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June 18, 1996

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HAND DELIVERED

Blanca S. Bayo, Director  
Division of Records and Reporting  
101 E. Gaines Street  
Tallahassee, Florida 32301

Re: Application for rate increase by City Gas Company  
of Florida  
Docket No. 960502-GU

Dear Ms. Bayo:

Enclosed for filing and distribution are the original and  
sixteen copies of City Gas Company of Florida's Petition,  
Testimony, Minimum Filing Requirements and Tariffs in the above  
docket.

Please acknowledge receipt of the above on the extra copy  
enclosed herein and return it to me. Thank you for your  
assistance.

Sincerely,

*Joseph A. McGlothlin*  
Joseph A. McGlothlin

✓  
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48 (Enclosures  
& copies of I)

*Johnson*  
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1                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2                   **DIRECT TESTIMONY AND EXHIBITS**

3                   **OF LYLE MOTLEY**

4                   **ON BEHALF OF CITY GAS COMPANY OF FLORIDA**

5                   **DOCKET NO. 960502-GU**

6    **Q.    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

7    A.    My name is Lyle Motley. My business address is NUI Corporation -  
8    Southern Division, 955 East 25th Street, Hialeah, Florida 33013.

9    **Q.    WHAT POSITION DO YOU HOLD?**

10   A.    I am President of NUI Corporation's Southern Division. I have  
11   responsibility for the Southern Division's operations in five states, including  
12   the operations of City Gas in Florida.

13   **Q.    PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
14   **PROFESSIONAL EXPERIENCE.**

15   A.    I hold a Bachelor of Science degree in Mechanical Engineering from  
16   Virginia Polytechnic Institute and a Master of Science degree in Industrial  
17   Management from George Washington University.

18           Following my military service as a Naval Aviator in the United States  
19   Marine Corps, I began my career in the natural gas industry as a distribution  
20   engineer in 1972. After holding various positions, I became the President  
21   and CEO of Pennsylvania and Southern Gas Company in 1992. Upon the  
22   merger of Pennsylvania and Southern Gas Company and National Utility  
23   Investors (NUI Corporation), I was appointed an executive officer of NUI

1 Corporation. In 1995, I was named President of NUI's Southern Division.  
2 I am a member of the American Gas Association, the Southeastern Gas  
3 Association, and the Southern Gas Association.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 A. I will explain generally why the Company is seeking an increase in  
6 base rates at this time, and I will identify the individuals who will support  
7 the base rate request. As I do so, I will necessarily address the new, more  
8 challenging business environment in which the Company finds itself, and  
9 describe the measures we have taken and are taking to enable the  
10 Company to adjust to the rapidly evolving industry. I will also explain how  
11 those measures will benefit our shareholders, our customers, and the  
12 economic well-being of the State.

13 **Q. HOW HAS CITY GAS ORGANIZED THE PRESENTATION OF ITS**  
14 **BASE RATE REQUEST?**

15 A. Paul Chymiy, Director of Planning for NUI, will provide the forecasts  
16 of revenues underlying the test year projections. Carl Smith, NUI's Director  
17 of Marketing, will describe the Company's efforts to increase utilization of  
18 existing facilities and develop new markets. Richard Wall, Vice President  
19 of Operations for City Gas, will provide and support the Company's capital  
20 expenditure budget. Dr. Roger Morin, Professor of Finance at Georgia State  
21 University, will support the authorized return on equity requested by the  
22 Company. Rand Smith, Vice President of Finance for NUI's Southern

1 Division, will sponsor the accounting schedules of the Minimum Filing  
2 Requirements, address the proposed capital structure, and discuss  
3 significant O&M considerations. Ray DeMoine, Manager of Rates and  
4 Regulatory Affairs for NUI, will describe the results of the cost of service  
5 study prepared for this case and sponsor the Company's proposed rates  
6 and tariff revisions.

7 **Q. WHAT IS THE SIZE OF THE RATE INCREASE FOR WHICH CITY GAS**  
8 **SEEKS APPROVAL IN THIS CASE?**

9 A. City Gas seeks approval of rates that will generate additional  
10 revenues of \$5,283,344 annually.

11 **Q. HOW HAS CITY GAS ATTEMPTED TO CONTROL ITS COSTS OF**  
12 **DOING BUSINESS SINCE THE LAST RATE CASE?**

13 A. City Gas has attempted to control costs through a variety of  
14 measures, some of which represent commitments the Company made in its  
15 last rate proceeding. As Rand Smith will describe in more detail, City Gas  
16 has decreased its number of employees even below the reduced levels  
17 projected in its last rate case. Further, a recent study confirms that City  
18 Gas' wage and salary structure remains very conservative. We have  
19 controlled costs by formalizing bidding practices; by imposing greater  
20 accountability for spending decisions; and by ensuring that each new  
21 connection passes a rigorous cost-effectiveness test. City Gas is very cost-  
22 conscious.

