State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: July 19, 2012

TO: Ann Cole, Commission Clerk, Office of Commission Clerk

FROM: Kathryn Gale Winter Cowdery, Senior Attorney, Office of the General Counsel

RE: 120068-GU

Please file the attached FNGA handouts from the July 19, 2012 Staff Workshop in the above referenced docket.

FLORIDA PUBLIC SERVICE COMMISSION WORKSHOP

Rule 25-12.045
Inactive Gas Service Lines

July 19, 2012

INTRODUCTION

- FNGA Appreciates the opportunity for this workshop
- Who is the Florida Natural Gas Association
  - Members - Corporate, Pipeline, Marketers and Suppliers
  - Corporate members are regulated by FPSC
    - Investor-owned - fully regulated
    - Municipal and Special Gas Districts - safety only
- 2007 and 2009 Rule waiver requests
- FNGA filed petition to seek changes to Rule 25-12.045 and proposed specific language changes

CURRENT RULE 25-12.045

1) The following actions shall be taken for inactive gas service lines that have been used, but have become inactive without reuse:
   a) If there is no prospect for reuse, the service line shall be retired and physically abandoned within three months.
   b) After a service line has been inactive for a period of two years, if there is a prospect for reuse of the line, one of the following actions shall be taken within six months:
      1. Disconnect the service line from all sources of gas and abandon or remove;
      2. A valve on the service line shall be locked in the closed position and the service line plugged to prevent the flow of gas;
      3. Remove the meter and plug the end of the service line to prevent the flow of gas.
   c) After five years of inactivity, service lines shall be retired and physically abandoned within six months.

RULE 25-12.045 CONTINUED

2) To physically abandon a service line, the operator must disconnect the service line from all sources of gas at the nearest point to the gas main. Where the appropriate governmental authority prohibits cutting pavement, the service line shall be disconnected at the nearest point not under a paved surface. The stub of the service line, the short section of the remaining service line to the main, shall be disconnected closer to the main or at the main, if at some later date it becomes accessible during normal operations.

3) Records must be kept of the size, material, and location of all remaining service line stubs. These records must be readily available to personnel assigned to pipeline locating activities.

INACTIVE GAS SERVICE LINES

FNGA believes that the current Rule is not conducive in today's environment as many changes have occurred since adoption in the 1970's

- Changes have enhanced safety and reduced risk of significant events
- Current rule is not consistent with new federal regulations (DIMP) and certain PSC Rules
- Many inactive services are a result of current market conditions, which poses a tremendous cost burden

- Conclusion: Rule should be updated

INDUSTRY SAFETY CHANGES

Since Rule was adopted in 1970's, many improvements have occurred within the industry:

- Mandatory One-Call System
- Line locating techniques and procedures
- Public awareness program
- Excess Flow Valves
- Industry Rules
  - Atmospheric corrosion requirements
  - Leak survey requirements
- Enhanced GIS and mapping systems
- Operator Qualification Program
- Distribution Integrity Management Plan (DIMP)

Result - distribution systems are safer now than ever before

CONSISTENCY

In February 2010, the Federal Department of Transportation implemented new regulations, known as DIMP

- DIMP is a risk-based program designed to focus industry attention on those aspects of its system that pose the greatest risk - and address those risks first
- Rule 25-12.045 is inconsistent with DIMP - there is no risk assessment of inactive service lines - after five years of inactivity, Companies must retire and physically abandon all service lines - even if they do not pose any significant risk

CONSISTENCY

The Rule is inconsistent with Commission Rule 25-12.040 – Leak Surveys, Procedures and Classifications

- Rule 25-12.040 established a "grading" system for gas leaks – Grade 1, 2 and 3
- Grade 3 gas leaks, if underground, no time limit for repairs

MARKET CONDITIONS

Over the past several years, the economy has been severely distressed, resulting in:

- Significant over-building of residential homes that have never been occupied, but gas service lines have been installed
- Significant levels of foreclosures, where gas service lines have been installed

MARKET CONDITIONS

Absent any modification to the Rule, these inactive gas service lines will be required to be retired and physically abandoned, even though the homes have natural gas appliances installed

- These homes will likely be the first to be sold and re-occupied and, if the service line has been cut and capped, service will need to be re-established

2011 DATA SUMMARY

- Total Service Lines 671,954 (12 mo. Avg.)
- Total Active Services 587,854 (12 mo. Avg.)
- Total Inactive Services 84,101 12.52%
  - < 60 months 59,035
  - > 60 months 14,348
  - undefined 10,718

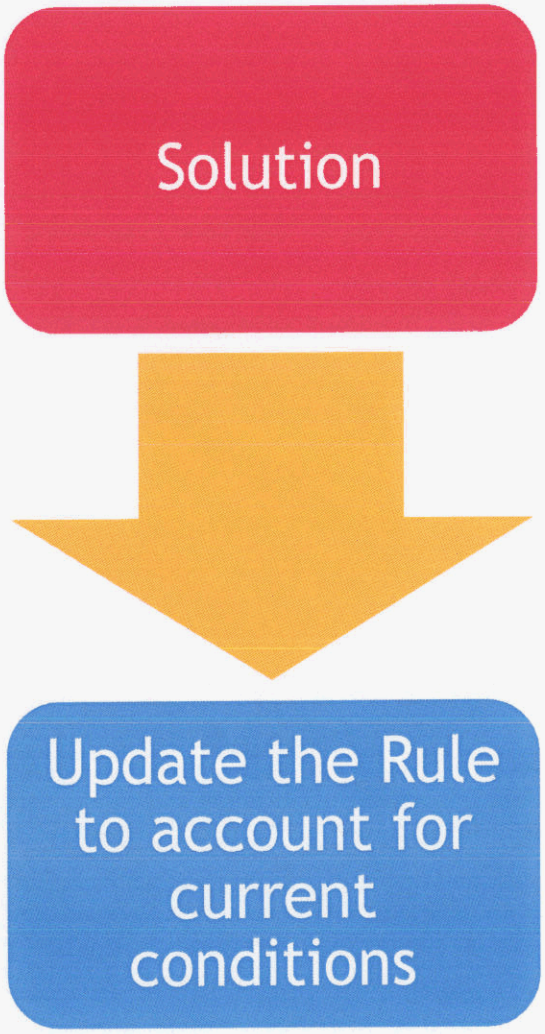
* Data reflective of participating companies only

2010-2011 REACTIVATIONS

- Total Reactivations Reported 29,022
  - Inactive < 60 mo. - 26,956
  - Inactive > 60 mo. - 1,960
  - Not defined - 106

* Data reflective of participating companies only

RULE 25-12.045



FNGA'S PROPOSED RULE MODIFICATION

FNGA's current proposal is to delete Section 1 (c) of the existing Rule and replace it with:

c) After five years of inactivity, the following determination, consistent with the requirements of the Distribution Integrity Management Program, shall be made on all inactive service lines:

1) "Inactive Gas Service Line - Retire" - an inactive gas service line that represents an existing or probable hazard to persons or property or is constructed of bare steel, cast iron or other similar materials. Such lines shall be retired and physically abandoned within six months or in accordance with a Commission-approved replacement program.

2) "Inactive Gas Service Line - Monitor" - an inactive gas service line that is not a threat to persons and property and is not expected to become so. Such lines shall be monitored and maintained in accordance with all rules and regulations applicable to active gas service lines.

PROCESS - CURRENT RULE

Install

- Add customer - capitalize costs
- Install Service Line, Meter Installation, Meter and Regulator

Remove

- Customer Inactive for 2 years
- Remove Meter and plug Service Line

Retire

- Customer Inactive for 5 years
- Cut and Cap Service Line
- Retire Service Line

PROCESS - PROPOSED RULE

Install

- Add customer - capitalize costs
- Install Service Line, Meter Installation, Meter and Regulator

Remove

- Customer Inactive for 2 years
- Remove meter and plug service line

Retire or Monitor

- Customer Inactive for 5 years
- Facilities determined "retire" are cut, capped and retired
- Facilities determined "monitor" remain on companies operating and accounting records without modification until reclassified to "retire"

FNGA PRESENTATION

The FNGA's presentation in support of its proposal consists of four primary areas:

1. Safety
2. Marketing
3. Cost
4. Accounting

FNGA PRESENTATION

Safety Presentation

SAFETY

Q. Please provide company information for the years 2006 through 2009 in the same format as the 2010 and 2011 Cut N Cap Monthly Moratorium Report.

A. Most Companies were unable to replicate the data in the same format for the earlier years.

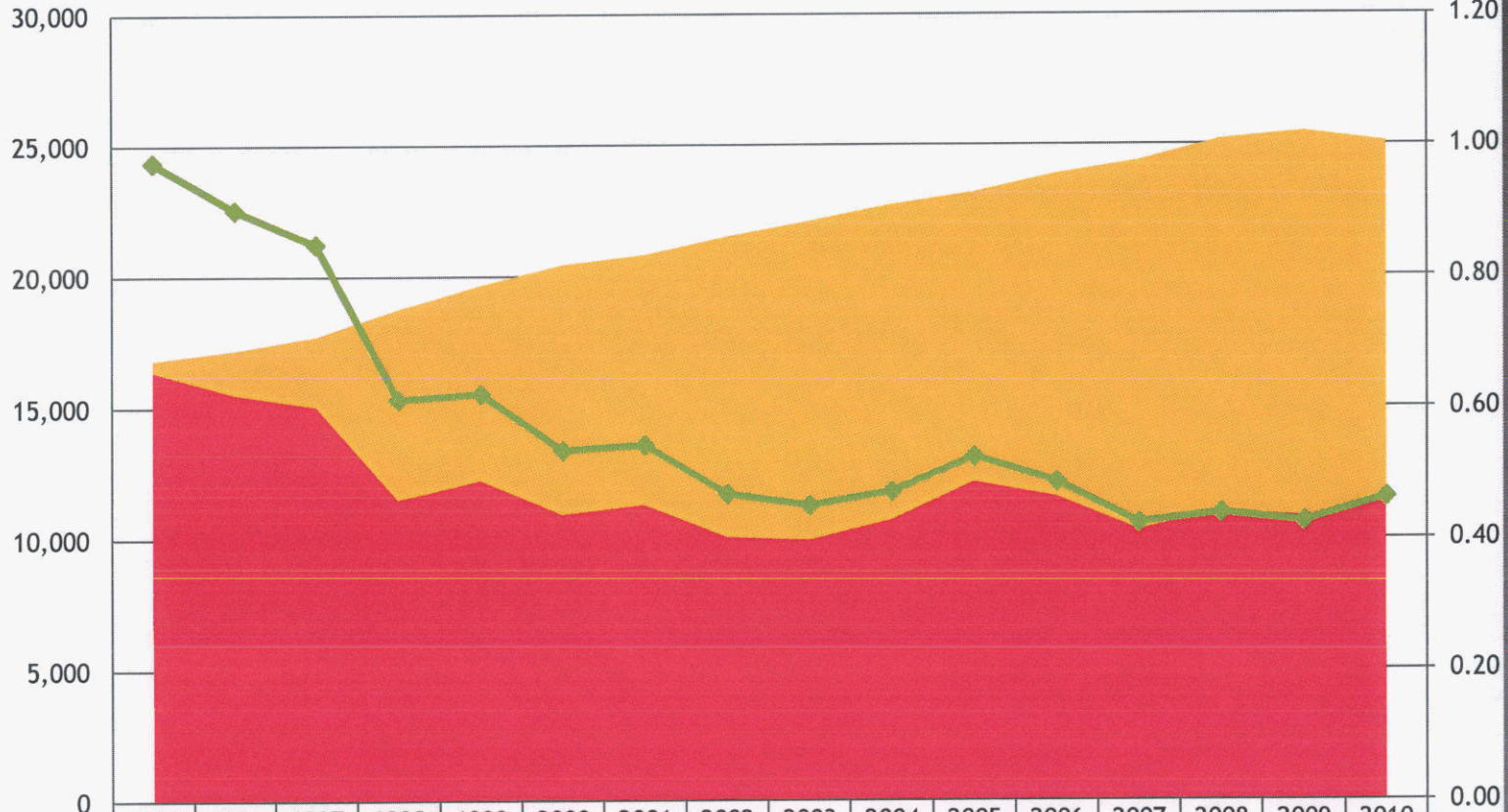
SAFETY

Q. Did the Rule waivers (2007 and 2009) result in any decrease in safety?

A. No. Most Companies report a substantial reduction over the last five years in damages to service lines. One factor that we attribute to this reduction is the Public Awareness and One Call notification programs.

