expense of this cost. This amortization period of four years is appropriate as it represents the expected time before our next electric rate proceeding, it is a reasonable period for amortization and is consistent with past commission practice. (Martin)

OPC: Yes.

STAFF: Yes. Rate Case Expense should be updated for the latest development in actual costs and projected costs.

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

POSITIONS

FPUC: The appropriate period for amortization of rate case expense is four years as it represents the expected time before our next electric rate proceeding, it is a reasonable period for amortization and is consistent with past commission practice. (Martin)

OPC: 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)

STAFF: The appropriate period for the amortization of rate case expense is five years.

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

POSITIONS

FPUC: FPUC agrees with the audit report that an increase is needed and feels the FPSC recommended approach is also reasonable. The four year average of net write offs to Revenues would result in a 904 expense amount of \$100,174 for the projected test year. (Khojasteh)

OPC: No position at this time.

STAFF: No position pending receipt of discovery and further analysis.

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

POSITIONS

FPUC: Depreciation expense for projected test year 2004 should be recalculated to reflect the effects of the updated depreciation rates as a result of Docket No. 020853-EI which was effective 1/1/04. Based on the projected 2004 electric plant in service balances shown in the MFR, the 2004 electric depreciation expense recomputed using the recently approved rates, would be \$2,516,795. This represents a reduction of \$90,966 from the \$2,607,761 shown in the MFR. In addition to these changes, consideration should be given to the effects of agreed upon adjustments contained within the FPSC audit findings, and other issues, which are still under consideration. At this time we do not know the effects of all of these adjustments.

In addition, adjustments from this docket, depreciation expense should be increased by \$10,435 to reflect the inclusion of the effects of the Family Dollar construction project. The existence of this project was not known at the time of the filing or Depreciation study. (Mesite)

OPC: No position at this time.

STAFF: No position at this time pending outstanding discovery and further development of the issues.

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

POSITIONS

FPUC: Yes, depreciation expense for projected test year 2004 should be recalculated to reflect the affects of the updated depreciation rates, effective 1/1/04. Also,

adjustments should be made as a result of agreed upon adjustments contained within the FPSC audit findings, and other issues which are still under consideration. At this time we do not know the effects of all of these adjustments. Also, the expense should increase by \$10,435 to reflect the inclusion of the affects of the Family Dollar construction project. The existence of this project was not known at the time of the filing. (Mesite)

OPC: No position at this time.

STAFF: No position at this time pending outstanding discovery and further development of the issues.

ISSUE 117: DROPPED

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

POSITIONS

FPUC: Yes. An adjustment should be made to increase taxes other than income tax expense as disclosed in the Staff's Audit Exception No. 19, which indicates that the Company's projected 12-month period ended December 31, 2004 TOTI balance is understated by \$85,617. (Khojasteh)

OPC: No position at this time.

STAFF: No position at this time pending further analysis.

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

POSITIONS

FPUC: Yes. The effect on income taxes for all of the agreed upon adjustments should be made. At this time we do

not know the effects of all of these adjustments.
(Khojasteh)

OPC: No position at this time.

STAFF: 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?

POSITIONS

FPUC: Yes, the projected test year 2004 net operating income is appropriate with exception to the effects of other agreed upon adjustments in other issues and within the FPSC audit findings. At this time we do not know the effects of all of these adjustments. (Khojasteh)

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

STAFF: No. Staff's position is dependent upon preceding issues.

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?

POSITIONS

FPUC: The appropriate revenue expansion factor is 1.64876 for 2002 and 2004. (Martin)

OPC: No position at this time.

STAFF: No position pending determination of the bad debt factor in Issue 114.

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

POSITIONS

FPUC: Yes, the appropriate 2004 base revenue increase is \$ 4,117,121 as shown on schedule C-59 (c-2); adjusted for any effects of changes from our other issues recommended and agreed upon herein. At this time we do not know the effects of those adjustments. (Martin)

OPC: No.

STAFF: Staff's position is dependent upon preceding issues.

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?

POSITIONS

FPUC: Yes. The estimated revenues from the Sales of Electricity at the present rates are correct as filed for the test year 2004. (Cutshaw)

OPC: OPC believes the sales projection is understated.

STAFF: No position pending receipt and analysis of discovery responses.

