BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 030438-EI

In the Matter of:

PETITION FOR RATE INCREASE BY
FLORIDA PUBLIC UTILITIES COMPANY.
_____/

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PROCEEDINGS:	HEARING
BEFORE:	COMMISSIONER BRAULIO L. BAEZ COMMISSIONER RUDOLPH "RUDY" BRADLEY COMMISSIONER CHARLES M. DAVIDSON
DATE:	Thursday, February 18, 2004
TIME:	Commenced at 9:40 a.m. Concluded at 2:36 p.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	LINDA BOLES, RPR Official FPSC Reporter (850) 413-6734

APPEARANCES:

NORMAN H. HORTON, JR., ESQUIRE, and ALBERT T. GIMBEL, ESQUIRE, Messer Law Firm, P.O. Box 1876, Tallahassee, Florida 32302-1876, appearing on behalf of Florida Public Utilities Company.

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

JENNIFER BRUBAKER, ESQUIRE, and KATHERINE FLEMING, ESQUIRE, FPSC General Counsel's Office, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, appearing on behalf of the Commission Staff.

EXHIBITS

NUMBER:		ID.	ADMTD.
4	Stipulations	11	

1 P R O C E E D I N G S

2 COMMISSIONER BAEZ: We'll call this hearing to order.
3 Counsel, read the notice.

4 MS. BRUBAKER: Commissioners, pursuant to notice,
5 this time and place has been set for hearing in Docket
6 030438-EI, petition for rate increase by Florida Public
7 Utilities Company. The purpose of the hearing has been set
8 forth more fully in the notice.

9 COMMISSIONER BAEZ: And we'll take appearances.

10 MR. BURGESS: Commissioner, my name is Steve Burgess.
11 I'm here for the Office of Public Counsel representing the
12 citizens of the state of Florida.

13 COMMISSIONER BAEZ: Good morning.

14 MR. HORTON: Norman H. Horton, Jr., of Messer,
15 Caparello & Self appearing on behalf of Florida Public
16 Utilities Company. And I'd also like to enter an appearance
17 for Mr. Albert T. Gimbel, also with Messer, Caparello & Self.

18 COMMISSIONER BAEZ: Thank you, Mr. Horton

19 MS. BRUBAKER: Jennifer Brubaker on behalf of the
20 Commission.

21 MS. FLEMING: Katherine Fleming on behalf of the
22 Commission.

23 COMMISSIONER BAEZ: Thank you all. All right.
24 Before we even get to preliminary matters, I've been told by
25 counsel that we are, we may be close to stipulating the entire

case. So what I would like to do now -- I'm sorry, Mr. Horton, you wanted to speak?

What I'm entertaining now is just recessing for, for about an hour. Will that be sufficient?

MR. HORTON: Yes, sir. That would be fine.

COMMISSIONER BAEZ: Okay. Great. It's 9:50. We'll reconvene at 11:00.

MR. HORTON: That would be fine.

COMMISSIONER BAEZ: Okay. We're in recess. Thank you.

(Recess taken.)

COMMISSIONER BAEZ: Let's go back on the record very quickly. We've got a request from parties for some additional --

MS. BRUBAKER: A request from staff to ask for additional time to ensure the language is laid out and could be produced in a finalized format to the court reporter.

COMMISSIONER BAEZ: So we'll continue in recess until 1:00.

(Recess taken.)

COMMISSIONER BAEZ: Let's go back on the record, Ms. Brubaker.

MS. BRUBAKER: Commissioner, the parties were able to reach a stipulation of almost all the remaining outstanding issues. There are still two issues that would need to be

decided at the rate agenda at your pleasure.

COMMISSIONER BAEZ: Okay.

MS. BRUBAKER: Probably the easiest way to proceed is to note for the record which issues have been dropped out of the 137 original issues, and then proceed to identify and enter into the record to the extent that it needs to be done the remaining stipulations. There will be a few additional modifications after that.

COMMISSIONER BAEZ: Okay. So then let's do this. Let's identify the issues that are dropped.

MS. BRUBAKER: Okay. The dropped issues are as follows: Issues 2, 3, 4, 11, 18, 19, 21, 22, 23, 24, 25, 29, 30, 35, 39, 50, 53, 54, 55, 58, 62, 72, 73, 76, 79, 80, 82, 84, 85, 87, 89, 90, 91, 92, 93, 97, 100, 103, 104, 106, 109, 110, 117.

COMMISSIONER BAEZ: Thank you, Ms. Brubaker. And to the extent you all were keeping score, does anyone -- did, did we miss anything?

MR. BURGESS: We think that accurately reflects.

COMMISSIONER BAEZ: That accurately reflects? Mr. Horton, are you in agreement?

MR. HORTON: Yes.

COMMISSIONER BAEZ: Okay. Then the preceding list of issues are no longer part of this proceeding. Let the record reflect that.

1 Ms. Brubaker, then now we can move on to the numbers.
2 And you have two categories of stipulations. Does that even
3 matter anymore?
4 MS. BRUBAKER: Actually, Commissioner, at this point
5 the distinction between Category 1 stipulations and Category 2
6 stipulations can be removed.
7 COMMISSIONER BAEZ: No longer applies.
8 MS. BRUBAKER: We can simply designate all
9 stipulations at this point as simply stipulations.
10 COMMISSIONER BAEZ: Very well. And if you would --
11 and I understand it there are some modifications to some of the
12 issues.
13 MS. BRUBAKER: That's correct.
14 COMMISSIONER BAEZ: Now I originally thought that we
15 might just provide it, provide it to the court reporter and
16 have the, have the modifications --
17 MS. BRUBAKER: We have done so. A number of the
18 stipulations are reflected in the prehearing order. That will
19 also need to be voted upon by the panel.
20 In those already stipulated issues there were, I
21 believe, four that were designated as having small
22 modifications, too. Those modifications are captured in the
23 document that has been provided to the court reporter, the
24 first line of which is "Preliminary Matters - Docket
25 030438-EI." There's a section about four or five pages in there

1 saying, "Modifications to Pre-Existing Stipulations." And
2 those would be the changes to the stipulations currently
3 encapsulated in the prehearing order.
4 COMMISSIONER BAEZ: Okay. Terrific. And then you
5 have provided the Commissioners with proposed stipulated
6 language for the other issues?
7 MS. BRUBAKER: That's correct. The additional
8 stipulated language is found in three documents. Again, the
9 first is in the preliminary matters Docket 030438-EI document,
10 which I've just referenced; the second is entitled, "Proposed
11 Stipulated Language for Issues," and begins with Issue 9; and
12 the third is "Florida Public Utilities Company Proposed
13 Stipulations - Cost of Service and Rate Design," and it begins
14 with the stipulation for Issue 123. I believe these have all
15 been provided to the court reporter.
16 COMMISSIONER BAEZ: And did you provide that last
17 copy to the Commissioners?
18 MS. BRUBAKER: Apparently not. We will do so.
19 COMMISSIONER BAEZ: If we can have someone run out
20 and get some copies for the Commissioners, because when they,
21 when we vote on it, I'd like to have them all in front.
22 MS. BRUBAKER: If you would, let me check and make
23 sure that's been distributed.
24 COMMISSIONER BAEZ: Sure. I'll just give you a heads
25 up; I don't have it, the last document you -- okay.

I stand corrected. Commissioners, it is a document titled "Florida Public Utilities Company Docket 030438 Proposed Stipulations - Cost of Service and Rate Design." I really ought to read the headlines on these. All right. So we officially have all the stipulations, all the proposed stipulations before us.

MS. BRUBAKER: And if I could note, on the document titled "Proposed Stipulated Language for Issues," it begins with Issue 9 on Page 1.

COMMISSIONER BAEZ: Correct.

MS. BRUBAKER: A small language change, please, with regard to Issue 65. And if I could simply read that into the record.

COMMISSIONER BAEZ: All right. Do you want to do that now?