1 Q. WHAT FACTORS CONTRIBUTE TO THE NECESSITY FOR AN  
2 INCREASE IN BASE RATES AT THIS TIME?

3 A. One reason is that despite our efforts to control costs, rates  
4 authorized in 1994 have not generated revenues sufficient to provide an  
5 adequate return on City Gas' investment. Another reason is that City Gas  
6 has taken steps to strengthen its capital structure since the last rate case  
7 by increasing the portion consisting of equity capital. At the time of the  
8 last case, the Company's equity was "thin." The additional increment of  
9 equity in the capital structure is necessary to move the Company toward  
10 the objective of a desirable equity ratio. Associated with this development  
11 is an increased capital cost that was not reflected in the rates set in the last  
12 case. A third reason increased revenues are necessary is that the pace of  
13 development in the new franchise of the City of Port St. Lucie has  
14 increased. The Company is now adding facilities in the Port St. Lucie area  
15 based on stringent feasibility criteria. The growth that is materializing  
16 warrants including in rate base the portion of initial infrastructure that was  
17 treated as Plant Held for Future Use in the last case. Rand Smith, Richard  
18 Wall, and Carl Smith will provide the details on these considerations. The  
19 other factor -- and the one on which I wish to focus -- is the impact of  
20 certain internal restructuring and improvements the Company has fashioned  
21 in order to adapt to a changing, and more competitive, business  
22 environment.

1 Q. TO WHAT INTERNAL CHANGES DO YOU REFER?

2 A. Generally, I refer to the strengthening of managerial talent;  
3 investment in more sophisticated management tools and in increased  
4 automation; and the increased level of support from NUI's headquarters in  
5 the form of services provided on a centralized basis. I will elaborate on  
6 these items below; others will discuss them in detail.

7 Q. WHY HAS CITY GAS UNDERTAKEN THESE CHANGES?

8 A. The changes are necessary responses to the dramatically different  
9 industry in which City Gas now finds itself.

10 Q. IN WHAT WAY IS THE INDUSTRY DRAMATICALLY DIFFERENT?

11 A. Prior to federal initiatives of only several years ago, local distribution  
12 companies, such as City Gas, simply bought natural gas from interstate  
13 pipelines and sold that gas to end users for whom the LDC was the sole  
14 supplier. The LDC's business activity was largely confined to the relatively  
15 uncomplicated task of owning, maintaining, and operating the system of  
16 buried pipes lying between the interstate pipeline and the customer.

17 With the advent of unbundling and deregulation, the LDC's business  
18 is now far more complex. The interstate pipeline no longer serves as the  
19 merchant for the LDC's gas supply. It now provides only a transportation  
20 function for City Gas -- albeit a complicated one. City Gas must compete  
21 with numerous other purchasers for natural gas among a myriad of  
22 suppliers. To plan and control its use of the interstate pipeline so as to

1 avoid costly penalties and overruns, City Gas must now make far more  
2 detailed assessments of customers' requirements, and manage large  
3 quantities of data concerning the scheduling of the capacity it has reserved  
4 on the interstate system. City Gas must compete with alternative suppliers  
5 to provide sales service as well as satisfy sophisticated customers who  
6 have the ability and wherewithal to shop for and procure gas themselves.  
7 At the same time, City Gas must maintain a reliable gas supply under  
8 conditions which make it more complicated and risky to secure. These are  
9 just some of the major features of the recently transformed natural gas  
10 industry.

11 **Q. HOW DO THE CHANGES YOU HAVE DESCRIBED RELATE TO CITY  
12 GAS' RATE CASE FILING?**

13 **A.** We intend, not only to survive, but to excel in this new arena.  
14 However, contending with the challenges of the more complex marketplace  
15 requires a correspondingly greater level of sophistication and expertise. To  
16 that end, we have been taking measures designed to position the Company  
17 to thrive in this more challenging environment.