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

POSITIONS

FPUC: The methodology of using a fully allocated embedded cost of service study is appropriate and was performed in order to determine the appropriate rates for each

rate class. The FPSC requirement concerning the maximum increase to any rate class of 1.5 times the system average increase was also considered in the development of the rates by rate class. (Cutshaw)

OPC: No position.

STAFF: No position pending receipt and analysis of discovery responses.

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

POSITIONS

FPUC: The revenue increase granted should be allocated to the rate classes using the factors determined in the cost of service study. (Cutshaw)

OPC: No position.

STAFF: The increase should be allocated to the rate classes in a manner that moves the class rate of return indices as close to parity as practicable based on the approved cost allocation methodology, subject to the following constraints: (1) no class should receive an increase greater than 1.5 times the system average percentage increase in total, and (2) No class should receive a decrease.

ISSUE 126: STIPULATION - CATEGORY 2 STIPULATION, NUMBER 3

ISSUE 127: STIPULATION - CATEGORY 2 STIPULATION, NUMBER 4

ISSUE 128: What are the appropriate energy charges?

POSITIONS

FPUC: The appropriate energy charges should be approved as a result of the adjustments based on other disputed issues. (Cutshaw)

OPC: No position.

STAFF: This is a fallout issue that depends upon the Commission vote on other issues.

ISSUE 129: STIPULATION - CATEGORY 2 STIPULATION, NUMBER 5

ISSUE 130: STIPULATION - CATEGORY 2 STIPULATION, NUMBER 6

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

POSITIONS

FPUC: The appropriate Street and Outdoor Lighting rates should be approved as shown in MFR Schedule A-5. (Cutshaw)

OPC: No position.

STAFF: The Street and Outdoor Lighting energy charges should be set to recovery the total non-fuel energy, demand and customer-related costs allocated to the classes in the Commission-approved cost of service study. The maintenance charges should be set to recover the total maintenance and associated A&G costs allocated to the classes in the cost of service study. The lighting fixture charges and pole charges should be set to recover the remaining revenue requirement for the Street and Outdoor Lighting rate classes.

ISSUE 132: STIPULATION - CATEGORY 2 STIPULATION, NUMBER 7

ISSUE 133: STIPULATION - CATEGORY 2 STIPULATION, NUMBER 8

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

POSITIONS

FPUC: The Company believes that the adjustment to account for the increase in unbilled revenues would be insignificant and immaterial, as an offsetting entry would also be needed to increase working capital for the effects of this same entry on the unbilled revenue receivable account and the amount of the adjustment would not be material. (Khojasteh)

OPC: No position.

STAFF: The adjustment by rate class to account for the increase in unbilled revenues should be made by applying the methodology shown in MFR Schedule E-15 to the Commission-approved revenue increase.

ISSUE 135: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 14

OTHER ISSUES

ISSUE 136: STIPULATION - CATEGORY 1 STIPULATION, NUMBER 15

ISSUE 137: Should this docket be closed?

POSITIONS

FPUC: Yes. (Martin, Bachman, Mesite, Khojasteh, Cutshaw)

OPC: Not yet.

STAFF: No position at this time.

X. EXHIBIT LIST

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
<u>Direct</u>			
George M. Bachman and Robert J. Camfield	FPUC	_____ GB-RC-1	Overall Rate of Return Requirements
George M. Bachman and Robert J. Camfield	FPUC	_____ GB-RC-2	Cost of Common Equity and Equity Rate of Return Recommendation
George M. Bachman and Robert J. Camfield	FPUC	_____ GB-RC-3	Long-Term Debt Costs
George M. Bachman and Robert J. Camfield	FPUC	_____ GB-RC-4	Short Term Debt
George M. Bachman and Robert J. Camfield	FPUC	_____ GB-RC-5	Preferred Stock
George M. Bachman and Robert J. Camfield	FPUC	_____ GB-RC-6A	Results of First Selection Screen
George M. Bachman and Robert J. Camfield	FPUC	_____ GB-RC-6B	Results of Second Selection Screen: Market Liquidity and Risk, Beta
George M. Bachman and Robert J. Camfield	FPUC	_____ GB-RC-7A	Sample of Comparable Electric Utilities
George M. Bachman and Robert J. Camfield	FPUC	_____ GB-RC-7B	Sample of Comparable Non-Utilities
George M. Bachman and Robert J. Camfield	FPUC	_____ GB-RC-8	Discounted Cash Flow Analysis
George M. Bachman and Robert J. Camfield	FPUC	_____ GB-RC-9A	Capital Asset Pricing Model Analysis