MS. BRUBAKER: Certainly. The trend rate factors should be revised to reflect that the stipulate -- to reflect the stipulated rates for inflation, customer growth and payroll. The appropriate trend rate factors are 1.033 for inflation, 1.0577 for customer growth and 1.061 for payroll. The trend rate factors for inflation only and payroll only should be applied to O&M expenses. This results in a $93,263 reduction to O&M expenses.

COMMISSIONER BAEZ: Okay. Let the record reflect those corrections to Issue 65 in Proposed Stipulated Language

1 for Issues.

2 Are we ready to go on this or no? Are you okay?

3 MS. BRUBAKER: In an abundance of caution, perhaps we

4 should actually enter these documents into the record.

5 COMMISSIONER BAEZ: I would suggest that as well.

6 MS. BRUBAKER: I would propose that we mark the three

7 documents as a composite exhibit. "Exhibit 1 - Stipulations"

8 would be my suggested short title.

9 COMMISSIONER BAEZ: Okay.

10 MS. BRUBAKER: If we could have that marked and

11 identified. And I'd move that, request that it be moved into

12 the record.

13 COMMISSIONER BAEZ: And without objection, the three

14 documents noted earlier will be identified as composite Exhibit

15 Number 1.

16 MR. HORTON: Mr. Chairman, could I ask just one

17 question then because we've -- would it be Exhibit 1? We

18 already have admitted three exhibits in this, in this docket,

19 the notices of the hearings, service hearings earlier on, so

20 would this not be 4?

21 COMMISSIONER BAEZ: Okay. Is that --

22 MS. BRUBAKER: I suppose for clarification, was that

23 done at the prehearing or --

24 COMMISSIONER BAEZ: At the service hearings.

25 MR. HORTON: No. We, we submitted the proof, proof

1 of notice, proof of service for the customer and the proof of
2 notice for the hearings in Marianna and Fernandina Beach, and
3 those were identified as 1, 2 and 3.
4 MS. BRUBAKER: I'm sorry. You're right, Doc. Thank
5 you for that clarification. Exhibit 4.
6 COMMISSIONER BAEZ: All right. So we'll identify
7 these, these documents as C-4. All right. And we'll hold off
8 admitting it until we get the rest of the, rest of the exhibits
9 admitted later. Is that -- will that work?
10 MS. BRUBAKER: Okay.
11 (Exhibit 4 marked for identification.)
12 COMMISSIONER BAEZ: Okay. Now, Commissioners, are we
13 ready to consider them now?
14 MS. BRUBAKER: With the simple clarification that the
15 outstanding issues that will be decided upon at the rate
16 hearing, the rate agenda will be Issues 128 and 137. I may
17 have already said that, but just for clarity's sake.
18 COMMISSIONER BAEZ: 128 and 127?
19 MS. BRUBAKER: 128 and 137.
20 COMMISSIONER BAEZ: And 137? 128 and 137.
21 Commissioners, you've got proposed stipulations on all issues,
22 save for those that were identified earlier as being dropped,
23 and Issues 128 and 137, which will be taken up at the agenda
24 conference. Which I'm not sure we even have a date for that
25 yet, but they'll be taken up at a subsequent agenda conference.

1 Do you have any questions? And it will be my proposal to take
2 them up wholesale, if that's all right with you. Okay.
3 No questions? Is there a motion?
4 COMMISSIONER DAVIDSON: Move the Commission, accept
5 proposed stipulations in their entirety, save the -- I don't
6 know if we need this in the motion, but save the two remaining
7 issues, 128 and 137.
8 COMMISSIONER BAEZ: Okay. There's a motion. Is
9 there a second?
10 COMMISSIONER BRADLEY: And there's a second.
11 COMMISSIONER BAEZ: All those in favor, say aye.
12 (Unanimous affirmative vote.)
13 COMMISSIONER BAEZ: And show the stipulations
14 accepted.
15 Now we can move on to -- do we have anything else
16 before we move on to the exhibits or --
17 MS. BRUBAKER: I believe the utility --
18 COMMISSIONER BAEZ: Mr. Horton, go ahead.
19 MR. HORTON: Yes, sir. There's, there's a couple of
20 things. First of all, we'd like the order or the record to
21 reflect some language that we've discussed with Public Counsel,
22 and I'll read it, but I can provide it to you.
23 But with respect to the stipulations, the parties to
24 the proceeding have agreed on the disposition of the issues in
25 this docket. Neither FPUC nor the Office of Public Counsel

1 waive or abandon any position they had or would have taken, and
2 reserve all rights and opportunities to assert such positions
3 in any future proceeding.
4 The parties agree to the following stipulations for
5 the limited purpose of resolving this docket in its entirety.
6 The stipulations do not necessarily reflect positions held by
7 the parties and shall not be used as precedent in any form or
8 proceeding. The stipulations will be used by the Commission
9 for the purposes of evaluating FPUC's future surveillance
10 reports and for purposes of the interim statute.
11 COMMISSIONER BAEZ: Okay. And how do we, how do we
12 deal with the -- what's, what's necessary for us to do with
13 this, with this language? Is that offered, is that offered
14 up -- do we have to accept it here? I'm just curious. I'm at
15 a loss as to how to deal with it. I'm assuming you don't have
16 any objection to the language; right?
17 MS. BRUBAKER: Certainly we don't have any objection.
18 COMMISSIONER BAEZ: Okay.
19 MS. BRUBAKER: I think it would be appropriate, if
20 it's your preference, to ratify it at this time.
21 COMMISSIONER BAEZ: Right. And, Mr. Horton, you're
22 going to provide a copy of that language to the court reporter
23 --
24 MR. HORTON: Yes, sir.
25 COMMISSIONER BAEZ: - as well so we can enter it into

1 the record.

2 COMMISSIONER BRADLEY: In order to ratify it, we

3 probably need a motion. Is that --

4 COMMISSIONER BAEZ: Hold on. I think --

5 MS. BRUBAKER: I was simply going to say I think we

6 could simply agree that that would be incorporated in the order

7 without necessitating --

8 COMMISSIONER BAEZ: You don't need any action from

9 us. Okay. Very well. If you can provide a copy to staff,

10 Mr. Horton, and we'll make sure that that gets in.

11 Next up.

12 MS. BRUBAKER: I don't believe I was aware of any

13 further pending matters.

14 COMMISSIONER BAEZ: We don't have anything else

15 preliminary? Okay. Then let's --

16 MR. HORTON: Well, then I do.

17 COMMISSIONER BAEZ: Then you still do at this point?

18 MR. HORTON: Yes, sir. I'm afraid so.

19 COMMISSIONER BAEZ: Go ahead.

20 MR. HORTON: With respect to the rates, we would

21 request that if at all possible there be a special agenda set

22 for that. It's my understanding that the next regular agenda

23 is March 16th and, quite frankly, as we were going through and

24 evaluating this, this particular document, the stipulation, you

25 know, there was an opportunity to get the new rates in effect

1 sooner than we would normally have done had we gone through the
2 hearing process. So we were not aware that there would be no
3 March 3rd agenda, so March 16th is, would put it back, we would
4 lose about a month of the, of the new rates. So we'd ask that
5 you consider having a special agenda on the rates at, you know,
6 as early as staff, staff can.
7 COMMISSIONER BAEZ: And, again, staff, you can chime
8 in if you have to. Mr. Horton, I'm looking at what the, what
9 the near-term calendar looks like, and I don't know that -- I'm
10 not seeing, I'm not seeing any free time whatsoever.
11 MS. BRUBAKER: Commissioners, only you can speak to
12 your availability to --
13 COMMISSIONER BAEZ: Well, I'm just looking at the,
14 I'm looking at the yellow sheet. I don't know what kind of
15 additional troubles there's going to be.
16 MS. BRUBAKER: It's very crowded.
17 COMMISSIONER BAEZ: We're just talking Commission
18 business here that's in front of me.
19 MR. HORTON: Yes, sir.
20 COMMISSIONER BAEZ: I'm, I don't know if you've
21 looked at it, but I think --
22 MR. HORTON: Unfortunately I have.
23 COMMISSIONER BAEZ: So you knew what the, you knew
24 what the situation was going to be before you asked; right?
25 MR. HORTON: Well, Mr. Chairman, I will be sitting