18 **Q. PLEASE GIVE EXAMPLES OF THE KINDS OF MEASURES YOU HAVE  
19 TAKEN.**

20 **A.** I will summarize them; others will discuss the items in more detail.  
21 Examples include the strengthening of the local management team in the  
22 areas of senior management, marketing, human resources, and regulatory



1    affairs; and the increased reliance on NUI's centralized services to perform  
2    certain functions, such as gas supply, data processing, accounting services,  
3    cash management, and procurement of capital. Further, the management  
4    decision-making tools precipitated by a changing business environment (for  
5    instance, more complicated gas planning and procurement procedures and  
6    greater competition from new market entrants) has required additional  
7    capital and labor investments in management information systems and  
8    areas of business expertise. In short, we are investing in more  
9    sophisticated technology, and in the level of expertise and training required  
10   to use it to good advantage.

11   **Q.    WHY IS CITY GAS PLACING GREATER RELIANCE ON NUI'S**  
12   **CENTRALIZED SERVICES?**

13   **A.    We have found that some functions can be handled more efficiently**  
14   **on a centralized basis. Also, NUI can provide a level and depth of talent**  
15   **and expertise on a centralized basis that would likely be too costly for each**  
16   **of its component operating divisions to duplicate and sustain individually on**  
17   **a stand-alone basis.    A principal objective of the internal changes**  
18   **undertaken by City Gas since the last rate case has been the reallocation**  
19   **of workforce within City Gas and within the balance of the NUI Corporation**  
20   **organization. Recognizing the concurrent (and at times conflicting) needs**  
21   **of having to reduce costs and to enhance service, we implemented a**  
22   **company-wide human resources reallocation effort. This effort resulted in**

1 a 9% reduction in overall workforce (including a net reduction of 17%  
2 within City Gas) during fiscal 1995 in addition to the "centralization" of  
3 certain common services and functions described above.

4 **Q. IF THESE MEASURES ARE DESIGNED TO ENABLE THE COMPANY**  
5 **TO COMPETE EFFECTIVELY, WHY DO THEY CONTRIBUTE TO THE**  
6 **NECESSITY OF A RATE CASE?**

7 A. The money we are spending to upgrade our capabilities will enable  
8 us to operate more effectively and more efficiently. We are investing now  
9 in "managerial infrastructure" that will enhance our performance, allow us  
10 to improve the service we provide, and be more competitive. The  
11 investments result in a legitimate and necessary increase in the Company's  
12 overall cost of service.

13 **Q. HOW WILL THE CUSTOMERS WHO ARE BEING ASKED TO PAY**  
14 **MORE AS A RESULT OF THESE MEASURES BENEFIT FROM THEM?**

15 A. Ready or not, the LDC industry is becoming a competitive  
16 marketplace. Over time, I predict the competition among the increased  
17 number of providers, including new entrants, will place ever-increasing  
18 pressure on the margins between our costs and the prices we can charge.  
19 It is these margins that must generate the return authorized by the  
20 Commission. Because the magnitude of the margin we can realize per  
21 transaction is likely to decrease, I strongly believe that the key to  
22 minimizing the need for base rate increases in the future is to increase the

1 overall quantity of gas we deliver ("throughput"). The measures I have  
2 described are crucial to our efforts to increase the system throughput. For  
3 that reason, they will benefit customers over the longer term.

4 **Q. EARLIER YOU SAID THAT THE MEASURES WILL ALSO BENEFIT THE**  
5 **ECONOMIC WELL-BEING OF THE STATE. PLEASE EXPLAIN.**

6 A. City Gas plays a very important role in meeting a portion of Florida's  
7 energy needs. Natural gas is the least-cost choice for many applications,  
8 and it is environmentally benign. To expand the system and increase  
9 throughput would be to simultaneously increase the benefits associated  
10 with natural gas. Moreover, I believe a competitive LDC industry can have  
11 the effect of reducing overall energy costs, thereby enhancing the  
12 prospects for economic development in the State.

13 **Q. HOW CAN CITY GAS' PARTICIPATION IN A COMPETITIVE MARKET**  
14 **HELP ECONOMIC GROWTH?**

15 A. The most obvious way is to make the State more attractive to new  
16 business. However, lower energy costs resulting from competition could  
17 help industries that are already located here as well.