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
George M. Bachman and Robert J. Camfield	FPUC	_____ GB-RC-9B	Capital Asset Pricing Model Analysis
George M. Bachman and Robert J. Camfield	FPUC	_____ GB-RC-10	Risk Premium Analysis
George M. Bachman and Robert J. Camfield	FPUC	_____ GB-RC-11A	Historical Market Returns: Sample of Comparable Electric Utilities
George M. Bachman and Robert J. Camfield	FPUC	_____ GB-RC-11B	Historical Market Returns: Sample of Non-Utility Companies
George M. Bachman and Robert J. Camfield	FPUC	_____ GB-RC-12A	Estimate of Resource Cost Efficiency
George M. Bachman and Robert J. Camfield	FPUC	_____ GB-RC-12B	Comparison of Retail Electric Prices
George M. Bachman and Robert J. Camfield	FPUC	_____ GB-RC-13	Historical Year-End Capital Structure
George M. Bachman and Robert J. Camfield	FPUC	_____ GB-RC-14	Historical Interest Coverage
George M. Bachman and Robert J. Camfield	FPUC	_____	Various MFR Schedules as indicated on the MFR
Cheryl Martin, Mehrddad Khojasteh, and Jim Mesite, Jr.	FPUC	_____ CM-1	Schedule C-59 (C-2) Adjusted Jurisdictional Net Operating Income
Cheryl Martin, Mehrddad Khojasteh, and Jim Mesite, Jr.	FPUC	_____ CM-2	Schedule C-59 (B-3) Adjusted Rate Base

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Cheryl Martin, Mehrdad Khojasteh, and Jim Mesite, Jr.	FPUC	<u>CM-3</u>	Schedule C-59 (C-1) Projection Bases Factors
Cheryl Martin, Mehrdad Khojasteh, and Jim Mesite, Jr.	FPUC	<u>CM-4</u>	Schedule C-59 (C-2) Adjusted Jurisdictional Net Operating Income
Cheryl Martin, Mehrdad Khojasteh, and Jim Mesite, Jr.	FPUC	<u> </u>	Various MFR Schedules as indicated on the MFR
Mehrdad Khojasteh	FPUC	<u> </u>	Various MFR Schedules as indicated on the MFR
Jim Mesite, Jr.	FPUC	<u> </u>	Various MFR Schedules as indicated on the MFR
P. Mark Cutshaw	FPUC	<u> </u>	Various MFR Schedules as indicated on the MFR
George M. Bachman, Robert J. Camfield Cheryl Martin, Mehrdad Khojasteh, Jim Mesite, Jr., P. Mark Cutshaw	FPUC	<u> </u>	Various MFR Schedules as indicated on the MFR
Hugh Larkin, Jr.	OPC	<u>HL-1</u>	2 schedules on working capital and common plant allocation

<u>Witness</u>	<u>Proffered</u> <u>By</u>	<u>I.D. No.</u>	<u>Description</u>
Donna DeRonne	OPC	<u>DD-1</u>	16 schedules on various accounting issues
Mark Cicchetti	OPC	<u>MAC-1</u>	Experience and Qualifications
Mark Cicchetti	OPC	<u>MAC-2</u>	Economic Statistics
Mark Cicchetti	OPC	<u>MAC-3</u>	Equity Ratio Comparisons
Mark Cicchetti	OPC	<u>MAC-4</u>	Standard & Poor's Ratio Guidelines
Mark Cicchetti	OPC	<u>MAC-5</u>	Comparison Electric Utilities and Natural Gas Index Investment Characteristics
Mark Cicchetti	OPC	<u>MAC-6</u>	Two-stage, annually compounded discounted cash flow model
Mark Cicchetti	OPC	<u>MAC-7</u>	Risk Premium Analysis
Mark Cicchetti	OPC	<u>MAC-8</u>	Risk Premium Analysis Results
Mark Cicchetti	OPC	<u>MAC-9</u>	Summary of Results
Mark Cicchetti	OPC	<u>MAC-10</u>	Capital Structure
Ruth K. Young	Staff	<u>RKY-1</u>	Rate Case Audit Report
Ruth K. Young	Staff	<u>RKY-2</u>	Audit Report for Audit of Reliability Indices