1 here with you in some of those hearings, so.
2 COMMISSIONER BAEZ: Yeah, I know you are.
3 MR. HORTON: If at all possible, I'd like to make the
4 request, and I understand it can be worked out and I'll rely
5 upon Ms. Brubaker to work on that, but we would request if at
6 all possible that some time be done in a special agenda for
7 that.
8 COMMISSIONER BAEZ: Well, let me ask a question for
9 my sake. Assuming you -- what, what can you -- what other
10 solutions are possible to address your situation?
11 MR. HORTON: Well, I guess, I guess as it stands now
12 that it would be on the agenda March 16th.
13 COMMISSIONER BAEZ: Right.
14 MR. HORTON: We would like to have it sooner than
15 that. So that's --
16 COMMISSIONER BAEZ: I've got to tell you, I mean,
17 unless Ms. Brubaker knows something that I don't, I'm looking
18 at, I'm looking at this calendar and it's really -- I mean, I
19 understand your plight. But it's -- I'm just not seeing it. I
20 don't, I don't see where we could fit it in. I mean, it's
21 not -- they are not small dockets that we have in the next two
22 weeks, and I'm sure you know that.
23 We can, you know -- if you want to look up some
24 possible solutions and discuss it with me later, that's fine.
25 I'm just -- I wouldn't hold out much hope.

1 MR. HORTON: That's fine, Mr. Chairman.
2 COMMISSIONER BAEZ: Okay. Very well. Do you have
3 anything else, Mr. Horton?
4 MR. HORTON: I don't believe so. No, sir.
5 COMMISSIONER BAEZ: Okay. Then let's get to the good
6 part then.
7 We'll -- do we need to, do we need to even address
8 staff witnesses or --
9 MS. BRUBAKER: No, at this point we do not.
10 COMMISSIONER BAEZ: Okay. So we can just go in
11 order, in order of witnesses and just take testimony, enter
12 testimony or --
13 MS. BRUBAKER: I don't believe that we actually need
14 to take testimony into the record. The stipulation is
15 dispositive of the case and does not require the entry of
16 further evidence.
17 COMMISSIONER BAEZ: Very well. Then you tell me,
18 what else, what else is left?
19 MS. BRUBAKER: I am not aware of any further matters
20 that need the attention of the panel at this time.
21 COMMISSIONER BAEZ: All right. Mr. Burgess, have you
22 got something?
23 MR. BURGESS: I'd just like to take one moment to say
24 I appreciate the efforts of Mr. Horton and his client and their
25 consultants, and particularly your staff and their diligence

1 and their efforts which were instrumental in, in helping us to
2 arrive at the agreement.
3 COMMISSIONER BAEZ: Well, Mr. Burgess, you stole my
4 thunder, and I would include Public Counsel as well. I want to
5 thank you all. I mean, it's been a few hours well spent. I
6 think we saved the ratepayers a little money and saved the rest
7 of us a little time, and I really do appreciate that. I know
8 that the Commissioners do as well.
9 If there's nothing else, then we'll, we'll work on
10 the, we'll work on finding a date. Again, Mr. Horton, tough
11 sell.
12 Thank you all. We're adjourned.
13 (Hearing adjourned at 2:36 p.m.)
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STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, LINDA BOLES, RPR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 19TH DAY OF FEBRUARY, 2004.

Linda Boles

LINDA BOLES, RPR
FPSC Official Commission Reporter
(850) 413-6734

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 030438-EI EXHIBIT NO. 1
COMPANY/ FPUC
WITNESS. Letter of Affidavit
DATE: 12/03/03

ORIGINAL

LAW OFFICES
Messer, Caparello & Self
A Professional Association

Post Office Box 1876
Tallahassee, Florida 32302-1876
Internet: www.lawfla.com

November 3, 2003

BY HAND DELIVERY
Ms. Blanca Bayó, Director
Division of Records and Reporting
Room 110, Easley Building
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Docket No. 030438-EI

Dear Ms. Bayó:

Enclosed for filing in the captioned docket is an affidavit by Mr. George Bachman that notice of the Petition for Rate Increase was sent to customers.

Please acknowledge receipt of these documents by stamping the extra copy of this letter "filed" and returning the same to me.

Thank you for your assistance with this filing.

Sincerely yours,

Norman H. Horton, Jr.

NHH/amb
Enclosures
cc: Jennifer Brubaker, Esq.
Steve Burgess, Esq.

ORIGINAL

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF PALM BEACH)

BEFORE ME, the undersigned authority, personally appeared George M. Bachman, who stated that Florida Public Utilities Company has mailed notices (copy attached) to all electric customers in its Marianna and Fernandina Beach service areas informing them of the pending rate case and the subsequent rate increases. The mailing was sent to 26,434 electric customers as of October 14, 2003, and was mailed on October, 17, 2003.

George Bachman
CFO & Treasurer
Florida Public Utilities Company

Sworn to and subscribed before me
This 29th day of October, 2003, by
George M. Bachman who is
Personally known to me.

Heidi Dysard
Notary Public, State of Florida

My commission expires:

Heidi E. Dysa
Commission # DD108014
Expires April 10, 2006
Bonded Thru
Atlantic Bonding Co., Inc.

Heidi E. Dysard
Commission # DD108014
Expires April 10, 2006
Bonded Thru
Atlantic Bonding Co., Inc.

FLORIDA PUBLIC
UTILITIES

IMPORTANT NOTICE TO CUSTOMERS

On August 14, 2003, Florida Public Utilities Company filed a Petition with the Florida Public Service Commission seeking approval to increase rates and charges to produce an additional $4,117,121 in revenues. This increase is needed in order to enable the Company to continue to provide sufficient, adequate and efficient service and to afford the Company an opportunity to earn a fair rate of return. A comparison of current and proposed Customer Facilities Charges, Energy Charges, Demand Charges and Service Charges are shown below and more details are contained in the Minimum Filing Requirements, which also contain detailed financial, accounting, tariff and engineering data supporting the request. These and the synopsis of the case are available for review at the business offices at the following locations during regular work hours.

2825 Pennsylvania Avenue
Marianna, Florida 32448-4004
850-526-6800

911 South 8th Street
Fernandina Beach, Florida 32034
904-261-3663

The Public Service Commission has scheduled hearings on this Petition for February 18-19, 2004, in Tallahassee and a final decision is scheduled for April 6, 2004. In addition, the PSC has scheduled service hearings at the following time and place:

December 3, 2003, 6:00 p.m.
Fernandina Beach City Commission
Chambers
204 Ash Street
Fernandina Beach, Florida 32034

December 4, 2003, 6:00 p.m.
Jackson County Commission
Meeting Room
2864 Madison Street
Marianna, Florida 32446

At the service hearings, customers will be afforded an opportunity to present comments to the Commission regarding the proposal and service of the company.

Customers wishing to address the Commission are urged to appear early as the hearing will be adjourned if no one is in attendance.

Any person requiring some accommodation at the service hearings because of physical impairment should call the Commission's Division of the Commission Clerk and Administrative Services at 850-413-6770 at least five calendar days prior to the hearing. Any person who is hearing or speech impaired should contact the Florida Public Service Commission by using the Florida Relay Service, which can be reached at 1-800-955-8771 (TDD).

Any customer comments regarding the Company's service or the proposed rate increase should be addressed to: Director, Division of the Commission Clerk and Administrative Services, Florida Public

Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850. Such comments should refer to Docket No. 030438-EI, which is the docket number that has been assigned to this proceeding.