SAFETY

Natural Gas Leaks and Miles of Main



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Miles Mains	16,812	17,205	17,719	18,759	19,669	20,436	20,807	21,504	22,080	22,707	23,176	23,870	24,371	25,185	25,466	25,078
Gas Leaks	16,373	15,515	15,049	11,490	12,224	10,930	11,291	10,060	9,935	10,697	12,144	11,581	10,296	11,015	10,809	11,568
Leaks/Mile Main	0.97	0.90	0.85	0.61	0.62	0.53	0.54	0.47	0.45	0.47	0.52	0.49	0.42	0.44	0.42	0.46

SAFETY

Q. Noting that the data FNGA has already provided reflects that the number of lines inactive for 5+ years has increased 25% over the waiver period, would it be feasible for companies to proceed to bring into compliance those lines that have been inactive more than 10 years by 12/31/2013. If not, please explain why.

A. With the recent decision to extend of the moratorium until the end of 2014, the Companies believe that they can be in compliance for those lines that are inactive more than 10 years. Although this can be accomplished, it may not be the best use of limited resources from a risk perspective.

SAFETY

Q. How do the Companies address inactive service lines in the context of their DIMP?

A. Services, whether active or inactive, are given the same treatment within DIMP and any other regulatory requirements.

- Leak Surveys
- Line Locates
- Corrosion control/monitoring
- Public awareness programs

SAFETY

Q. With respect to replacement of Bare Steel/Cast Iron replacement programs and initiatives, how do Companies anticipate dealing with inactive lines in the context of these programs, if at all? (i.e.; replace, abandon when you find them, etc.)

A. The Companies have proposed rule language that requires inactive bare steel/cast iron service lines to be retired and physically abandoned within six months or in accordance with a Commission-approved replacement program.

SAFETY

Q. How do Companies monitor inactive lines?

A. Inactive lines are treated in the same manner as active service lines. All required Regulatory records and inspections are maintained. (See illustration)

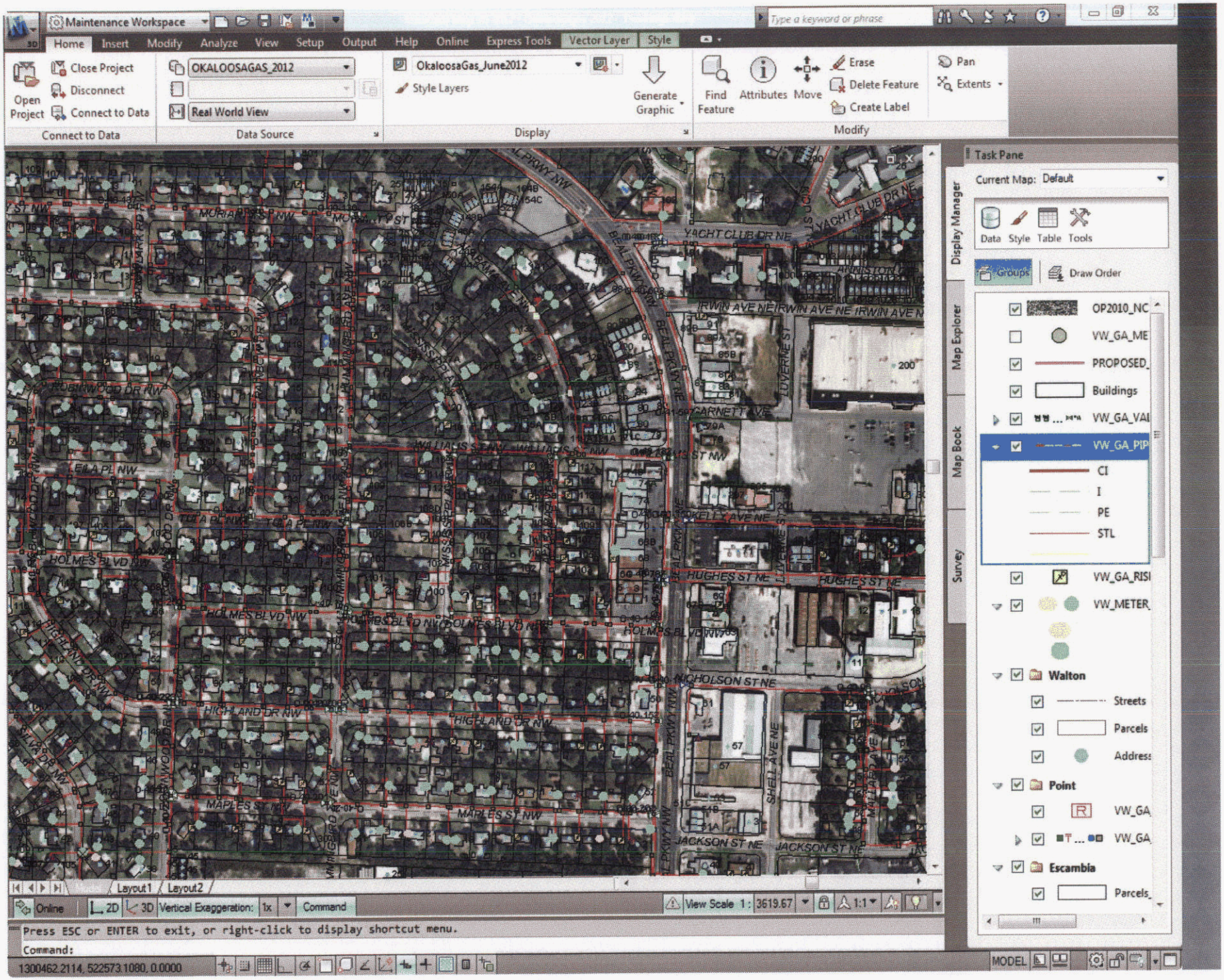

Maintenance Workspace
Type a keyword or phrase
Home
Insert
Modify
Analyze
View
Setup
Output
Help
Online
Express Tools
Vector Layer
Style
Open Project
Close Project
Disconnect
Connect to Data
Connect to Data
OKALOOSAGAS_2012
Real World View
Data Source
OkaloosaGas_June2012
Style Layers
Generate Graphic
Display
Find Feature
Attributes
Move
Erase
Delete Feature
Create Label
Modify
Pan
Extents
Task Pane
Current Map: Default
Data
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Table
Tools
Groups
Draw Order
Display Manager
Map Explorer
Map Book
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Layout1
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Press ESC or ENTER to exit, or right-click to display shortcut menu.
Command:
1300462.2114, 522573.1080, 0.0000
MODEL

SAFETY

Q. What are Company procedures for addressing leaks on inactive lines?

A. All Companies have procedures for addressing leaks on service lines, which are currently handled on a case-by-case basis.

SAFETY

Q. Is it feasible for Companies to notify new home customers of inactive lines on their property?

A. Companies are not always aware when new home owners take possession. However, Companies are willing to provide an annual communication to ensure awareness and the opportunity of utilization of inactive service lines.

FNGA PRESENTATION

Marketing Presentation

MARKETING

Q. Please describe the marketing efforts undertaken over the past 4.5 years targeted at reinstituting service on inactive lines.

A. Companies have instituted various marketing programs that have targeted inactive service line premises, including direct mail and traditional marketing strategies such as television, radio and print.

MARKETING

Q. Please identify those programs described in response to No. 14, that the Company(ies) consider successful, as well as those that have not been successful.

A. Success can be defined differently among Companies. Based on marketing efforts during the moratorium, customers have returned to the system. Companies will continue to develop marketing strategies and approaches based on current economic conditions.

MARKETING

Q. Do the Companies anticipate that future marketing efforts targeted at reinstituting service on inactive lines will be more successful? If so, why?

A. Yes, because the economy and market are improving, natural gas prices are very competitive and high awareness levels of the advantages of natural gas.

FNGA PRESENTATION

Cost Presentation

COST

Q. Did granting the Rule waivers (2007 and 2009) provide any benefit other than cost savings for the companies?

A. Yes, companies were able to: 1) create and test certain marketing strategies to re-establish service to customers on inactive service lines; and 2) utilize contractors and employee resources to perform other tasks, such as maintenance, leak survey and growth activities.

COST

Q. What are the costs associated with (1) removing the meter; and (2) cutting and capping the line?

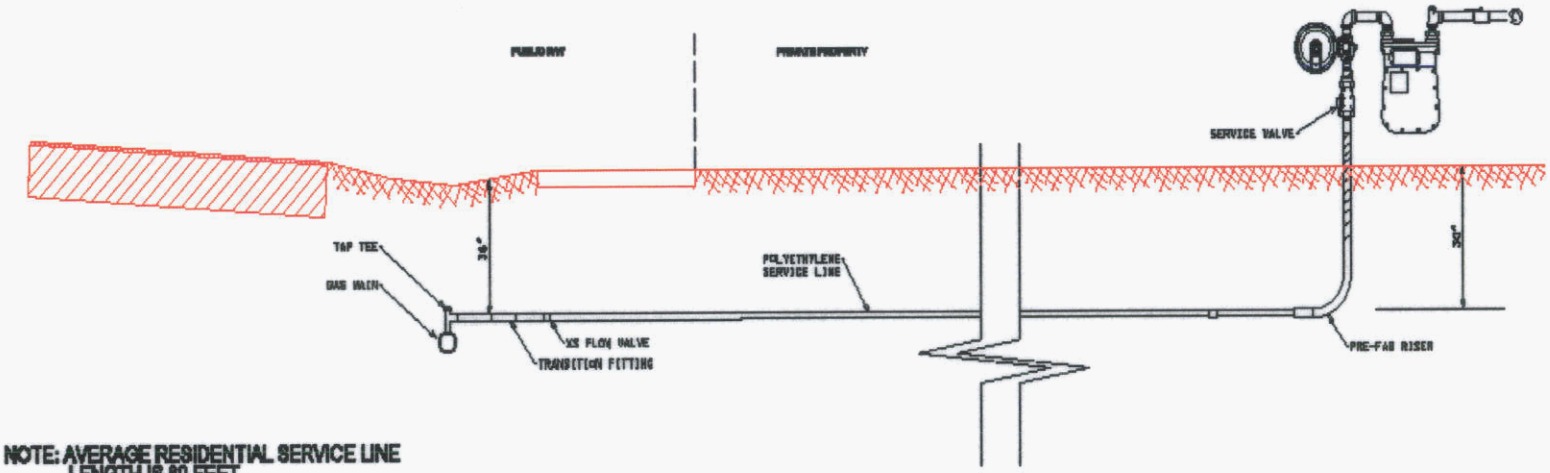
Q. What are the costs associated with reinitiating service on a line that has been cut and capped?

A. The cost to remove the meter, cut and cap inactive service lines and reinitiate service on a line that has been cut and capped varies according to the type of customer (residential or commercial) and other physical factors, such as multi-meter installation, single meter installation, pavement, landscaping, etc.