18 **Q. PLEASE EXPLAIN.**

19 A. Florida manufacturers compete with other producers in their  
20 respective industries. Lower energy prices would enhance their competitive  
21 positions and increase their share of the market, leading to the possibilities  
22 of greater utilization of capacity and/or more jobs. Moreover, plants in

1 Florida also compete with sister plants of the same corporation located  
2 outside Florida. Manufacturers will shift jobs and production to those plant  
3 locations at which they can produce at lowest overall costs. For many  
4 industries, energy costs comprise a significant portion of total costs. If  
5 economic policies make vigorous competition possible, and that competition  
6 lowers overall energy costs, that development would help plants in Florida  
7 keep from losing -- or possibly increase -- their share of their respective  
8 companies' production.

9 **Q. ARE YOU AWARE OF ANY SUPPORT FOR THE VIEW THAT A MORE**  
10 **COMPETITIVE LDC INDUSTRY COULD HELP LOWER OVERALL ENERGY**  
11 **COSTS?**

12 A. Yes. In a report on the potential for natural gas usage in Florida that  
13 was recently prepared for the Florida Energy Office, entitled "Natural Gas  
14 Growth in the State of Florida: Barriers and Benefits," the Tellus Institute  
15 concluded that an increase in the relative share of the energy market  
16 comprised by natural gas would stimulate competition among energy  
17 sources (natural gas, electricity, fuel oil, gasoline) in the various end use  
18 energy markets. The Tellus Institute report says a competitive energy  
19 market will have a positive impact on efforts to create a strong economy.  
20 Accompanying this favorable impact of increased natural gas usage,  
21 reported the authors, would be the environmental benefits associated with  
22 reduced emissions, as well as increased diversity and security of energy

1 supplies. The report reinforces my view that it is in our customers'  
2 interests, as well as ours, that the Company seek opportunities to expand  
3 the availability of natural gas and offer it on competitive terms.

4 **Q. IS CITY GAS PRESENTLY PURSUING ANY SUCH OPPORTUNITIES**  
5 **TO PROVIDE ACCESS TO NATURAL GAS IN ANY NEW AREAS?**

6 **A. Yes.** We are enthusiastic about the potential markets for natural gas  
7 in Port St. Lucie; near the Homestead lateral we are in the process of  
8 acquiring; and in Indian River County. We are actively attempting to  
9 develop these new markets. Richard Wall and Carl Smith will discuss these  
10 initiatives in detail. I would like to comment on our activity in Port St.  
11 Lucie.

12 **Q. PLEASE PROCEED.**

13 **A.** In the last case, City Gas initially requested that the entire amount it  
14 had invested in the infrastructure needed to begin to serve Port St. Lucie  
15 be included in rate base. For purposes of settlement, the Company agreed  
16 to accept adjustments totaling \$2,112,808 based upon the application of  
17 the feasibility criteria that are normally applied to determine the "free"  
18 extension from an existing system that can be provided to an individual  
19 new customer, with the understanding that the Company could later  
20 request the Commission to incorporate the excluded amount in rate base  
21 upon appropriate justification. We ask that these facilities, which were  
22 classified as Plant Held for Future Use at the time, be included in rate base

1 at this time.

2 Q. WHY DO YOU BELIEVE THE FACILITIES TREATED AS PLANT HELD  
3 FOR FUTURE USE IN THE LAST CASE SHOULD BE INCLUDED IN RATE  
4 BASE NOW?

5 A. Articulating a standard that would govern every new service area  
6 may be difficult. However, with respect to the decision to serve Port St.  
7 Lucie, the proof is in the pudding. As Richard Wall describes, all facilities  
8 in Port St. Lucie placed since the last rate case and the substantial additions  
9 planned for the future meet the criteria of the extension of facilities tariff.  
10 Even more significant to this question, I believe, is the separate test that  
11 Rand Smith delineates in his testimony, to which the Company now  
12 subjects all investment decisions -- including those in Port St. Lucie. This  
13 separate analysis requires a proposed investment to show a return over its  
14 life equal to the Company's incremental cost of capital on a net present  
15 value basis. I believe the fact that growth now justifies adding facilities in  
16 Port St. Lucie on this basis demonstrates that the Company's decision to  
17 invest in the City of Port St. Lucie franchise was prudent. As the original  
18 investment was necessary to get us to this point, the portion presently  
19 classified as Property Held for Future Use should be allowed in rate base.  
20 Under the circumstances, it would be unreasonable to require the Company  
21 to wait longer to receive rate base treatment for this investment. I believe  
22 such an action could also have an impact beyond City Gas' rate case.