For your information, we are also providing the address and telephone number of the Florida Public Service Commission's Consumer Affairs Division: Division of Consumer Affairs, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, 1-800-342-3552 (Toll Free Number). Following is a comparison of current and proposed base rates:

	Current Customer Facilities Charge		Proposed Customer Facilities Charge
	Marianna	Fernandina Beach	Consolidated
Residential (RS)	8.30	7.00	10.84
General Service (GS)	11.50	10.00	14.87
General Service Demand (GSD)	43.75	38.00	48.66
General Service Large Demand (GSLD)	52.50	38.00	57.11
General Service Large Demand (GSLD1)	-----	475.00	378.31

	Current Energy Charge		Proposed Energy Charge
	Marianna	Fernandina Beach	Consolidated
Residential (RS)	.01213 $/KWH	.01220 $/KWH	.01742 $/KWH
General Service (GS)	.01213 $/KWH	.01565 $/KWH	.01939 $/KWH
General Service Demand (GSD)	.00076 $/KWH	.00548 $/KWH	.00368 $/KWH
General Service Large Demand (GSLD)	-------	.00548 $/KWH	.00204 $/KWH
General Service Large Demand (GSLD1)	-------	------	------

	Current Demand Charge		Proposed Demand Charge
	Marianna	Fernandina Beach	Consolidated
Residential (RS)	-------	------	-------
General Service (GS)	-------	------	-------
General Service Demand (GSD)	2.40 $/KW	1.77 $/KW	2.48 $/KW
General Service Large Demand (GSLD)	2.80 $/KW	1.77 $/KW	2.89 $/KW
General Service Large Demand (GSLD1)	-------	1.14 $/KW	.91 $/KW

	Current Service Charges		Proposed Service Charges
	Marianna	Fernandina Beach	Consolidated
Initial Entitlement of Service	33.20	13.00	44.00
Re-establish Service or Make Changes to Existing Account	14.50	11.00	19.00
Temporary Disconnect then Reconnect Service Due to Customer Request	26.25	20.00	27.00
Reconnect After Disconnect for Rule Violation (normal hours)	38.25	15.00	37.00
Reconnect After Disconnect for Rule Violation (after hours)	38.25	15.00	60.00
Temporary Service used in conjunction with the temporary service fee when running a temporary service	30.50	20.00	44.00

ICE OF CUSTOMER SERVICE HEARINGS
TO
ALL INTERESTED PERSONS
DOCKET NO. 030438-EI
RE: REQUEST FOR RATE INCREASE
BY
LORIDA PUBLIC UTILITIES COMPANY

eby given that the Florida Public Service Commission will rings in the above docket on the rates and service of Florida Company. The hearings will commence at the time and ed and will continue until all witnesses have been heard. WHO WISH TO PRESENT TESTIMONY ARE URGED PROMPTLY AT EACH SCHEDULED HEARING TIME HEARING MAY BE ADJOURNED EARLY IF NO RE PRESENT TO TESTIFY.

each: 6:00 p.m. EST, Wednesday, December 3, 2003
Fernandina Beach City Commission Chambers
204 Ash Street
Fernandina Beach, Florida 32034

6:00 p.m. CST, Thursday, December 4, 2003
Jackson County Commission Meeting Room
2864 Madison Street
Marianna, Florida 32446

D PROCEDURE

f these service hearings shall be to take testimony from e public on the rates and service of Florida Public Utilities procedure at these hearings shall be as follows: The present a brief summary of its case and then members of the sent testimony. Members of the public who wish to present urged to appear promptly at each scheduled hearing time ng may be adjourned early if no witnesses are present to nesses shall be subject to cross-examination at the conclusion ony. The Office of Public Counsel has intervened in this l be available to assist anyone wishing to testify. The Public e contacted at (850) 488-9330.

quiring some accommodation at this hearing because of a rment should call the Division of the Commission Clerk and Services at (850) 413-6770 ay least 48 hours prior to the person who is hearing or speech impaired should contact the Service Commission by using the Florida Relay Service, eached at 1-800-955-8771 (TDD).

FLORIDA PUBLIC
UTILITIES
Energy for Life.

FLORIDA'S OLDEST WEEKLY NEWSPAPER
NEWS LEADER
AMELIA ISLAND • FERNANDINA BEACH • NASSAU COUNTY

Published Weekly
511 Ash Street/P.O. Box 766 (904) 261-3696
Fernandina Beach, Nassau County, Florida 32034

STATE OF FLORIDA
COUNTY OF NASSAU:

Before the undersigned authority personally appeared
Robert O. Fiege
Who on oath says that he is the Production Director of the Fernandina Beach News-Leader, a weekly newspaper published at Fernandina Beach in Nassau County, Florida; that the attached copy of advertisement, being a LEGAL ADVERTISEMENT in the matter of

FLORIDA PUBLIC UTILITIES
Notice of Customer Service Hearings
Request for Rate Increase

Was published in said newspaper in the issues of

11/21/03
Display Legal

Affiant further says that the said Fernandina Beach News-Leader is a newspaper published at Fernandina Beach, in said Nassau County, Florida and that the said newspaper has heretofore been continuously published in said Nassau County, Florida, each week and has been entered as second class mail matter at the post office in Fernandina Beach in said Nassau County, Florida, for a period of one year next preceding the first publication of the attached copy of advertisement; and Affiant further says that he has neither paid nor promised any person, firm or corporation any discount, rebate, commission or refund for the purpose of securing this advertisement for publication in the said newspaper.

Robert O. Fiege

Sworn to and subscribed before me
This **3rd day of December A.D. 2003.**

Angeline B. Mudd

Angeline B. Mudd, Notary Public

STATE OF FLORIDA NOTARY PUBLIC
ANGELINE B. MUDD
My Comm Exp. 1/4/2004
No. CC 876475
Personally Known [ ] Other I.D.

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 030438-EI EXHIBIT NO. 2
COMPANY/ FPUC
WITNESS: Proof of Publication
DATE: 12/03/03

NOT

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www.fpuc.com

Exhibit 3
Marianna
Hrg.
Feb 18+19

Jackson County Floridan

Published Sunday & Tuesday Through Friday
Marianna, Jackson County, Florida

State of Florida,
County of Jackson

Before the undersigned authority personally appeared **Valeria Roberts** who on oath says that he/she is **Regional Sales Director** of the Jackson County Floridan, a daily newspaper published at Marianna, in Jackson County, Florida; that that attached copy of advertisement, being a display for an Notice of Customer Service Hearings

Size: 3X10.5 ; Total Cost: $329.18

in the n/a Court, was published in said newspaper in the issues of

1t: November 21, 2003

Affiant further states that the said Jackson County Floridan is a newspaper published at Marianna, in said Jackson County, Florida, and that the said newspaper has heretofore been continuously published in said Jackson County, Florida, each day (Monday and Saturday excluded) and has been entered as second class mail matter at the post office in Marianna, in said Jackson County, Florida, for a period of one year next preceding the first publication of the attached copy of advertisment; and affiant further says that she has neither paid nor promised any person, firm or corporation any discount, rebate, commission or refund for the purpose of securing this advertisement for publication in the said newspaper.

(Signature of Affiant)

Sworn to and subscribed before me this 3rd

day of December 2003

Kimberely S. Williams

Notary Public, State of Florida at Large

(Name of Notary typed, printed or stamped)

KIMBERELY S. WILLIAMS
MY COMMISSION EXPIRES March 6, 2004
#CC 916048
Bonded thru Notary Public Underwriters
NOTARY PUBLIC, STATE OF FLORIDA

Personally Known X or Produced Identification.