COST

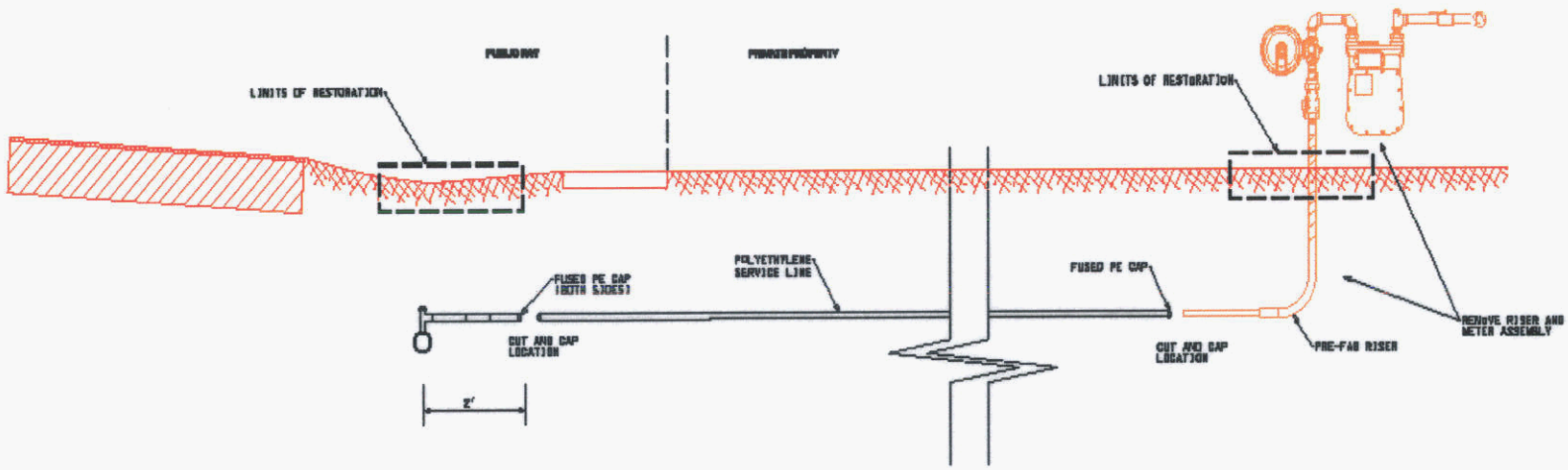
- Residential and Commercial
- Varies between Companies
  - Meter Removal Cost - estimated range $25 to $200
  - Service Line - estimated range of cost to cut and cap is $350 to $2,500
  - Cost to Reinitiate Service - typically this is not performed. New service line is constructed.

RESIDENTIAL SERVICE LINE RETIREMENT



NOTE: AVERAGE RESIDENTIAL SERVICE LINE LENGTH IS 80 FEET.

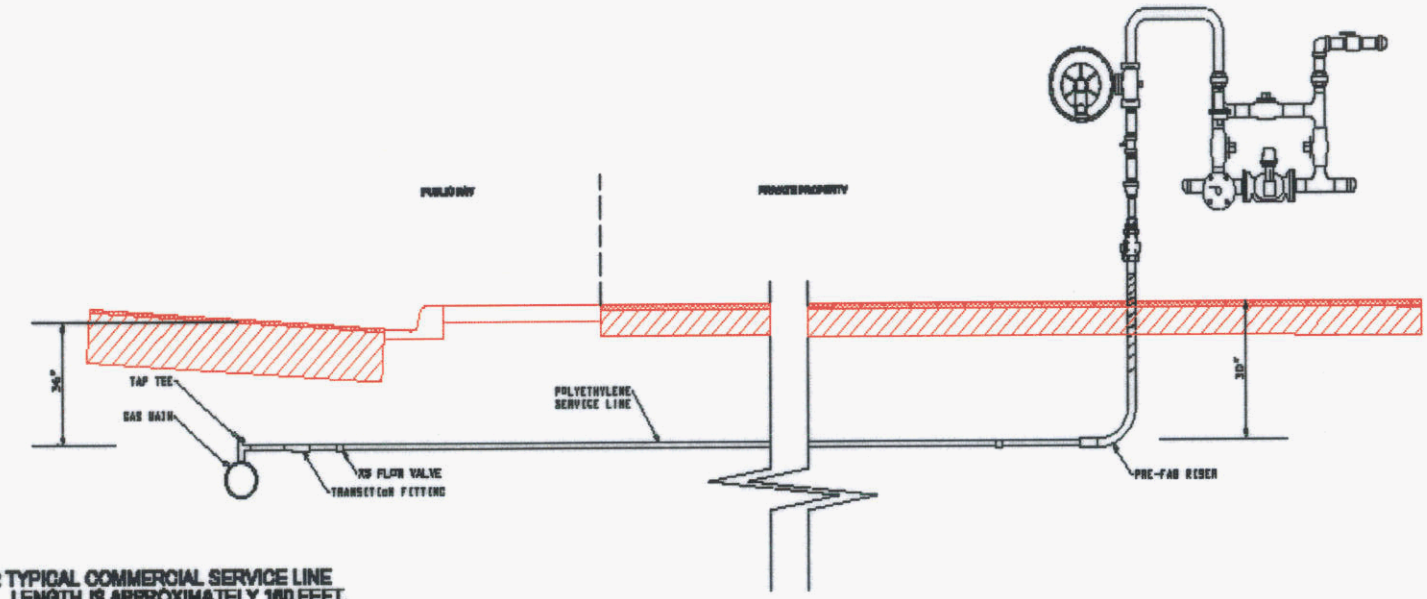
TYPICAL RESIDENTIAL SERVICE LINE



TYPICAL RESIDENTIAL SERVICE RETIREMENT

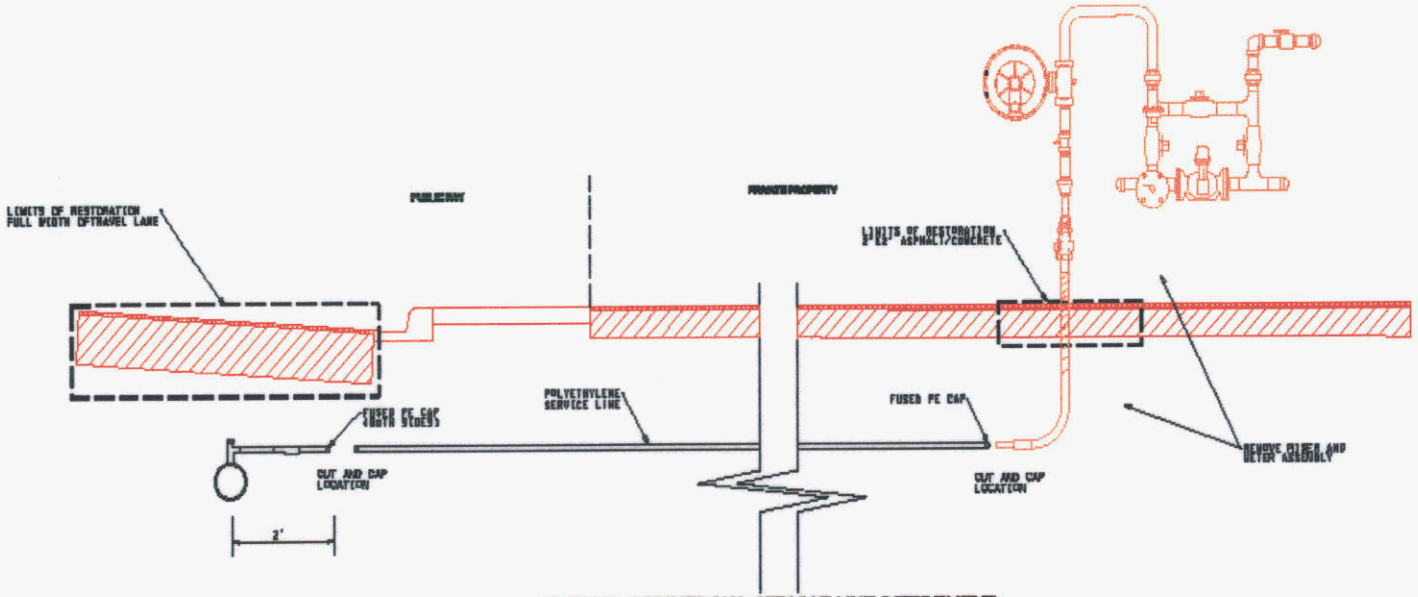
JB 7-11-12 (NOT TO SCALE)

COMMERCIAL SERVICE LINE RETIREMENT



NOTE: TYPICAL COMMERCIAL SERVICE LINE LENGTH IS APPROXIMATELY 100 FEET.

TYPICAL COMMERCIAL SERVICE LINE



JB 7-11-12 (NOT TO SCALE)

TYPICAL COMMERCIAL SERVICE LINE RETIREMENT

COST

Q. Are there less expensive options that provide a comparable degree of safety?

A. Yes, the FNGA's proposed rule modification language would provide for lower costs with a comparable degree of safety.

FNGA PRESENTATION

Accounting Presentation

ACCOUNTING

Q. Did the companies make more money by not retiring the lines in accordance with the Rule?

A. No, earnings were actually reduced as a result of the Rule waiver. Because the inactive service line, meter installation and regulator were not retired, depreciation expense and property taxes continued to be incurred. In addition, the avoided costs for removal would have been recorded in Accumulated Depreciation under the Rule, thus no effect to earnings.

ACCOUNTING

Q. How should the Commission address the issue of retirement of inactive service lines?

A. Under the FNGA's proposed rule modifications, at the end of 5 years, facilities determined to be "retired" would be cut, capped and retired, exactly as it occurs under the current rule. Facilities determined to be "monitored," however, would remain active in the companies operating and accounting records. No accounting entries would be made at that time. Depreciation expense would continue to be incurred. Retirement would occur when facilities are determined to be "retired" in accordance with the proposed rule. Cost of removal expenses would continue to be recorded against accumulated depreciation.

ACCOUNTING

Q. A what point, if any, would Companies (IOU-LDCs) anticipate retiring inactive facilities?

A. Under the FNGA's proposed rule modifications, at the end of 5 years, facilities determined to be "retired" would be cut, capped and retired, exactly as it occurs under the current rule. Facilities determined to be "monitored," however, would remain active in the companies operating and accounting records. No accounting entries would be made at that time. Depreciation expense would continue to be incurred. Retirement would occur when facilities are determined to be "retired" in accordance with the proposed rule. Cost of removal expenses would continue to be recorded against accumulated depreciation.

SUMMARY

As a general practice, it is not necessary to physically abandon inactive service lines. The requirement for operating and maintaining inactive service lines are the same as those for active service lines regardless of the duration of the inactivity. Companies must physically visit each inactive service line at leas once every three years to ensure compliance with sate and federal rules. With the increased implementation of automated meter reading, this frequency is equivalent to that of active service lines.

SUMMARY

Companies have a damage prevention program in place that effectively covers locating requirements of both active and inactive service lines and are members of the Sunshine State One-Call of Florida program. Service lines, both active and inactive, provide useful and effective connection points for the ability to physically locate such underground lines, and provide visual cues for excavators, property owners and utility locators, as an aid in identifying the presence of underground natural gas lines, while ensuring that these facilities are adequately marked and properly protected.