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Jeffrey A. Small	Staff	<u>JAS-1</u>	Audit Work Papers for Audit Exception 19
Daniel Lee	Staff	<u>DQL-1</u>	Excerpts of presentation by Sanford Berg and Paul Sotkiewicz

Rebuttal

Jim Mesite, Jr. (Rebuttal to Hugh Larkin)	FPUC	<u>JVM-1</u>	Southeastern Electric Exchange Mutual Assistance Guideline
Jim Mesite, Jr. (Rebuttal to Hugh Larkin)	FPUC	<u>JVM-2</u>	Storm Damage Reserve 13-Month Average Computation
Jim Mesite, Jr. (Rebuttal to Donna DeRonne)	FPUC	<u>JVM-3</u>	Additional Plant Due to Family Dollar Warehouse Approval
P. Mark Cutshaw	FPUC	<u>MC-1</u>	Paths of Tropical Storms and Hurricanes
Cheryl Martin, Mehrdad Khojasteh, Jim Mesite, Jr., P. Mark Cutshaw, and George M. Bachman	FPUC	<u>MKMCB-1</u>	Response to Rate Case Audit
Cheryl Martin, Mehrdad Khojasteh, Jim Mesite, Jr., P. Mark Cutshaw, and George M. Bachman	FPUC	<u>MKMCB-2</u>	Response to Reliability Audit

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

XI. PROPOSED STIPULATIONS

CATEGORY ONE STIPULATIONS - Those stipulations on which FPUC, OPC, and Staff agree:

1. Non-Utility Accounts Receivable (Accounts 1420.2, 1420.21, and 1420.22) 2002 - \$52,203, 2004 - \$55,961, should be removed from working capital. (Issue 8)
2. Accounts Payable should be increased by \$255,434 to correct a posting error. (Issue 43)
3. Accounts Payable should be increased by \$13,807 to reflect the elimination of the water division. (Issue 44)
4. The appropriate cost rate for short-term debt for the December 2004 projected test year is 3.21%. (Issue 51)
5. Both operating revenues and taxes other than income taxes should be reduced by \$1,354,781 to remove Franchise Fees from operating revenues and taxes other than income. (Issue 66)
6. Both operating revenues and taxes other than income taxes should be reduced by \$1,217,311 to remove the gross receipts tax, and should be shown as a separate line item on the bill. (Issue 67)
7. FPUC has made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Adjustment Clause. The corresponding balance sheet effect is addressed in Issue 38. (Issue 69)
8. FPUC has made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Conservation Cost Recovery Clause. The corresponding balance sheet effect is addressed in Issue 38. (Issue 70)
9. FPUC's 2004 projections were double counted for costs for retiree medical benefits. Projected 2004 costs included in

- Account 926.2, Employee Medical Expense, should be reduced by \$20,386. (Issue 74)
10. Account 926.2, Employee Medical Expense, should be reduced by \$122,164, based on a revised estimate resulting from the receipt of the bill for the 2003 medical insurance premium. (Issue 75)
 11. Account 903, Customer Records and Collection Expenses, should be reduced by \$39,080 for 2004 to reflect a change in vendor cost for the printing and mailing of company bills. (Issue 95)
 12. Account 903, Customer Records and Collection Expenses, should be reduced by \$8,703 for 2004 to remove costs related to propane, merchandising and jobbing, and conservation. (Issue 96)
 13. Account 924, Property Insurance, should be reduced by \$3,726 for 2004 to reflect the current property insurance premium. (Issue 107)
 14. The revised rates and charges should become effective for meter readings on or after 30 days following the date of the Commission vote approving the rates and charges. (Issue 135)
 15. FPUC should 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. (Issue 136)
 16. The deferred debit for the Fernandina Office Addition for \$33,554 should be removed from 2004 working capital. (Issue 34)
 17. The projected test year 2004 pension expense should be decreased by \$10,385. (Issue 77)
 18. Account 921.5 should be reduced by \$13,879.75 for 2004 to remove the uncollected franchise fees. (Issue 101)

19. Account 921.5 should be reduced by \$1,207 for 2004 to remove non-utility and out-of-period costs. (Issue 102)
20. Account 925.1 should be reduced by \$78,088 for 2004 to reflect current insurance premiums. (Issue 108)
21. For 2003, the appropriate inflation factor is 2%.
22. FPUC's inflation factor of 1.3% for 2004 is appropriate.