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 030438-EI EXHIBIT NO. 3
COMPANY/ FPUC
WITNESS: Marianna Proof of Publication
DATE: 12/03/03

NOTICE OF CUSTOMER SERVICE HEARINGS
TO
ALL INTERESTED PERSONS
DOCKET NO. 030438-EI
RE: REQUEST FOR RATE INCREASE
BY
FLORIDA PUBLIC UTILITIES COMPANY

NOTICE is hereby given that the Florida Public Service Commission will hold service hearings in the above docket on the rates and service of Florida Public Utilities Company. The hearings will commence at the time and location indicated and will continue until all witnesses have been heard. CUSTOMERS WHO WISH TO PRESENT TESTIMONY ARE URGED TO APPEAR PROMPTLY AT EACH SCHEDULED HEARING TIME SINCE THE HEARING MAY BE ADJOURNED EARLY IF NO WITNESSES ARE PRESENT TO TESTIFY.

Fernandina Beach:	6:00 p.m. EST, Wednesday, December 3, 2003 Fernandina Beach City Commission Chambers 204 Ash Street Fernandina Beach, Florida 32034
Marianna:	6:00 p.m. CST, Thursday, December 4, 2003 Jackson County Commission Meeting Room 2864 Madison Street Marianna, Florida 32446

PURPOSE AND PROCEDURE

The purpose of these service hearings shall be to take testimony from members of the public on the rates and service of Florida Public Utilities Company. The procedure at these hearings shall be as follows: The Company will present a brief summary of its case and then members of the public may present testimony. Members of the public who wish to present testimony are urged to appear promptly at each scheduled hearing time since the hearing may be adjourned early if no witnesses are present to testify. All witnesses shall be subject to cross-examination at the conclusion of their testimony. The Office of Public Counsel has intervened in this docket and will be available to assist anyone wishing to testify. The Public Counsel may be contacted at (850) 488-9330.

Any person requiring some accommodation at this hearing because of a physical impairment should call the Division of the Commission Clerk and Administrative Services at (850) 413-6770 ay least 48 hours prior to the hearing. Any person who is hearing or speech impaired should contact the Florida Public Service Commission by using the Florida Relay Service, which can be reached at 1-800-955-8771 (TDD).

FLORIDA PUBLIC
UTILITIES

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Composite Ex. 4

030438-EI

PRELIMINARY MATTERS - DOCKET 030438-EI

WITNESSES RUTH YOUNG AND JEFF SMALL MAY BE EXCUSED

The parties have stipulated to and waived cross-examination of the direct testimony filed by staff witnesses Ruth Young and Jeff Small. The panel Commissioners have indicated that they have no questions for these witnesses, and they may therefore be excused.

STAFF'S COMPOSITE EXHIBITS MAY BE STIPULATED

The parties have stipulated that staff's composite exhibits may be introduced into the record without objection.

CATEGORY 1 STIPULATIONS

The parties and staff request that the Commission panel approve the following Issues as Category 1 Stipulations:

10, 12, 15, 26, 27, 28, 32, 33, 36, 37, 42, 48, 49, 52, 56, 57, 71, 78, 81, 83, 94, 98, 99, 105, 113, 115

23. FPUC's requested level of Common Plant Allocated in the amount of $1,721,031 for the December 2004 projected test year should be reduced by $72,614 for a change in projected additions.

24. Plant, Accumulated depreciation, and depreciation expense should be reduced for canceled and delayed projects for the projected test year by $297,378, $16,617, and $11,078, respectively. (Issue 12)

25. The accumulated depreciation for Common Plant Allocated in the amount of $455,192 for the December 2004 projected test year should be reduced by $11,255 for a change in projected additions. (Issue 15)

26. The amount of accounts receivable reflected in the 2004 working capital should be decreased by $149,764. The accounts receivable should be projected based on a ratio to revenue rather than customer growth and inflation. (Issue 26)

27. The accumulated provision for uncollectibles should be reduced by $360. The 2004 working capital should reflect a balance of

$98,605 for this account. (Issue 27)

28. The amount of prepaid insurance should be based on the allocations used to determine the insurance expense. The correct amount of prepaid insurance to include in working capital for 2004 is $181,270. The adjustment is a decrease of $28,518 to working capital. (Issue 28)

29. The 2004 working capital balance for unbilled revenue should be decreased by $19,326 to reflect a balance of $493,992. The projection for 2004 unbilled revenue should be based on kilowatt hour growth rather than customer growth and inflation. (Issue 32)

30. For the purposes of resolving this issue in this docket, the parties agree that the balance in account 1860 - deferred debits other of $3,376 should be removed from 2004 working capital. (Issue 33)

31. The correct amount of storm damage reserve to include in working capital for 2004 is $2,216,781. The adjustment is a decrease of $372,585 to working capital. (Issue 36)

32. The projected 2004 working capital should be increased by $126,621 to reverse the adjustments made by the company to the 2002 working capital amounts. The reversal of these adjustments provides a more reasonable comparison between the 2002 historical balances and projected 2004 balances of these working capital accounts. (Issue 37)

33. One-half of the updated rate case expense should be included in working capital allowance. (Issue 42)

34. The appropriate amount of accumulated deferred taxes to include in the capital structure is $5,787,660. This is an increase of $2,454,657 to the 13-month average of $3,333,003. This adjustment consists of the company's true-up of accumulated deferred taxes based on its 2002 tax returns, bonus depreciation for 2003 and 2004, and bonus depreciation on common plant allocated. This adjustment also includes an increase of $105,816 for accumulated deferred taxes resulting from common plant from Issue 56. (Issue 48)

35. 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. (Issue

49)

36. The appropriate cost rate for long-term debt is 7.98%. (Issue 52)

37. The accumulated deferred taxes in FPUC's filing do not include any amount for deferred taxes on common plant allocated to electric operations. The deferred tax balance should be increased by the amount calculated by multiplying the 13-Mo. Average 2004 Net Plant - Allocated Common, decided upon in Issues 10 and 15, by 8.7852%. This results in an increase to accumulated deferred taxes of $105,816. (Issue 56)

38. All the balances in the capital structure should be calculated on a 13-month average basis. (Issue 57)

39. Advertising Expense for year 2002 should be reduced by $821, as follows: Account 9131, Promotional Advertising ($179), Account 9132, Conservation ($240), Account 9136, Other Advertising ($213), Account 916, Miscellaneous Sales Expense ($189). The Company escalated these amounts by a combined customer growth and inflation factor of 1.072 from year 2002 to the projected 2004 test year. The 2004 amounts total $880 ($192, $257, $228, $203). (Issue 71)

40. For the purposes of resolving this issue for this docket, the 2004 storm damage accrual should be reduced by $103,375 to remove the projected increase in the annual accrual to maintain the annual accrual at its actual historical amount of $121,625. However, if FPUC should experience significant storm-related damage, it can defer the amount exceeding its reserve balance and petition the Commission for appropriate regulatory treatment. (Issue 78)

41. FPUC has not signed a contract for payroll outsourcing services; therefore, FPUC's 2004 projection for payroll outsourcing costs should be adjusted, and Account 923.3 should be reduced by $14,000 for the projected test year 2004. (Issue 81)

42. Account 923.3 should be reduced by $9,389 for the 2004 projected test year. This amount represents the electric portion of the reduction to tax-related corporate accounting fees. (Issue 83)

43. Payroll Expense for discontinued operations for 2004 should be reduced by a net of $86,568. This amount is comprised of the

$109,820 reduction noted in Audit Disclosure No. 10, less $23,724 related to replacement of a Fernandina Beach employee noted in the same Audit Disclosure plus an additional $472 to remove the electric operation payroll charges of an employee of the water utility that was not retained. (Issue 94)

44. Account 903 should be increased by $2,523 for payroll related to discontinued operations that was charged to Account 904 in 2004. (Issue 98)

45. Account 920, Administrative and General Salaries, should be decreased by $108,795 for the 2004 projected test year to correct the allocation factor. In 2003, actual expense for this account for electric was $832,636. Allowing for an increase of $19,057 for temporary vacant positions in 2003, increases the 2003 amount to $851,693. Using the Company filed payroll factor of 1.03, the reduction to this account for the 2004 projected test year is $108,795 ($986,039 - ($851,693 x 1.03). (Issue 99)

46. Bond Issuance Costs are a component of the effective interest cost. Account 923.2 should be reduced by $561 for 2004. (Issue 105)

47. The appropriate period for the amortization of rate case expense is five years. (Issue 113)

48. The depreciation expense for the projected test year 2004 should be reduced by $90,966 to reflect the effects of the updated depreciation rates as a result of Docket No. 020853-EI which was effective January 1, 2004. (Issue 115)

CATEGORY 2 STIPULATIONS

The parties and staff request that the Commission panel approve the following issues as Category 2 Stipulations:

1, 6, 13, 16, 64, 114, 121

10. It is appropriate for FPUC to consolidate the rates and charges of its Northeast and Northwest Electric Divisions into a single Electric Division for ratemaking purposes. (Issue 1)

11. The forecasted billing determinants for 2004 contained in MFR Schedules E-18a, E-18b, and E-18c are appropriate adjusted as follows:

(1) For the RS rate class, the appropriate number of bills is 276,846 and the appropriate kwh is 347,114,000. This leads to an increase in test year revenues at present rates of $56,185.