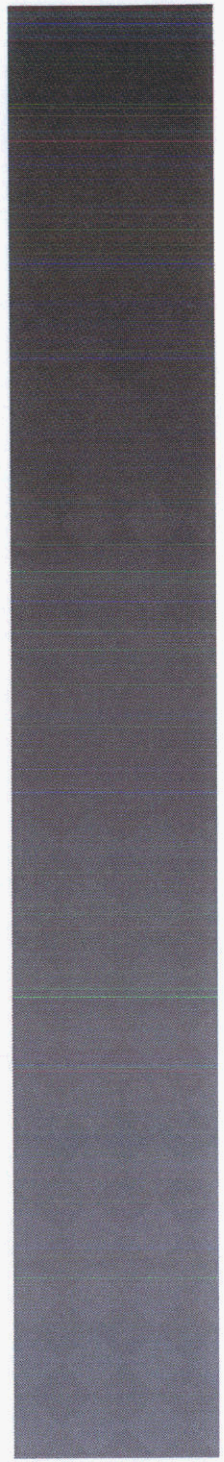
SUMMARY

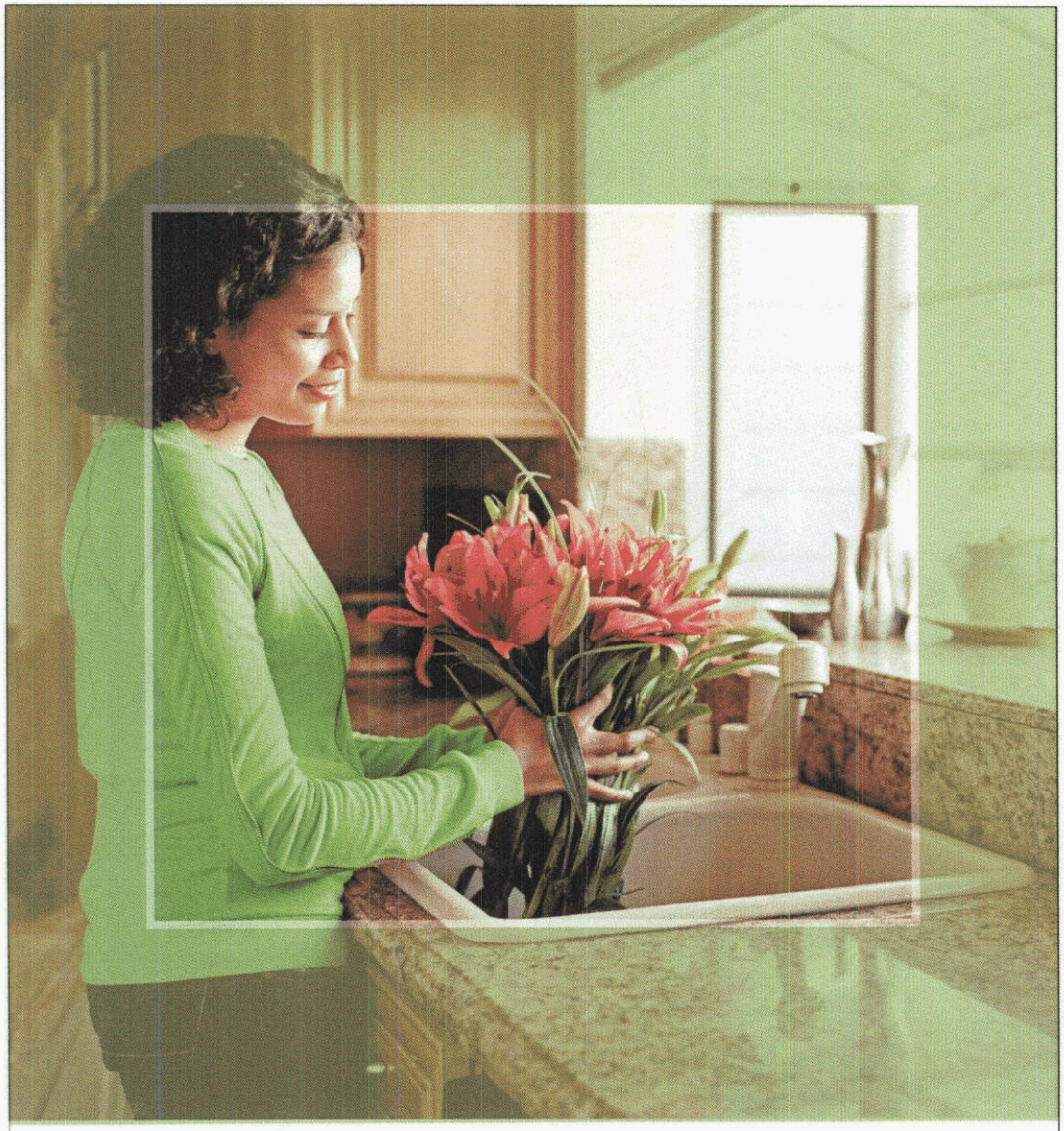
Companies have implemented DIM plans and programs that provide a process for effectively addressing inactive service lines based on risk. Measures to determine the disposition of inactive service lines can be addressed for all identified threats and risk ranking as opposed to duration of time. With the implementation of GIS, field technicians have ease of access to important information to aid in correctly locating company facilities and supplements the ability to physically connect to a service riser to identify and mark service lines, whether active or inactive.

SUMMARY

Thank you!!

Questions?





Natural Gas. Style and Savings.

TECO
PEOPLES GAS

These days, we're all a little more cost conscious – and we appreciate our responsibility for the environment. That's why Natural Gas makes sense today. With Natural Gas, you'll enjoy precise temperature control in the kitchen, plenty of hot water in the bathroom and warm heat for a cozy home. And when it comes to being earth friendly, the average Natural Gas home has a 46% smaller carbon footprint than the average all-electric home. The energy efficiency and annual cost savings are pretty swell, too.

Natural Gas Water Heating

- Heats water up to twice as fast as electricity and provides comfort during a power outage
- Tankless technology heats water on demand and is up to 40% more energy efficient
- Tankless models are durable, lasting 20 years on average

Natural Gas Home Heating

- Maximum efficiency – today's models are up to 98% efficient
- Enhanced comfort with air up to 25 degrees warmer than an electric heat pump
- Sustainable cost savings over time with less energy use

Natural Gas Clothes Drying

- A green laundry room essential for the eco-conscious homeowner
- Clothes dry nearly twice as fast – saving money, energy and time
- Stretch your wardrobe investment with shorter drying times that are gentler on clothes

Natural Gas Cooking

- Cook with the precise temperature control preferred by 96% of professional chefs
- An easy style and performance upgrade for the heart of your home
- Instant on and off provides the ultimate in convenience and control

Natural Gas Fireplace

- Easy to incorporate into any design
- Ambiance with exceptional comfort and convenience
- Enhanced indoor air quality over wood burning

Natural Gas Outdoor Living

- Convenient, clean grilling for endless entertaining
- Lighting adds timeless charm without attracting bugs
- Extend the swim season with energy efficient pool and spa heating

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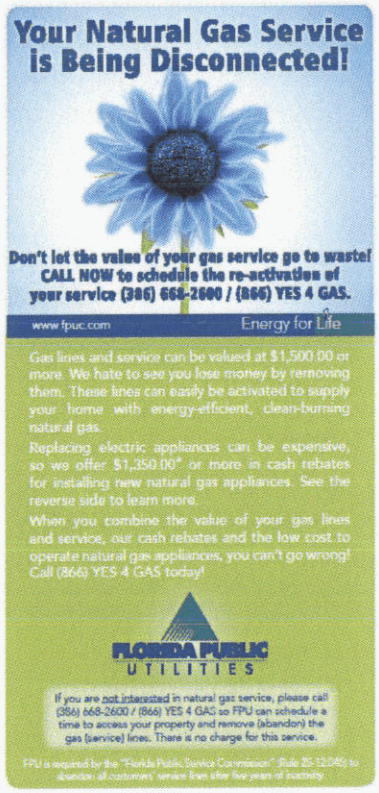
Reactivation Initiatives

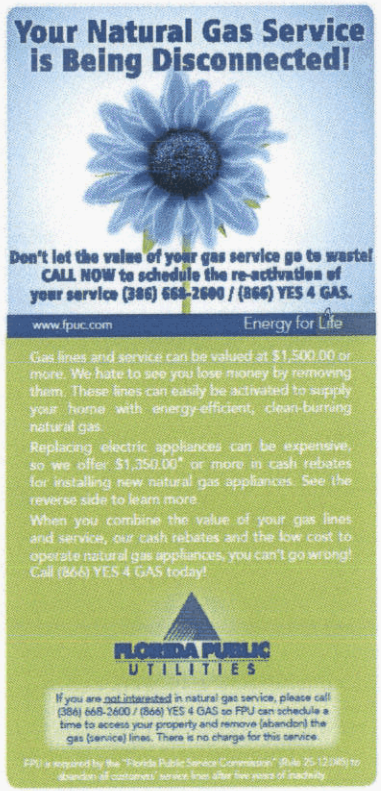
2008 -2012

2008 Reactivation Initiative



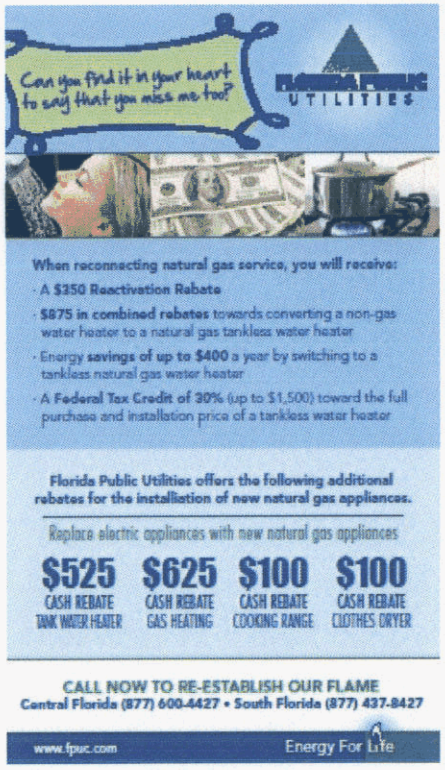
Aggressive multi-pronged approach included door-hangers, three mailings of personally addressed letters to homeowners and one direct mail postcard. Our records indicate that out of approximately 9,000 households, only **7** reactivated.

2009 Reactivation Initiative



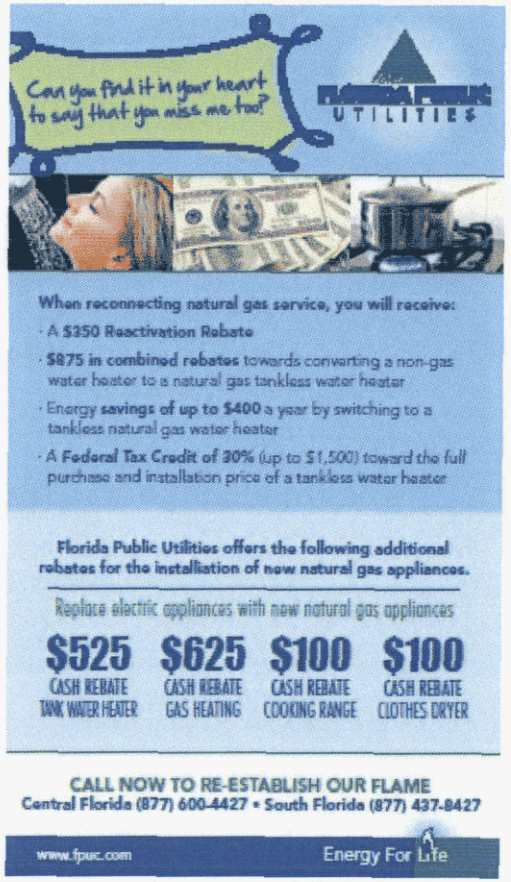
Multi- pronged marketing approach retargeting the same households was repeated. This year, **23 accounts** were reactivated.

2010 Reactivation Initiative
Greeting Card and Coupon Insert (Version 1)



Postcard was exchanged for a "greeting card" format with coupon insert. We completed multiple mailings to approximately 9,000 households resulting in the conversion of **34** inactive prospects to active accounts.

2010 Reactivation Initiative
Greeting Card and Coupon Insert (Version 2)



2011/2012 Rebate Chart Featuring the Reactivation Program

(placed on all promotional collateral including direct mail)

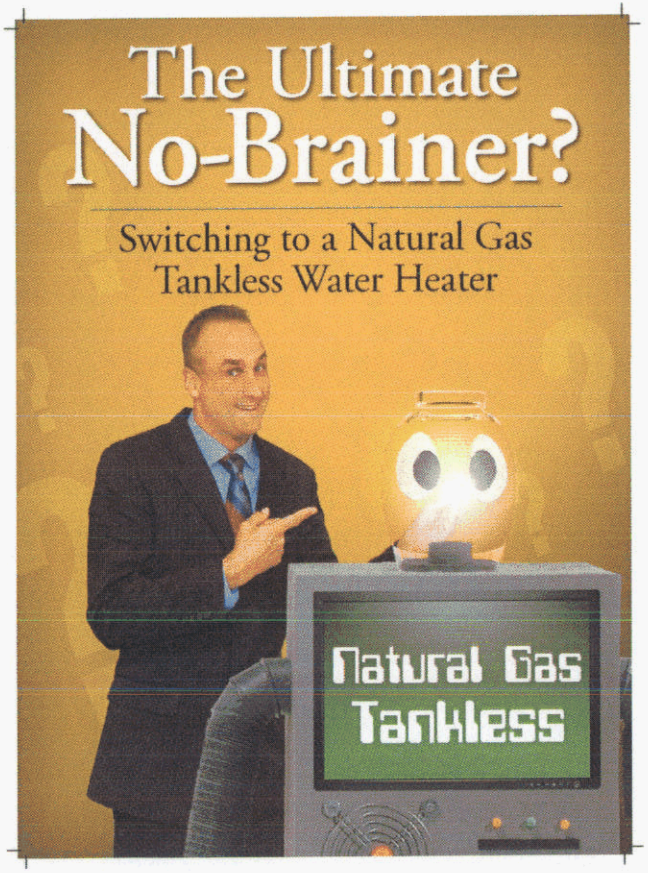
	SWITCH *to Natural Gas*	REPLACE *Old Gas Appliances*	BUILD *with Natural Gas*
Tank Water Heater	$ 500	$ 350	$ 350
High-Efficiency Tank Water Heater	$ 550	$ 400	$ 400
Tankless Water Heater	$ 675	$ 550	$ 550
Furnace	$ 725	$ 500	$ 500
Range	$ 200	$ 100	$ 150
Clothes Dryer	$ 150	$ 100	$ 100
New! Service Reactivation*		$ 350	

Close Full Screen

*Service Reactivation rebate is available for FPU customers in Palm Beach, Broward, Volusia, Seminole, and Marion Counties.