CATEGORY TWO STIPULATIONS - Those stipulations on which FPUC and staff agree, and on which OPC takes no position:

1. The purpose of the test year is to represent the financial operations of a company during the period in which the new rates will be in effect. With the inclusion of appropriate adjustments in this rate proceeding, the historical base year ended December 31, 2002, and the projected test year ending December 31, 2004, are appropriate as they will represent the period in which rates will be in effect. (Issue 5)
2. The quality of electric service provided by is FPUC adequate. (Issue 7)
3. The appropriate customer charges should be approved as follows (Issue 126):

<u>Rate Schedule</u>	<u>Customer Charge</u>
Residential Service	\$10.00
General Service - Non-Demand	\$14.00
General Service - Demand	\$44.00
General Service - Large Demand	\$75.00
General Service - Large Demand-1	\$600.00

4. The appropriate demand charges should be approved as follows (Issue 127):

<u>Rate Schedule</u>	<u>Customer Charge</u>
General Service - Non-Demand	\$2.48 per kw of billing demand
General Service - Large Demand	\$2.89 per kw of billing demand
<u>General Service - Large Demand-1</u>	
Transmission Demand Charge:	This is a fallout that is dependent upon the vote in other issues
Reactive Demand Charge:	\$.24 per excess kVar
Production Demand Charge:	The Production Demand Charge for customers located in the Northwest Florida (Marianna) Division should be the currently effective tax-adjusted purchased power coincident peak demand charge of the company's wholesale supplier for the former Northwest Florida Division. The Production Demand Charge for customers located in the Northeast Florida (Fernandina Beach) Division should be the currently effective tax-adjusted purchased power coincident peak demand charge of the company's wholesale supplier for the former Northeast Florida Division.

5. The appropriate service charges should be approved as follows (Issue 129):

<u>Type of Charge</u>	<u>Service Charge</u>
Initial Connect	\$44.00
Reestablish service or change existing acct.	\$19.00
Temporary Disconnect at customer request	\$27.00
Reconnect after rule violation (during hours)	\$37.00
Reconnect after rule violation (after hours)	\$60.00
Temporary Service	\$44.00
Collection Charge	\$11.50

6. The appropriate primary voltage transformer ownership discount for the GSD and the GSLD rate classes should be \$0.55 per KW per month. (Issue 130)
7. FPUC's Transitional Rate for Non-Profit Sports Fields should not be eliminated. Elimination of the transitional rate would constitute a burdensome rate increase for sports field customers. Both the customer and non-fuel energy charges for the transitional rate should be increased by the same percentage revenue increase approved for the GS rate class. (Issue 132)
8. The appropriate standby service rates should be approved as follows (Issue 133):

The appropriate monthly Local Facilities Charges are as follows:

\$1.89 per KW for customers who have contracted for standby service capacity of less than 500 kW

\$0.50 per KW for customers who have contracted for standby service capacity of 500 kW or greater

The Coincident Peak Demand Charge and the Energy Charge for customers located in the former Marianna Division should be billed at the currently effective purchased power rates of the company's wholesale supplier for the former Marianna Division. The Coincident Peak Demand Charge and the Energy Charge for customers located in the

former Fernandina Beach Division should be billed at the currently effective purchased power rates of the company's wholesale supplier for the former Fernandina Beach Division.

9. Taxes Accrued-Gross Receipts Tax should be reduced by \$105,693 for 2004 to remove the portion related to non-electric operations. (Issue 45)

XII. PENDING MOTIONS

There are no pending motions at this time.

XIII. PENDING CONFIDENTIALITY MATTERS

There are no pending confidentiality matters at this time.


XIV. RULINGS

Briefs shall be filed by February 27, 2004.

It is therefore,

ORDERED by Commissioner J. Terry Deason, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Commissioner J. Terry Deason, as Prehearing Officer, this 11th day of February, 2004.



J. TERRY DEASON
Commissioner and Prehearing Officer

(S E A L)

JSB

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of the Commission Clerk and Administrative Services, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.