(2) For the GS rate class, the appropriate number of bills is 41,644 and the appropriate kwh is 73,176,000. This leads to an increase of test year revenues at present rates of $127,937.

(3) For the GSLD rate class, the number of bills should be increased by 12 and the kw should be increased by 25,468 to reflect the addition of the Family Dollar Distribution Center. This leads to an increase in test year revenues at present rates of $71,940. (Issue 6)

12. It was not appropriate for FPUC to use an average depreciation rate for the combined Marianna and Fernandina Beach for 2003 total plant. The appropriate adjustment should be to reduce accumulated depreciation in the projected test year in the amount of $22,134. (Issue 13)

13. FPUC's requested level of Customer Advances for Construction in the amount of $621,462 for the December 2004 projected test year is appropriate. (Issue 16)

14. With respect to test year escalation rates, FPUC's payroll factors of 3% for 2003 and 2004 are appropriate. The appropriate customer growth factors are 3.25% for 2003 and 2.44% for 2004. (Issue 64)

15. Account 904 should be increased by $663 for the 2004 projected test year, which is a four-year average of net write-offs to revenues. (Issue 114)

16. The appropriate Revenue Expansion Factor is 0.622006 and the appropriate Net Operating Income Multiplier is 1.60770 for the projected 2004 test year. Staff's calculations are based on removal of the Gross Receipts Tax and a change from the Company's Bad Debt Factor of 0.1830 to Staff's Bad Debt Factor of 0.1996. (Issue 121)

DROPPED ISSUES

The parties and staff request that the Commission panel approve the following issues as dropped:

11, 29, 54, 55, 82, 85, 90, 91, 92, 100, 103, 104, 110

REWORDING OF ISSUES

The parties and staff request that the Commission panel approve the rewording of Issues 86 and 111, with revised party and staff positions as indicated below:

ISSUE 86: Is the $22,641 Economic Development Cost projected for 2004 reasonable and should this amount be recovered through base rates?

POSITIONS

FPUC: The appropriate amount is $21,509. This represents a portion of payments to economic development organizations to be used for economic development in the company's service area. The funds are used to encourage growth and attract business as encouraged by Sec. 288.035 FS and Rule 25-6.0426 and the amount of 2004 is consistent with the requirements of Rule 25-6.0426.

OPC: No. For 2002, FPUC's actual donations for economic development were $10,000. For 2003, the actual donations were only $5,000. For its own internal purposes the Company has budgeted zero donations for 2004. Yet for the rate case, FPUC is projecting $22,641 for 2004. The Commission should only allow the amount that FPUC has shown that it is committed to donating on an annual basis. The customers should not be required to find a level which FPUC - at its unilateral discretion - can decide to discontinue at any time. Since all indicators are that FPUC has no commitment to the level of donation that it is seeking in the rate case, the Commission should disallow this expense. (DeRonne)

STAFF: No. To meet the requirements of Rule 25-6.0426, Florida Administrative Code, the projected 2004 Economic Development Costs should be reduced by $1,132 to $21,509. This reduction limits the costs to 95 percent of the 2004 projected amount.

ISSUE 111: Should Account 930.2, Miscellaneous General Expenses, be reduced for 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 by $48,657 for 2002 and $52,160 ($48,657 x 1.072) for 2004. These costs were associated with a stock offering that did not materialize. To the extent that the amounts expended by the Company are useful for a future stock offering, those costs will be implicitly included in the Return on Equity.

MODIFICATIONS TO PRE-EXISTING STIPULATIONS

The parties and staff request that the Commission panel approve the following modifications to stipulations which were originally extant and approved by Order No. PSC-04-0137-PHO-EI:

1. **Category 1, Number 2:** Reworded in its entirety to the following language:

> Accounts Payable should be increased by $255,434, $266,162, and $273,922 for the years 2002, 2003, and 2004 respectively, to correct a posting error. (Issue 43)

2. **Category 1, Number 3:** Reworded in its entirety to the following language:

> Accounts Payable should be increased by $13,807, $14,387, and $14,806 for the years 2002, 2003, and 2004 respectively, to correct a posting error. (Issue 44)

3. **Category 1, Number 12:** Change the number $8,703 to $15,221

4. **Category 1, Number 16:** Reworded in its entirety to the following language:

> The deferred debit for the Fernandina Office Addition for $33,554 should be removed from 2004 working capital. This amount should be removed because the revised 2004 balance has been projected to be zero. (Issue 34)

5. **Category 1, Number 18:** Change the number $13,879.75 to $13,880

6. **Category 2, Number 4:** Reword the Transmission Demand Charge section to the following language:

> Transmission Demand Charge: The Transmission Demand Charge will be designed to recover, on a per-kilowatt basis, the remaining Commission-approved revenue target for the General Service-Large Demand-1 rate class after subtracting the revenues attributable to the Commission-approved Customer and Reactive Demand Charges for the class.

MODIFICATIONS TO PARTY AND STAFF POSITIONS

The parties and staff request that the Commission panel approve the following modifications to positions which were originally extant and approved by Order No. PSC-04-0137-PHO-EI:

NEW FPUC POSITIONS - 9, 14, 17, 20, 31, 60, 61, 86, 116

NEW OPC POSITIONS - 9, 38, 40, 41, 65, 86, 88, 112

NEW STAFF POSITIONS - 9, 11, 12, 13, 14, 15, 17, 20, 31, 37, 38, 40, 41, 46, 61, 86, 88, 111, 112, 116, 118, 121, 131

Issue 9

FPUC: For the purpose of resolving this issue in this docket, FPUC agrees with Staff.

OPC: No. Subsequent to its initial rate filing, $728,162 has been added to projected 2004 Plant in Service to reflect the capital investment necessary to provide service to the Family Dollar distribution center. FPUC did not collect any CIAC to cover these costs. PSC Rule 25-6.064 requires a utility to collect CIAC when the revenue is deficient to cover a specified portion of the cost to provide service. In this case, the Rule would have required FPUC to collect $860,760 in CIAC, which FPUC chose not to collect. The Rule requires the imputation of CIAC in such cases. Therefore, OPC has imputed $860,760 of CIAC to the plant in service. In addition, PSC Staff has identified $96,922 in additional CIAC that FPUC failed to report. Plant in service should be offset by these amounts.

Staff: Yes. FPUC's level of Plant in Service in the amount of $65,687,844 for the December 2004 projected test year should be increased by $333,862 due to the effects of the addition of Family Dollar (increase of $728,162), Contributions on revenue producing projects (reduction of $96,922), and cancelled and delayed projects (reduction of $297,378).

Issue 14

FPUC: For the purpose of resolving this issue in this docket, the Company agrees with Staff.

Staff: No. Accumulated depreciation for Plant in Service in the amount of $27,672,116 for the December 2004 projected test year should be adjusted for Family Dollar, cancelled and delayed projects, audit exception number 4, and new depreciation rates by an increase of $13,222, reduction of $16,617, increase of $4675, and reduction of $45,483, respectively.