We have delivered multiple postcard mailings to approximately 9,000 inactive households resulting in **36 reactivations** in 2011 and **15 reactivations** so far this year.

2011 Postcard Mailed to all Residences 90 Feet or Less From a Natural Gas Main.



FLORIDA PUBLIC UTILITIES

energy for life

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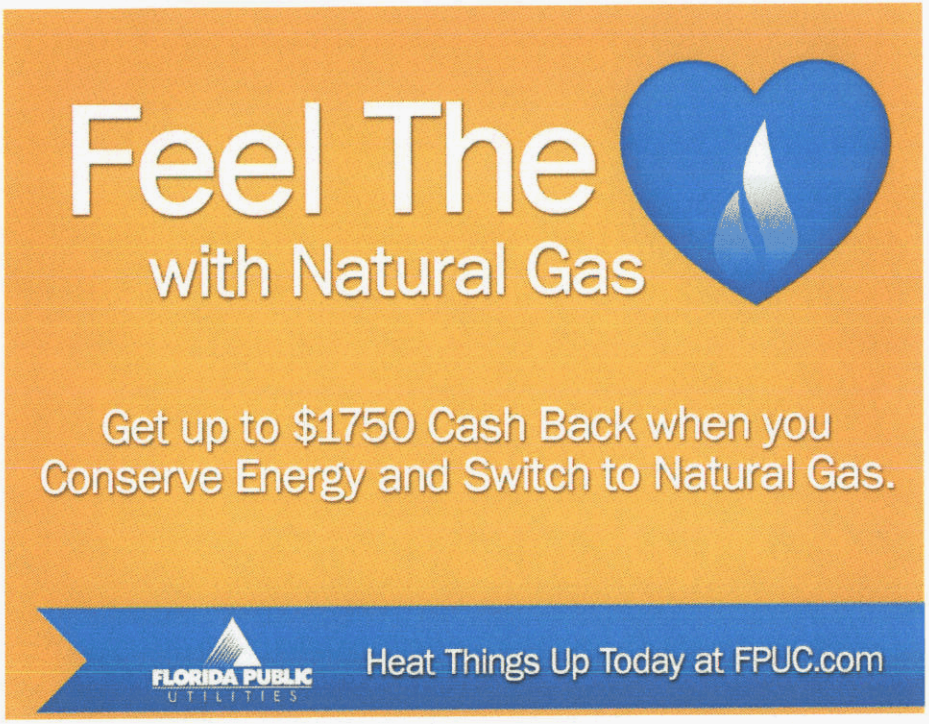
New! Service Reactivation*	$ 350		

Close Full Screen

*Service Reactivation rebate is available for FPU customers in Palm Beach, Broward, Volusia, Seminole, and Marion Counties.

2012 "Feel the Love" Campaign Targets Inactive Households and New Prospects Living 10 Feet or Less from a Gas Main.



FLORIDA PUBLIC UTILITIES

energy for life

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Close Full Screen

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2012 Penetration Study

With the help of a third party marketing research firm, Florida Public Utilities conducted a recent penetration study of new (never had a gas service line) and inactive prospects.

The goal of the study was to understand why residents living adjacent to our natural gas main (10 feet or less) were not customers and to specifically identify the obstacles that prevent people from converting from electric to gas.

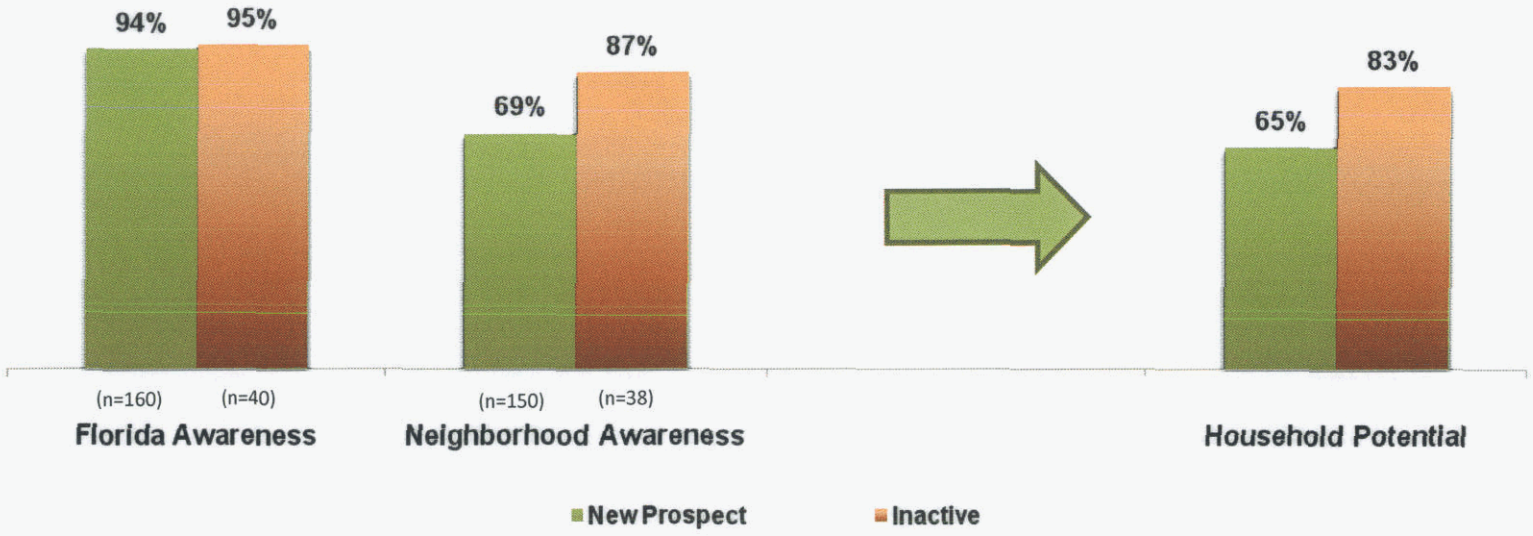
The study identified two main obstacles which are preventing people who would be likely to switch to natural gas. They are **cost** and the **perceived complexity** of the process of switching from electric to gas appliances.

FLORIDA PUBLIC UTILITIES

energy for life

Awareness of Natural Gas Availability

Of the people surveyed in the inactive account category, **87%** were aware that they live in a natural gas neighborhood.



Q7. Are you aware that natural gas is available in Florida?
Q8. Are you aware that natural gas is available in your neighborhood?

Inactive Accounts Interested in Natural Gas

The study indicated that **40%** of respondents with inactive service have checked into the cost of reinstalling natural gas.

13 % said they would be highly likely to reinstate natural gas within a year or two.

Q15. Have you ever checked into how much it costs to install gas to your home?

Conclusion

- We have seen growth in conversions of inactive to reactivated accounts despite a weak economy. We attribute this partly to an aggressive marketing strategy .
- Marketing efforts have successfully created awareness about natural gas availability.
- There are inactive customers who are highly likely to reactive their service in the near future.
- The main obstacles preventing conversions are cost and perceived complexity of the process of switching from electric to gas appliances, as well as poor economic market conditions.
- Reactivation initiatives support Florida Public Utility's safety and public awareness objectives by keeping the public informed and poised to convert when the time is right for the potential customer.

Rule 25-12.045 Inactive Service Lines

1) The following actions shall be taken for inactive gas service lines that have been used, but have become inactive without reuse:

   a) If there is no prospect for reuse, the service line shall be retired and physically abandoned within three months.

   b) After a service line has been inactive for a period of two years, if there is a prospect for reuse of the line, one of the following actions shall be taken within six months:

      1. Disconnect the service line from all sources of gas and abandon or remove;

      2. A valve on the service line shall be locked in the closed position and the service line plugged to prevent the flow of gas;

      3. Remove the meter and plug the end of the service line to prevent the flow of gas.

   c) After five years of inactivity, the following determination, consistent with the requirements of the Distribution Integrity Management Program, shall be made on all inactive service lines:

      1) "Inactive Gas Service Line - Retire" – an inactive gas service line that represents an existing or probable hazard to persons or property or is constructed of bare steel, cast iron or other similar materials. Such lines shall be retired and physically abandoned within six months or in accordance with a Commission-approved replacement program.

      2) "Inactive Gas Service Line - Monitor" – an inactive gas service line that is not a threat to persons and property and is not expected to become so. Such lines shall be monitored and maintained in accordance with all rules and regulations applicable to active gas service lines.

      ~~c) After five years of inactivity, service lines shall be retired and physically abandoned within six months.~~

2) To physically abandon a service line, the operator must disconnect the service line from all sources of gas at the nearest point to the gas main. Where the appropriate governmental authority prohibits cutting pavement, the service line shall be disconnected at the nearest point not under a paved surface. The stub of the service line, the short section of the remaining service line to the main, shall be disconnected closer to the main or at the main, if at some later date it becomes accessible during normal operations.

3) Records must be kept of the size, material, and location of all remaining service line stubs. These records must be readily available to personnel assigned to pipeline locating activities.

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Clothes Drying

Spend less time, money and energy on laundry. A natural gas dryer dries clothes more thoroughly and faster than an electric dryer.

Your clothes dryer is one of the largest energy users in your home. On average, the electric energy needed to dry a typical load of laundry costs 30 to 40 cents, while natural gas dryers costs 15 to 20 cents. A high efficiency natural gas dryer may cost more initially, but it saves money in the long run. When choosing your next clothes dryer purchase a model with a moisture sensor. When the clothes are dry, the machine shuts off rather than continue to run until the time is up. Also, look for a model that has a cool-down or perma-press period. These cycles use cool air and tumble dry in the last few minutes of the drying process, rather than continuing to use heat.

Why Natural Gas Drying?

- Saves time & money
- Cost less to operate than electric
- Gentler on fabrics
- Heats up faster with shorter drying time
- Better temperature control = fewer wrinkles
- Fewer moving parts than electric dryers so they are less likely to break down
- Increases your property value

Be a SUPER hero everyday with natural gas!

Tankless Water Heating

Natural gas water heaters provide a seemingly endless supply of hot water at a fraction of the cost than other fuel types.

Many homes today feature large bathrooms with luxury spa baths and other amenities. Natural gas tankless water heaters can provide you with an endless supply of hot water.

More and more customers are demanding green products. Natural gas tankless water heaters are also environmentally friendly. In fact, they were named as one of the "Top Green Products" by Building Products Magazine.

Why Tankless?

- Cost up to 70% less to operate than a traditional electric water heater
- Conserves energy
- Tankless water heaters can be installed on virtually any wall inside or outside of homes
- Multiple venting options
- Tankless water heaters give homeowners the opportunity to provide high-value upgrades to their homes
- Tankless systems take up less floor space
- Flexibility to meet the hot water demands of any size home
- A life span of up to twice as long as conventional tank systems
- Increases your property value

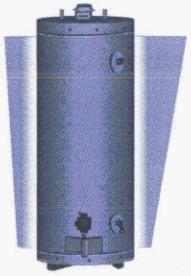
Never run out of hot water again! Go Tankless!

Water Heating

Natural gas water heaters are fast, efficient, and easy on the environment. For all the hot water you need - when and where you need it - the natural choice!

Don't worry about running out of hot water with natural gas water heaters; they heat water twice as fast as electric and cost 50% less to operate. Your family will always have hot water when they need it most, for less money. And because it's clean, natural gas water heaters emit up to half the carbon emissions of an electric water heater.

Why Natural Gas Water Heating?

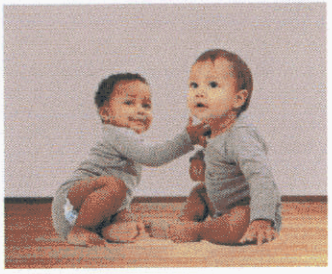


- Heats water twice as fast as an electric water heater
- Costs 50% less to operate
- Up to 50% fewer carbon emissions
- Provides hot water even when the electricity goes out
- More durable due to less working parts
- Comes in a variety of sizes to choose from
- Okaloosa Gas provides emergency service 24/7
- Increases your property value

No worries during storm season!

Heating

A natural gas furnace or hydro heat system provides better warmth than an electric heat pump.



The most popular form of home heating in America is natural gas. 70% of U.S. homes are heated by natural gas. That's why the majority of home buyers in the U.S. choose natural gas as their primary heating source. In most areas, a high efficiency gas furnace costs up to 40 percent less to operate than an electric heat pump. You have a variety of heating systems to choose from: forced air furnace, hydro heat, radiant, hydronic, and space heaters. Another great way to consider supplemental heat to an addition to your home or outdoor room is a natural gas decorative fireplace.

Why Natural Gas Heating?

- Up to 98% energy efficient
- Natural gas heat provides up to 25˚ warmer air than an electric heat pump
- Warms your home more quickly and efficiently
- Natural gas space heating systems cost less to operate than electric
- A natural gas furnace will last six years longer than an electric heat pump
- Natural gas heating systems are available in a wide variety of high efficiency models
- Increases your property value

That's HOT! Natural Gas Heat--Warm & Cozy!

Cooking

Discover what professional chefs already know. 96% of professional chefs prefer to cook with natural gas.

Just like professional chefs all over the world, home chefs like you want the same even heat and temperature control that only comes from cooking with Natural Gas. And with Natural Gas the kitchen is always open, even during a power outage. No wonder everyone ends up there.

Today's gas ranges, ovens, cook tops and grills will have you cooking like a pro; you'll save energy and money because Natural Gas is efficient and can be turned on or off instantly. In fact, it costs about half as much to cook with a Natural Gas range as a electric one. Any way you look at it, you can't beat Natural Gas in the kitchen.

Why Natural Gas Cooking?

- Costs less to operate
- Creates better tasting meals
- NEW - Indoor pizza ovens
- Heats up faster than electric
- Total reliability - even in a power outage
- Precision control, instant on, instant off
- Simple and elegant cooking options
- Natural gas ranges last longer than electric ranges
- Increases your property value

Create a perfect meal every time with natural gas!

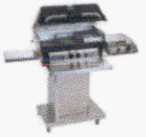
Grilling

Today, there are a wide range of natural gas grills and grill islands available to suit just about every budget, décor and size.

Everyone who likes to cook will love being spoiled by a natural gas grill. They are the key to gourmet grilling. Natural gas provides complete control of the flame, from low heat for slow smoking and grilling, to high heat for braising and searing.

Natural gas grills are convenient, safe, fast and easy to use. Forget the worry of running out of propane in the middle of a barbecue and the hassle of refilling the tank. Gas grills tap directly into your home's natural gas supply.

Why Natural Gas Grilling?



- Natural gas grills are convenient, safe, fast and easy to use
- Gas grills are less expensive to operate than propane, charcoal and electric grills
- They never run out of gas as do propane tanks
- There is no need waiting for coals to get hot and disposing of ashes as with charcoal grills
- They can help reduce heat in the kitchen during the summer, lowering air conditioning costs
- They can extend your outdoor cooking season to year-round
- Increases your property value

NO worries during storm season!

Fireplaces

Natural gas logs heat your home more economically and efficiently than wood burning fireplaces.

Natural gas fireplaces are one of the hottest" products on the market whether you're building a new home, putting on an addition or remodeling your existing home. A natural gas fireplace offers incredible installation flexibility in a wide variety of styles. Best of all, the fire in a gas fireplace is now so realistic that it is difficult to tell the difference from a wood-burning fireplace. These beautiful units can offer everyone the chance to relax in front of a fire at the touch of a button without the worry and hassle of harmful emissions like wood-burning fireplaces. In addition, many of them can operate without electricity, providing comfort during power outages.

Why Natural Gas Fireplace & Logs?

- Vent free models are 99% energy efficient
- Convenient and instantaneous
- Clean, low-maintenance and environmentally friendly
- No harmful emissions, soot or ash
- Realistic wood-like flames
- Flexible installation options
- Multitude of designs and styles
- Decorative source of supplemental heat
- Total reliability even in a power outage
- Increases your property value

Great source for supplemental heat!

Outdoor Living

Give your outdoor living space year-round comfort with natural gas patio heating, pool heating, grilling and lighting.

An outdoor room can be as simple as a grilling area or an entire backyard oasis. Check out the many gas products that are available to enhance your outdoor experience:

- **Grills** start with the push of a button and are ready to cook on *in minutes*
- **Fireplaces** are available in many styles and sizes
- **Fire pits** can be built-in or portable. They radiate heat in a complete circle, similar to a campfire
- **Patio heaters** can radiate heat 20 to 25 feet in all directions
- **Pool and spa heaters** are very efficient. They heat water seven to ten times faster than an electric heater
- **Gaslights** are a great way to add style and ambiance to your outdoor room. Plus, gaslights do not attract insects

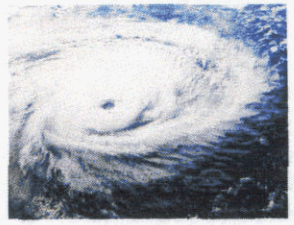
Why Natural Gas for the Outdoors?

- Increases your property value
- Patio heaters and outdoor *fireplaces take the chill out of* the winter air
- Outdoor living is one of the hottest trends for homeowners
- Pool heaters are more efficient than electric
- *Lighting adds a gentle glow and extra security*
- Never have to worry about running out of fuel

Outdoor Living + Natural Gas = Good Times

Generator

Never be left in the dark again. A natural gas generator provides reliable electricity without having to store fuel.



Don't lose all the comforts of home just because the electricity goes out! You don't have to spend another storm season in the dark or in long lines for food, ice, charcoal, batteries and sweating in the heat! Be the envy of the neighborhood!

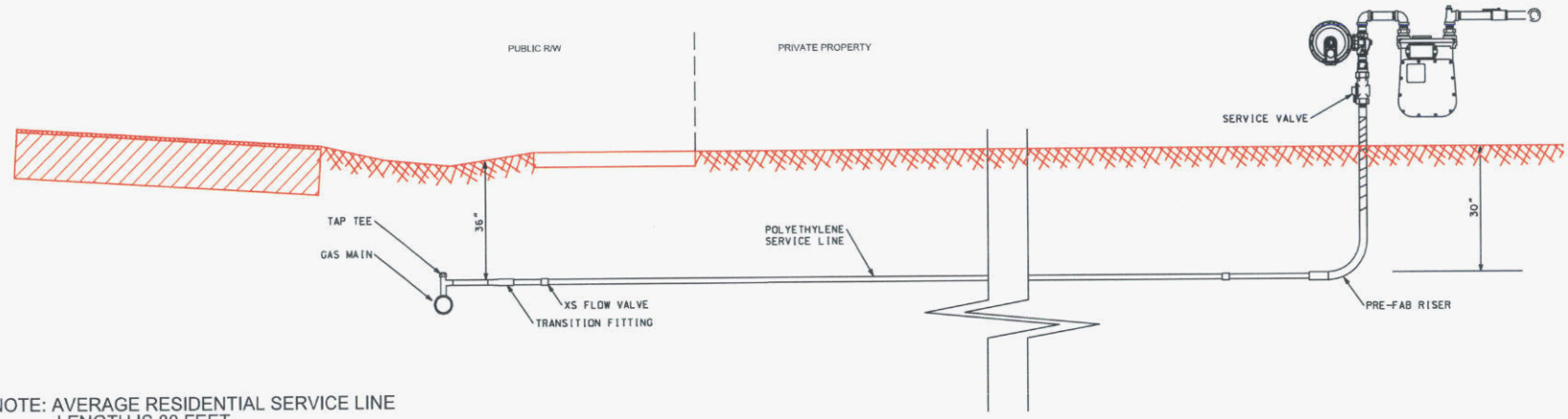
Natural gas backup generators are available in sizes to fit your electrical needs, from a few circuits to the whole house. It has an auto-start capability that allows the generator to start up on its own after the power fails. Many units have weatherproof enclosures that allow permanent installation and quiet operation.

Why A Natural Gas Generator?

- Automatic and dependable
- Permanently installed
- Variety of sizes from selected appliances to whole house power
- Perfect for residential, commercial or industrial
- No need to store and maintain a supply of fuel
- Reduced maintenance due to a clean-burning natural gas engine
- Reduced emissions into the environment when compared to other fuels
- Increases your property value

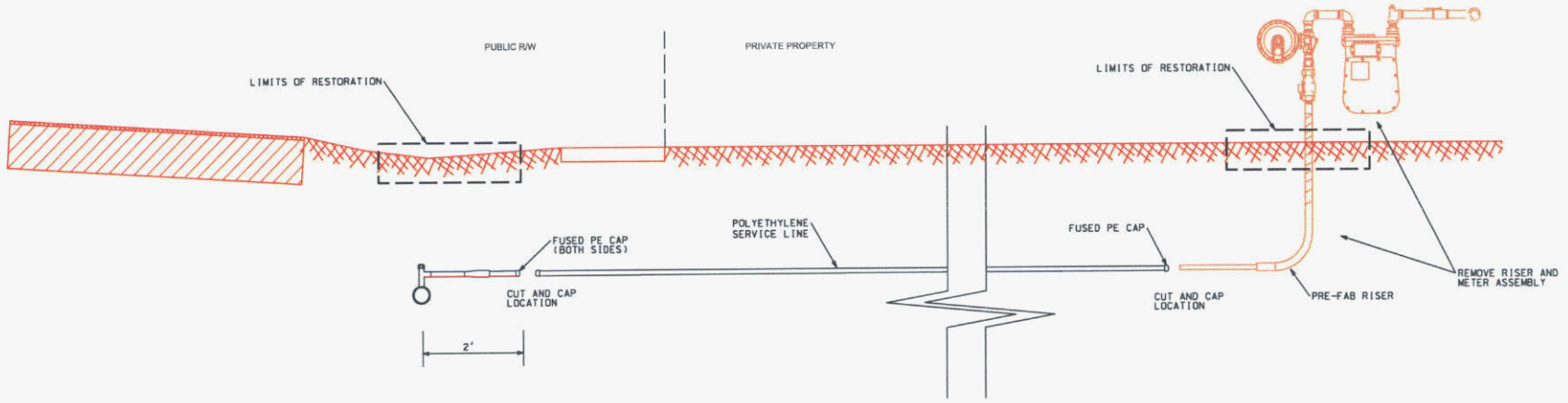
NO worries during storm season!

RESIDENTIAL SERVICE LINE RETIREMENT



NOTE: AVERAGE RESIDENTIAL SERVICE LINE LENGTH IS 80 FEET.