Issue 17

FPUC: For the purpose of resolving this issue in this docket, the Company agrees with Staff.

Staff: No. FPUC's requested level of Construction Work in Progress in the amount of $620,769 for the projected test year should be increased by $88,923 for the addition of the Family Dollar substation.

Issue 20

FPUC: For the purpose of resolving this issue in this docket, FPUC agrees with Staff.

Staff: No. The correct amount of cash to include in 2004 cash working capital, which includes accounts 1310, 1340, 1310.4, and 1350, is $135,720. The adjustment is a decrease of $1,698,681 to 2004 working capital. The cash balance of $135,720 represents a reasonable amount of non-interest bearing cash.

Issue 31

FPUC: For purposes of resolving this issue for this docket, FPUC would agree with the adjustment proposed by Staff.

Staff: Yes. Prepaid pensions should be reduced by $451,268 to reflect a balance of $331,904. The company included a positive amount of pension expense in the income statement. Therefore, the 2004 projected balance of prepaid pensions should have declined. This adjustment captures the decline that should be reflected in working capital.

Issue 38

OPC: Agree with Staff.

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 40

OPC: Yes. This account includes items such as wage garnishments required by governmental authorities. Garnishments issued by governmental authorities cannot require a company to pre-pay an obligation on behalf of one of its employees. All garnishments are withheld from payroll as earned and subsequently submitted to governmental authorities and therefore should be booked as a liability, not an asset. This account should be reduced by $4,941.

Staff: Yes. Based on audit exception No. 5, 2004 working capital should be reduced by $434 to remove the non-utility portion reflected in account 1430.1- accounts receivable other.

Issue 41

OPC: Yes. This account includes amounts that should not have generated receivables for which ratepayers should be responsible for paying a return on, such as damages caused by third parties. The account should be reduced by $89,274.

Staff: Yes. Based on audit exception No. 6, 2004 working capital should be reduced by $8,345 to remove the non-utility portion reflected in account 1430.2- accounts receivable other miscellaneous.

Issue 46

Staff: No. Based on the decisions made in prior issues, the 2004 projected working capital should be reduced by $3,643,348 to reflect a balance of ($3,083,353).

Issue 60

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.

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)

Issue 61

FPUC: Agree with Staff.

Staff: No. Forfeited Discounts should be increased by $64,919 for 2004. This increase is based on a 10% reduction to eleven months of actual forfeited discounts and one month of estimated forfeited discounts for 2003, escalated by the customer growth factor of 1.016.

Issue 65

OPC: There are a number of accounts for which FPUC applied an illogical trending factor. In a number of cases, FPUC applied a trend of inflation times customer growth when only inflation was applicable. For instance "maintenance of overhead lines" has already accounted for customer growth by the specific allowance of additional line crews (see Issue 82). To allow customer growth in the trend factor is a double charge to the customers. Similarly, FPUC has applied a trend factor derived from payroll times customer growth when only payroll was applicable. In order to correct these double charges, OPC has removed $76,438 from FPUC's O&M expense. (DeRonne)

Issue 86 **(NOTE: ISSUE 86 ITSELF HAS ALSO BEEN REVISED)**

FPUC: The appropriate amount is $$21,509. This represents a portion of payments to economic development organizations to be used for economic development in the company's service area. The funds are used to encourage growth and attract business as encouraged by Sec. 288.035 FS and Rule 25-6.0426 and the amount of 2004 is consistent with the requirements of Rule 25-6.0426.

OPC: No. For 2002, FPUC's actual donations for economic development were $10,000. For 2003, the actual donations were only $5,000. For its own internal purposes the Company has budgeted zero donations for 2004. Yet for the rate case, FPUC is projecting $22,641 for 2004. The Commission should only allow the amount that FPUC has shown that it is committed to donating on an annual basis. The customers should not be required to fund a level which FPUC - at its unilateral discretion - can decide to discontinue at any time. Since all indicators are that FPUC has no commitment to the level of donation that it is seeking in the rate case, the Commission should disallow this expense. (DeRonne)

Staff: No. The projected 2004 Economic Development Costs should be reduced by $1,132. This reduction limits the projected 2004 costs to 95 percent, thereby meeting the requirements of Rule 25-6.0426, Florida Administrative

Code. The amount to be recovered through base rates should be reduced to $21,509.

Issue 88

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 non-payroll 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 expenses were a result of the water operations and an adjustment should be made. In fact, the 2003 actual expenses are significantly below the projected levels, which supports OPC's central point. To correct for the over-projected total non-payroll expenses, OPC recommends that the allocation factors 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. This results in a $86,364 reduction to projected 2004 non-payroll O&M expense.

Staff: No. Overhead cost allocations should be decreased by $192,840 for the 2004 projected test year. As taken up in Issue 94, the level of overhead costs allocated to electric operations should be decreased by $86,568. As taken up in Issue 98, it should be increased by $2,523. As taken up in Issue 99, it should be decreased by $108,795.

Issue 111 **(NOTE: ISSUE 111 ITSELF HAS ALSO BEEN REVISED)**

Staff: Yes. Account 930.2, Miscellaneous General Expense, should be reduced by $48,657 for 2002 and $52,160 ($48,657 x 1.072) for 2004. These costs were associated with a stock offering that did not materialize. To the extent that the amounts expended by the Company are useful for a future stock offering, those costs will be implicitly included in the Return on Equity.

Issue 112

OPC: Yes. FPUC's customers should not be required to fund all of the expenses that FPUC has incurred for this rate case. FPUC has agreed to many of the adjustments raised by staff and OPC. While FPUC is to be commended for its reasonableness in this regard, the fact remains that a large portion of the expense was incurred in discovering

the errors in the original filing. The customers should not have to pay for this unnecessary labor. OPC recommends that 50% of the rate case expense be disallowed.

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

Issue 116

FPUC: For the purpose of resolving this issue in this docket, the Company agrees with Staff.

Staff: Yes. An adjustment should be made to increase Depreciation Expense for the December 2004 projected test year for the effects of mathematical errors, addition of the Family Dollar, reduction of additions for common plant and correction of error in depreciation rates, cancelled and delayed projects, and non-utility operations by increases of $3,119, $4,545, $21,468, and reductions of ($105), ($11,078), and ($11,398), respectively.

Issue 118

Staff: Yes. An adjustment should be made to decrease taxes other than income by $13,794 related to property taxes and increase by $99,411 related to payroll as reflected in Audit Exception 19. Due to adjustments made to payroll expense in Issues 94, 96, 98, and 99, payroll taxes should be decreased by $17,042. Adjustments made to plant in Issues 9-10 and 14-15 increases Ad Valorem taxes by $2,447. The net adjustment to taxes other than income is an increase of $71,023 to reflect a balance of $746,984. However, further adjustments may be necessary based on the decisions made in revenue related issues.

Issue 131

Staff: No position at this time.

Proposed stipulated language for issues

Issue 9: FPUC's level of Plant in Service for the December 2004 projected test year should be increased by $11,248 which is the net effect of: an increase of $728,162 related to the addition of the Family Dollar Store, a reduction of $96,922 for Contributions on revenue producing projects, a reduction of $297,378 cancelled and delayed projects, and a reduction of $250,000 for Contributions in Aid of Construction. This amount includes a $72,614 decrease to common plant in issue 10.

Issue 14: Accumulated depreciation for Plant in Service for the December 2004 projected test year should be decreased by $81,342 which is the net of: an increase of $13,222 for the Family Dollar Store, an increase of $4,675 for the correction of depreciation rates, a reduction of $16,617 for cancelled and delayed projects, a reduction of $22,134 for average depreciation rates, a reduction of $45,483 for depreciation rates effective 1/01/2004, and a reduction of $3,750 for Contributions in Aid of Construction. Also, this amount includes a reduction of $11,255 for common plant in issue 15.