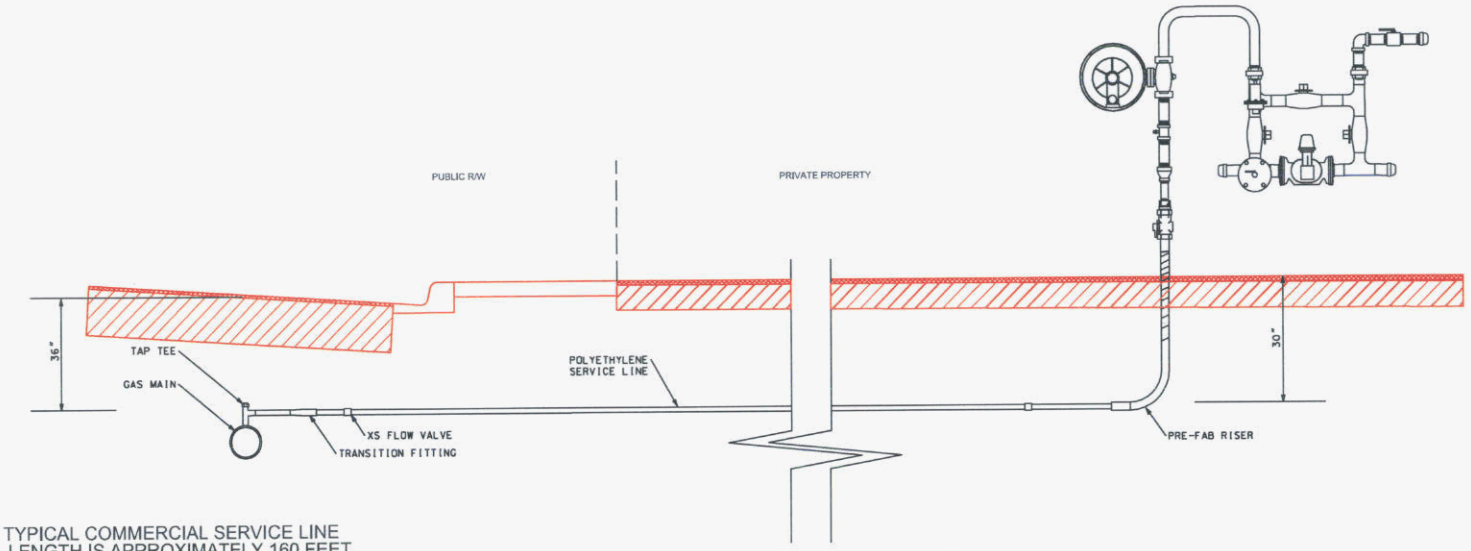
TYPICAL RESIDENTIAL SERVICE LINE



TYPICAL RESIDENTIAL SERVICE RETIREMENT

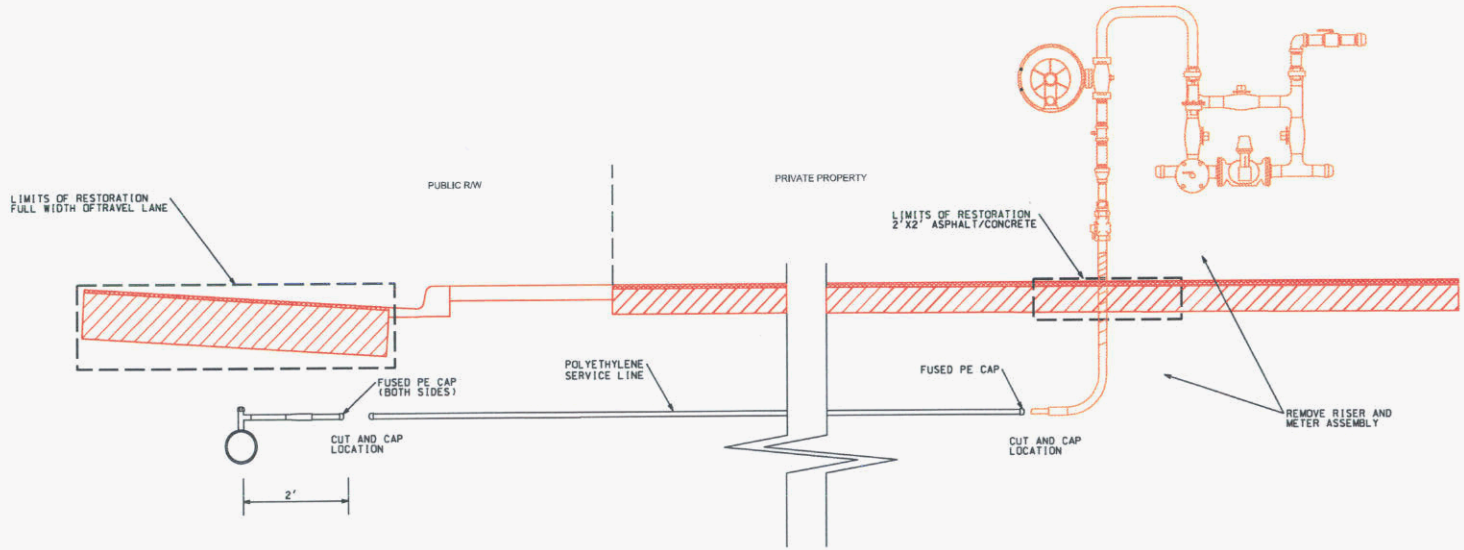
JB 7-11-12 (NOT TO SCALE)

COMMERCIAL SERVICE LINE RETIREMENT



NOTE: TYPICAL COMMERCIAL SERVICE LINE LENGTH IS APPROXIMATELY 160 FEET.

TYPICAL COMMERCIAL SERVICE LINE



TYPICAL COMMERCIAL SERVICE LINE RETIREMENT

JB 7-11-12 (NOT TO SCALE)

Current Rule

	Orig Cost	2 yr inactive	5 yr inactive	Cost of Removal?
Service Line	$1,000		Retired	Yes
Meter	$85	removed, but not retired		No
	$1,085			

Retirement entry	Acct #	Dr	Cr
Services	380		$1,000
A/D - Services	108	$1,000	

Cost of Removal entry	Acct #	Dr	Cr
A/D - Services	108	$500	
Cash	131		$500

Effect on Net Plant: Increases by Cost of Removal of $500
Depreciation Expense and Property Taxes are no longer incurred

Assume at 5 years of inactivity that plant is 75% depreciated:

	Orig Cost	A/D	Net Plant
Service Line	$1,000	$750	$250

No Effect on Net Plant due to retirement entry (above)
Cost of Removal entry increases Net Plant by $500
The $250 of Net Plant still remains on books
Overall, Net Plant is $750
If service is reinitiated, then costs are capitalized

Proposed Rule

	Orig Cost	2 yr inactive	5 yr inactive	Cost of Removal?
Service Line	$1,000		To be monitored	No
Meter	$85	removed, but not retired		No
	$1,085			

Retirement entry	Acct #	Dr	Cr
Services	380		$0
A/D - Services	108	$0	

Cost of Removal entry	Acct #	Dr	Cr
A/D - Services	108	$0	
Cash	131		$0

Effect on Net Plant: None
Depreciation Expense and Property Taxes continue to be incurred

Assume at 5 years of inactivity that plant is 75% depreciated:

	Orig Cost	A/D	Net Plant
Service Line	$1,000	$750	$250

No Effect on Net Plant by not making a retirement entry
No Effect on Net Plant due to Cost of Removal (Not retired, so not incurred)
The $250 of Net Plant still remains on books
Overall, Net Plant is $250
If service is re-activated, no additional costs are incurred

CITY OF TALLAHASSEE NATURAL GAS UTILITY

INFORMATION REQUESTED FOR CUT AND CAP RULE WORKSHOP

MARKETING EFFORTS

Prior to September of 2008, The City of Tallahassee Natural Gas Utility received no targeted marketing program other than the generalized utility marketing. In September 2008, the marketing operation was transferred under the direction of the natural gas utility which began an aggressive marketing campaign. This campaign was designed primarily to attract customers who had natural gas available to them, but who had no active gas service in place. In addition to traditional marketing strategies (advertising, radio, community outreach activities, cold calls) we engaged in direct mail to these customers. Because of limited staff and marketing resources, we elected to cast a wide net, targeting all potential customers, including those whose service had been inactive or whose meters were removed.

DIRECT MAILINGS

March, 2009 – Direct-mailed postcards to all customers within 100 feet of our gas main – included those customers whose service was inactive or meters had been removed. Prospects reached: 16,000

June, 2010 – Direct-mailed postcards targeted to six specific neighborhoods within Tallahassee – all directed at customers within 100 feet of our gas main, including those whose services were inactive or meters removed. Prospects reached: 3,000

June 2010 – Direct mail to one specific neighborhood and to customers in that area who had gas service but had little or no gas usage. This pro-active move was designed to address customers who we considered to be "at-risk" for dropping gas service. The area chosen was a relatively new, high-end subdivision in which the developer had only installed a gas fireplace in the majority of homes. Anecdotal information indicated that these customers were more likely to drop their service over time if they had not invested in other natural gas appliances.

November 2011 – Direct-mailed postcards to all customers within 100 feet of our gas main – once again, included those customers whose service was inactive or meters had been removed. Customers reached: 15,000

RESULTS: Every mass mailing resulted in increased calls to our utility call center as well as to the natural gas utility itself. A large number of customers indicated that they were unaware of gas availability prior to this mailing. The followup mailer in 2011 achieved the same results with customers again indicating they were unaware of gas availability. These mailings, in conjunction with our traditional marketing campaign, resulted in growth in our customer base.

SUCCESS OF PROGRAMS AND PHASE II

Issues faced: Several issues are relevant to inactive customers which will affect the success of any program:

- Market/economic conditions
- Increased number of foreclosures (and homes sitting empty) on the market
- Commercial outlets, which are unoccupied or out-of-business at the present
- Homes without gas service (but with gas lines still in place) which have been sold to new owners who are unaware of gas availability.
- Inactive services at rental property (possibly in foreclosure or with a tenant that chose not to use natural gas).

We have reactivated 20% of our inactive customers, so direct mailings have been reasonably effective.

During Phase II of our marketing efforts (currently ongoing), we are drilling down into the utility billing database and property appraiser records to identify and contact actual property owners, as many of the inactive accounts appear to be rental properties. We will be targeting these property owners with direct mail and telephone contact to make them aware of:

- The availability of natural gas
- The fact that their service may be removed if unused, and
- To promote the advantages of offering natural gas service to their tenants.

Taking a proactive approach, another mailing is planned which will allow us to get ahead of the curve on future inactive services. This mailing will be used to notify customer/owners in advance of the meter removal, giving them the option to retain service by once again becoming a natural gas customer.

By the Numbers

- 20% of inactive customers reactivated their accounts
- 11% of inactive customers are commercial
- 19% of our inactive services are located at unoccupied properties (includes commercial, apartments, etc.)
- 16% of the original inactive accounts have already been cut and capped.

Okaloosa Gas District

Dear Homeowner,

This letter is to inform you that due to requirements set forth by the State of Florida Public Service Commission your natural gas service line on your property is in jeopardy of being discontinued. Effective December 2011, the Public Service Commission, under the Cut and Cap Rule 25-12, is requiring Natural Gas Utility Companies to:

1. Disconnect ALL Natural Gas Service Lines from the Gas Distribution System that have been inactive for FIVE YEARS OR MORE

2. Remove ALL Natural Gas Meters from their current location that have been inactive for TWO YEARS OR MORE

Unless otherwise contacted by the property owner at the address above, Okaloosa Gas will be disconnecting your service and/or removing your meter within the next two to four weeks.

However, you could be enjoying the savings, comfort and environmental benefits of natural gas, increase the property value of your home and experience the exceptional service of the Okaloosa Gas District team. To help you activate your service line and make the switch back to natural gas, Okaloosa Gas District is offering for a limited time only a Natural Gas Water Heater installed for as low as $9.99 per month. This is a LIMITED TIME OFFER since we must comply with the Commission's directive in the coming weeks. In addition, for those homeowners that make the switch to natural gas home heating, you will receive additional cash rebates. Call Okaloosa Gas today to see if you qualify for this 0% interest financing program at 850-729-4700.

Reactivating your Gas Service and enjoying the benefits of Natural Gas has never been easier.

Say YES to a "free" on site consultation. Choose America's energy source....natural gas!

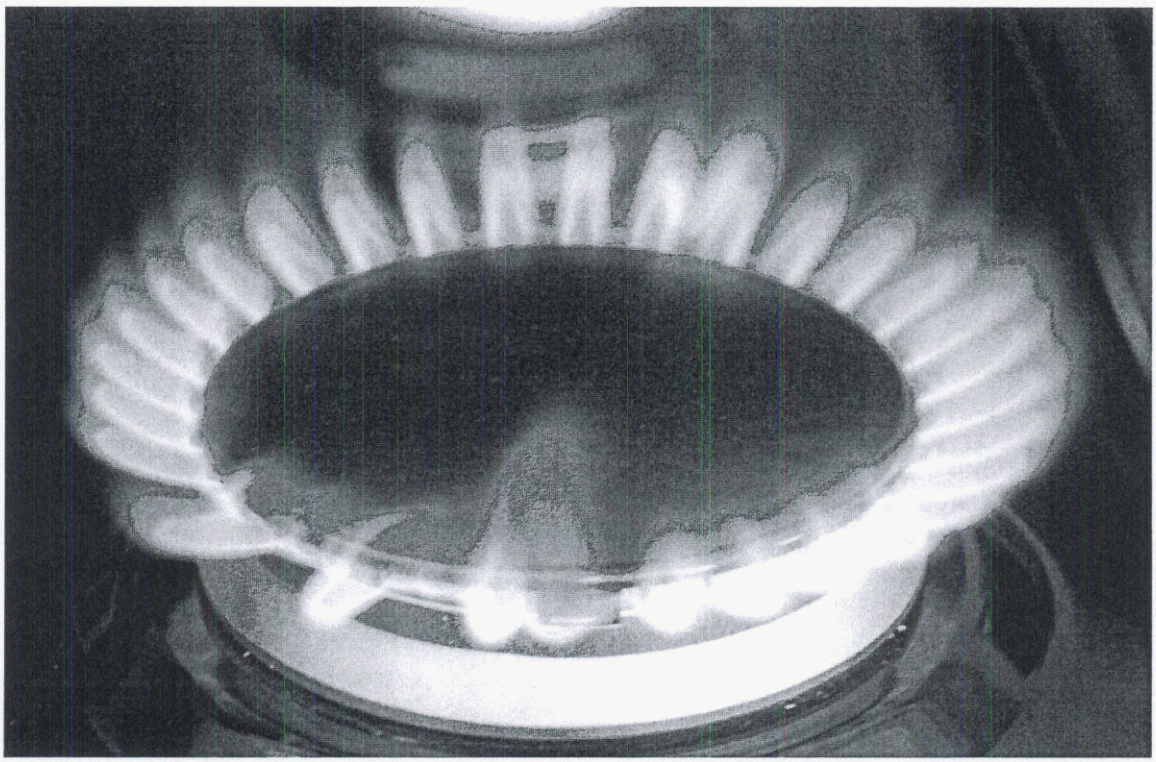
Sincerely,

Eddie Springle
Sales Manager, Okaloosa Gas District

Say YES to Natural Gas

P.O. Box 548 • 364 Valparaiso Pkwy • Valparaiso, FL 32580-0548 • Main Fax: 850-678-4604
OkaloosaGas.com • Email: esupport@okaloosagas.com
...The Difference is our Service!

RULE 25-12 STRATEGY



Cut and Cap Program – Updated March 5, 2012

Due to Government Guidelines, Natural Gas Utilities in the State of Florida have been mandated to perform an analysis and formulate a plan to terminate inactive service lines five years or older as well as

remove meters that have been dormant for in excess of two years. The information contained in the document outlines how Okaloosa Gas will approach this mandate.

Rule 25-12 Strategy

CUT AND CAP PROGRAM - UPDATED MARCH 5, 2012

Overview

During December 2011, the State of Florida instituted legislation, the Cut and Cap Rule 25-12, that mandates that all natural gas utilities kill existing service lines that have been dormant for 5 plus years as well as remove inactive meters that have not been in use for two years or more. In addition, this new statue was made effective as of December 2011 and will be an affluent program from that point forward. The District has two years - thru December 2013 - to become compliant.

Residential/Commercial Inactive Services

Cut and Cap -- Inactive Service Line

Age Range	Service Line Pipe Type	Residential/ Commercial	Count
greater than 5 Years	Steel	Residential	2295
greater than 5 Years	Plastic	Residential	887
greater than 5 Years	PE Insert	Residential	1
greater than 5 Years	Steel	Commercial	140
greater than 5 Years	Plastic	Commercial	74
less than 5 Years	Steel	Residential	289
less than 5 Years	Plastic	Residential	119
less than 5 Years	Steel	Commercial	43
less than 5 Years	Plastic	Commercial	19
		Total	3867

Residential/Commercial Inactive Meters

Inactive Meters -- 2 plus Years Old

Age Range	Rate Class	Quantity
Greater than 5 Years	Residential	**130**
4 to 5 Years	Residential	**81**
2 to 4 Years	Residential	**530**
Greater than 5 Years	Commercial	**16**
4 to 5 Years	Commercial	**4**
2 to 4 Years	Commercial	**65**
	Total	**826**

Currently, Okaloosa Gas has 826 Inactive Meters at residential/commercial locations that are two years or older and 3,867 service lines connected to the mains of the District that are inactive.

Discussion

Due to the nature of the task above and the timing involved with the mandate set forth by the State of Florida, Okaloosa Gas will move through the structured process below:

Step 1 - Classify what customers or locations that have inactive meters or service lines (Completed February 21, 2012)

Step 2 - Establish the age or length of time that the meter or service lines are inactive (Completed February 21, 2012)

Step 3 – Identify the physical make-up of the service lines (cast iron, plastic, or classified with grade one leak) (Completed February 21, 2012)

Step 4 – Pinpoint what the structure type of the home/business where the inactive service line is located . – ***Will be completed as Okaloosa Gas Personnel visit home/commercial sites – UPDATE: IN PROCESS***

Step 5 – If possible, identification of what gas appliances was in the home/business when the gas service was active at the now inactive location. Note: Water heaters, in most cases, can be identified due to signs of venting for the previous natural gas water heater. – ***Will be completed as Okaloosa Gas Personnel visit home/commercial sites – UPDATE: IN PROGRESS***

Step 6 – Market to the locations (home or business owners), where it makes economic sense for the District, presenting options for customers to convert back to natural gas. Note: In the event that inactive service lines are cast iron, the District would be required, under Rule 25-12, to kill the line and extend a new service to the structure using plastic piping. Based on the economics of the program, the recommendation has been made to move forward and kill all inactive services with cast iron that fall within the overview above. . – ***Will be completed as Okaloosa Gas Personnel visit home/commercial sites – UPDATE: IN PROGRESS***

Step 7 – Take the necessary steps, based on the parameters of the Cut and Cap Rule 25-12, to kill inactive service lines and/or pull inactive meters that are not successfully marketed too. –***UPDATE: IN PROGRESS***

Rule 25-12 New Growth and Retention Strategies

Below are the two strategies identified by the New Growth and Retention Task Forces that fall within the guidelines established by the Cut and Cap Rule 25-12. The steps above will be integrated into each of the objectives. An outline of how each of the steps will be executed and associated deadlines follows the two strategies.

Inactive Service Lines Pulled Meter

Objective: Identify and market to all occupied homes with service lines that have been active in the past and are now without a meter within the Okaloosa Gas Service Territory with the goal of reactivating the service. These inactive services now fall within the parameters of the Cut and Cap Rule 25-12. The District will use a process (Step 1 thru Step 7) for reactivating or terminating each of these inactive services.

Measurement Guidelines: All responses and subsequent successes/losses documenting addresses and service/equipment/load additions will be factored into the targeted success ratio.

Reporting Device: Salesforce.com - Opportunities tracked through Campaigns

Reporting Frequency: Monthly

Category: New Growth/Customer Retention

Timeline: **February 2012 - ONGOING** Note: Timeline structured within the guidelines of Rule 25-12. Due to these guidelines, the steps within the strategy are set to begin immediately. The strategy will therefore be an ongoing process that will not terminate.

Inactive Meters

Objective: Identify and market to all occupied homes with service lines that currently have meters that are inactive within the Okaloosa Gas Service Territory with the goal of reactivating the meter. These inactive meters now fall within the parameters of the Cut and Cap Rule 25-12. The inactive meters, if not reactivated will be removed and the service line will fall within the same defined process for terminating inactive services.

Measurement Guidelines: All responses and subsequent successes/losses documenting addresses and service/equipment/load additions will be factored into the targeted success ratio.

Reporting Device: Salesforce.com - Opportunities tracked through Campaigns

Reporting Frequency: Monthly

Category: Customer Retention

Timeline: February 2012 - ONGOING Note: Timeline structured within the guidelines of Rule 25-12. Due to these guidelines, the steps within the strategy are set to begin immediately. The strategy will therefore be an ongoing process that will not terminate.

Outline of Steps Associated with Rule 25-12

Steps 1 thru Step 4

Step 1 - Classify what customers or locations that have inactive meters or service lines

Step 2 - Establish the age or length of time that the meter or service lines are inactive

Step 3 - Identify the physical make-up of the service lines (cast iron, plastic, or classified with grade one leak)

Step 4 - Pinpoint what the structure type of the home/business where the inactive service line is located

Task: Identify all inactive services and inactive services with inactive meters.

Purpose: Set priorities for the Cut and Cap Rule in order to establish the age and physical make-up of service line.

Expectations: After categorizing the service line as explained in the above purpose, District personnel will conduct a sight visit to each of the locations to verify if the service line is plastic or cast iron. If the service line is plastic, the home owner will be left marketing materials containing special financing options for possible service line reactivation. In the event that the service line is cast iron, the location will be tagged as a Cut and Cap candidate and scheduled to be terminated. In this case an informational letter will be sent to the homeowner stating that the District will be cutting the service line at the said property. The letter will include an outline of the current marketing programs for any customer encouraging them to request a new service.

Timeline: Steps 1 thru 3 Completed February 21, 2012 - Step 4 - February 2012 - ONGOING Note: Timeline structured within the guidelines of Rule 25-12. Due to these guidelines, the steps within the strategy are set to begin immediately and will never terminate.

Step 5

Step 5 - If possible, identification of what gas appliances was in the home/business when the gas service was active at the now inactive location. Note: Water heaters, in most cases, can be identified due to signs of venting for the previous natural gas water heater.

Task: Using work order generated information, identify what appliances the home/business used when the service was active at that location. Also, when the sight visit by District Personnel is conducted, a required action will be to identify if a water heater had been installed at the location using vent recognition as a tool.

Purpose: Appliance identification, specifically a water heater, will allow for targeted special promotional offers to be presented to the customer.

Expectations: *Please see Step 6 Expectations*

Timeline: February 2012 - ONGOING Note: Timeline structured within the guidelines of Rule 25-12. Due to these guidelines, the steps within the strategy are set to begin immediately and will never terminate.

Step 6

Step 6 - Market to the locations (home or business owners), where it makes economic sense for the District, presenting options for customers to convert back to natural gas. Note: In the event that inactive service lines are cast iron, the District would be required, under Rule 25-12, to kill the line and extend a new service to the structure using plastic piping. Based on the economics of the program, the recommendation has been made to move forward and kill all inactive services with cast iron that fall within the overview above.

Task: Develop sales tools that will be used to communicate the features of natural gas - cost savings, functionality benefits and the benefits of natural gas vs. electricity - as well as special financing offers to aid in the cost of the possible conversions. In addition, the marketing materials will need to explain to the customer what the Cut and Cap Program is and what the District will be doing in order to meet compliance of Rule 25-12. Note: Direct Customer Contact can only be used to market to the potential customers - Direct Mail, Door Knockers and Tele-Marketing.

Purpose: Reactivate service lines and meters that are currently inactive and fall into the Cut and Cap Program.

Expectations: The following sales/marketing tools will need to be developed in order to communicate with the customers that fall under the Cut and Cap Program:

1) Door Knocker outlining the Cut and Cap program with special conversion offers for customer with plastic pipe for service lines
2) Door Knocker outlining the Cut and Cap program with information regarding programs for extending new services with special conversion programs
3) Letter outlining the Cut and Cap program to be sent to customer that we will be cutting their service in the event that it is galvanized
4) Letter outlining the Cut and Cap program that contains special conversion offers that can be used before the District cuts the line
5) Telephone scripts that will be used by the CRM Center to contact homeowners on that have the inactive services/meters. The contact information will be established using the information provided via map guide (property appraiser's office) to obtain phone numbers.

Timeline: February 2012 - ONGOING Note: Timeline structured within the guidelines of Rule 25-12. Due to these guidelines, the steps within the strategy are set to begin immediately and will never terminate.

Step 7

Step 7 - Take the necessary steps, based on the parameters of the Cut and Cap Rule 25-12, to kill inactive service lines and/or pull inactive meters that are not successfully marketed too.

Task: Disconnect service lines from mains as mandated under the Cut and Cap Rule 25-12

Purpose: Meet criteria of Cut and Cap Rule

Expectations: Work five year criteria moving forward as needed to meet compliance. Service lines will be cut and capped as required.

Timeline: February 2012 - ONGOING Note: Timeline structured within the guidelines of Rule 25-12. Due to these guidelines, the steps within the strategy are set to begin immediately and will never terminate.