Issue 17: FPUC's level of Construction Work in Progress should be increased by $88,923 for the December 2004 projected test year.

Issue 20: The correct amount of cash to include in 2004 cash working capital, which includes Accounts 1310, 1340, 1310.4, and 1350, is $135,720. The adjustment is a decrease of $1,698,681 to 2004 working capital. The cash balance of $135,720 represents a reasonable amount of non-interest bearing cash.

Issue 22: Drop.
Issue 23: Drop.
Issue 24: Drop.
Issue 25: Drop.

Issue 31: Prepaid pensions should be reduced by $451,268 to reflect a balance of $331,904. The company included a positive amount of pension expense in the income statement. Therefore, the 2004 projected balance of prepaid pensions should have declined.

Issue 38: The 2004 working capital should be reduced by $564,483 for the projected amount of over-recoveries for fuel of $490,094 and for conservation of $74,388.

Issue 40: The 2004 working capital should be reduced by $434 to remove the non-utility portion included in Account 1430.1- Accounts Receivable Other.

Issue 41: The 2004 working capital should be reduced by $8,345 to remove the non-utility portion included in Account 1430.2- Accounts Receivable Other Miscellaneous.

Issue 46: Based on the decisions made in other issues, the 2004 projected working capital should be reduced by $3,643,348 to reflect a balance of ($3,083,353).

Issue 47: Based on the decisions made in other issues, the 2004 projected rate based should be reduced by $3,461,835 to reflect a balance of $36,379,034.

Issue 58: Drop.

Issue 59: The appropriate cost rate for common equity is 11.5% with a range of plus or minus 100 basis points.

Issue 60: The appropriate weighted average cost of capital is 7.86%. This cost of capital is based on a 13 month average capital structure. An amount representing the investment in Flo-Gas Corporation, $2,159,296, has been removed solely from common equity in reconciling rate base and capital structure. To reflect corrections and adjustments in the staff audit report, customer deposits have been adjusted to reflect a balance of $1,817,732 with a cost rate of 6.84%.

Issue 61: Forfeited Discounts (Late Fees) have been understated in calculating the revenue for 2004. Forfeited Discounts should be increased by $64,919, from $255,104 to $320,023.

Issue 63: FPUC's projected level of Total Operating Revenue in the amount of $14,491,924 for the December 2004 projected test year should be increased by $64,919 as stated in Issue 61 and by $220,083 as stated in Issue 123, or by $285,002 in total. It should also be decreased by $1,354,781 as stated in Issue 66 to remove Franchise Fees and by $1,217,311 as stated in Issue 67 to remove Gross Receipts Tax. Based on the above, the appropriate amount of Operating Revenues is $12,204,834.

Issue 65: The trend rates should be revised to reflect the stipulated rates for inflation, customer growth and payroll. The appropriate trend rates are 1.033 for inflation, 1.0577 for customer growth and 1.061 for payroll. Only the trend rates for inflation only and payroll only should be applied to O& M Expenses. This results in a $93,263 reduction to O&M Expenses.

Issue 68: The appropriate amount of O&M Expense for 2004 is $6,913,120 which represents a $771,074 reduction.

Issue 86: The Economic Development Costs should be reduced by $1,132, which limits the amount to 95 percent of the 2004 amount projected by the Company. For any calendar year in which the Company spends less than $22,641, then 95% of the difference between the $22,641 and the amount spent shall be credited to the Company's Storm Damage Reserve.

Issue 88: Overhead Cost Allocations should be decreased by $192,840 for the 2004 projected test year. As taken up in Issue 94, the level of overhead costs allocated to the electric operations should be decreased by $86,568. As taken up in Issue 98, it should be increased by $2,523. As taken up in Issue 99, it should be decreased by $108,795.

Issue 111: Account 930.2, Miscellaneous General Expense, should be reduced by $48,657 for 2002 and $52,160 ($48,657*1.072) for 2004. These costs were associated with a stock offering that did not materialize.

Issue 112: Total Rate Case Expense of $490,862 should be amortized over five-years, or at $98,172 per year. Rate Case Expense for the 2004 test year should be reduced by $24,544. One-half of rate case expense, or $245,431 should be include in Working Capital Allowance, a reduction of $200,999.

Issue 116: 2004 Depreciation Expense should be reduced by $91,915 in total. This amount includes a $90,966 decrease accounted for in Issue 115. The additional $949 reduction is the net of several adjustments: an increase of $3,119 to correct mathematical errors, an increase of $4,545 related to the Family Dollar Store substation, and an increase of $21,468 related to the Family Dollar Store assets. Also included are reductions of $105 for common plant, $11,078 related to cancelled and delayed projects, $11,398 for non-utility operations, and $7,500 to reduce depreciation for Contributions in Aid of Construction.

Issue 118: An adjustment should be made to decrease taxes other than income by $13,794 related to property taxes and increase by $99,411 related to payroll as reflected in Audit Exception 19. Due to adjustments made to payroll expense in Issues 94, 96, 98, and 99, payroll taxes should be decreased by $17,042. Adjustments made to plant increases Ad Valorem taxes by $2,419. Based on staff's adjustments to revenue, Regulatory Assessment Fees should be increased by $205. Additionally, based on Category 1 Stipulations 5 and 6, gross receipts tax and franchise fees should be reduced by $1,354,781 and $1,217,311, respectively. Therefore, the projected 2004 balance of taxes other than income should be decreased by $2,500,893 to reflect a balance of $747,160.

Issue 119: Income Taxes Expense should be increased by $438,258 to $248,020 for the effect of adjustments to NOI, Rate Base and interest synchronization.

Issue 120: FPUC's projected Net Operating Income in the amount of $1,088,574 for the December 2004 projected test year should be increased by $638,534 to $1,727,109.

Issue 122: FPUC's requested annual operating revenue increase of $4,117,121 for the December 2004 projected test year should be decreased by $2,296,748 to $1,820,373.

FLORIDA PUBLIC UTILITIES COMPANY DOCKET NO. 030438-EI
PROPOSED STIPULATIONS - COST OF SERVICE AND RATE DESIGN

CATEGORY ONE STIPULATION

The revenues from sales of electricity by rate class at present rates for the projected 2004 test year should be adjusted upward by a total of $220,830, as explained below:

1. Revenues for the GS rate class should be adjusted upward by a total of $133,220 due to the following: an upward adjustment of $127,937 due to changes in the billing determinant forecast, and an upward adjustment of $5,282 that results when the Non-profit Sports Fields Transitional Rate customers are billed under the correct rate.

2. Revenues for the RS rate class should be adjusted upward by a total of $56,185 due to changes in the billing determinant forecast.

3. Revenues for the GSD rate class should be adjusted downward by a total of $5,856 to adjust for the application of Transformer Ownership Discounts to those customers who own their own transformers.

4. Revenues for the GSLD rate class should be adjusted upward by a total of $37,045 due to the following: an upward adjustment of $71,940 due to changes in the billing determinant forecast attributable to the Family Dollar facility, and a downward adjustment of $34,659 to adjust for the application of Transformer Ownership Discounts to those customers who own their own transformers.

With these adjustments, FPUC has correctly calculated revenues from the sales of electricity at present rates for the test year. (Issue 123)

CATEGORY TWO STIPULATIONS

The appropriate methodology cost of service methodology to be used in designing FPUC's rates is the fully allocated embedded cost of service study contained in MFR Schedule E-1, as adjusted for the changes to rate base, revenues, expenses, and return approved by

the Commission. (Issue 124)

Any revenue increase granted 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 125)

The Street and Outdoor Lighting energy charges should be set, to the extent practicable, to recover 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 the extent practicable, 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 131)

An adjustment by rate class to account for the increase in unbilled revenues due to the Commission-approved revenue increase should be made by applying the methodology shown in MFR Schedule E-15 to the Commission-approved revenue increase. (Issue 134)