1 Q. PLEASE EXPLAIN.

2 A. I believe refusal by the Commission to transfer these facilities to rate  
3 base in the circumstances I have described would send a message to City  
4 Gas and other LDCs regarding the Commission's policy toward investments  
5 in new areas. The fruit of such a policy could be the continued  
6 unavailability of natural gas to many of Florida's citizens, even where  
7 prudent planning and development activities could make service available.  
8 The Commission should allow City Gas to include all of its investment in  
9 Port St. Lucie in rate base.

10 Q. ARE THE INTERNAL MEASURES YOU HAVE MENTIONED ALL THE  
11 CHANGES THAT ARE NEEDED TO EQUIP CITY GAS TO MAXIMIZE THE  
12 POTENTIAL FOR NATURAL GAS IN A COMPETITIVE MARKET?

13 A. In my view, no. If the policy of regulators truly is to foster more  
14 competition, it is necessary for regulators to provide LDCs with a genuine  
15 ability to compete.

16 Q. PLEASE EXPLAIN.

17 A. Ultimately, I believe the present hybrid situation -- one in which the  
18 LDC must operate under traditional regulatory controls at the same time it  
19 is being thrust into a competitive environment -- must change. I believe it  
20 is impossible to create an effectively competitive market with halfway  
21 measures. Regulatory policies and requirements that were appropriate for  
22 a closely regulated monopoly will simply frustrate the objective of a

1 competitive market -- and subject the utility to an unfair contest. City  
2 Gas's proposed base rate filing recognizes the difficulty in navigating from  
3 a fully regulated a to fully competitive business environment. Through  
4 certain modifications to existing rate design, we believe City Gas can make  
5 effective strides in moving towards a more competitive environment.

6 **Q. WHAT CHANGES IN REGULATORY REQUIREMENTS DO YOU**  
7 **BELIEVE SHOULD BE IMPLEMENTED?**

8 A. I believe LDCs must be able to unbundle their services to a larger  
9 portion of their customer base. Further, we must work toward the  
10 objective of eliminating any existing subsidies or biases in our rate  
11 structure. The Company cannot compete with alternatives if the rates it  
12 charges are burdened with the need to recover costs imposed by others.  
13 Finally, we must have more freedom to price our service competitively.

14 **Q. WOULDN'T THIS PRICING FREEDOM LEAD TO THE**  
15 **DISCRIMINATORY TREATMENT OF CUSTOMERS?**

16 A. That would be a valid concern if City Gas were the only game in  
17 town. However, unlike the electric utilities, we and other LDCs are  
18 participating in a real market that includes genuine competition among  
19 existing alternatives -- including the possibility of "gas on gas" competition.

20 **Q. PLEASE ELABORATE.**

21 A. The phenomenon of unbundling has introduced new players into the  
22 competitive arena. For instance, we must now compete with brokers who



1 can, and do, arrange for sales of natural gas in direct competition with the  
2 Company's service. To the broker, of course, we must add another source  
3 of competition -- the potential for a customer to bypass our system entirely.  
4 We find that, as we compete, we are vying for the business of increasingly  
5 more sophisticated customers, who have quickly become aware of their  
6 options and have learned the value of careful shopping. The degree and  
7 extent of competition we face distinguishes us from the electric utilities.

8 **Q. DO ANY OTHER FEATURES DISTINGUISH CITY GAS' SITUATION**  
9 **FROM THAT OF THE ELECTRIC UTILITIES?**

10 A. Yes. While natural gas is a valuable commodity -- one which offers  
11 significant benefits and advantages to many end users -- it remains true that  
12 electricity is considered an essential service to today's customers; natural  
13 gas is not. Further, every function performed by natural gas can be  
14 performed by electricity, as well as by competing, non-regulated energy  
15 sources. These realities continue to differentiate our situation from that of  
16 the electric utilities.

17 **Q. HAVE YOU INCLUDED ANY SUCH PRICING PROPOSALS IN THIS**  
18 **CASE?**

19 A. Yes. They range from the modest to the innovative. On the  
20 conservative side, we propose to segment the existing Large Volume class  
21 into two separate classes. Recognizing the lower cost to serve the very  
22 large customers by placing them in a class of their own will make us more

1 competitive in that arena. We also propose a new rate that would be  
2 applicable to generators of electric power. Presently we have no ability to  
3 attract this type of user, and thus no ability to realize for other customers  
4 the benefits of greatly increased throughput that such customers would  
5 provide. The innovative rate to which I referred is the proposed flexible gas  
6 service tariff.

7 **Q. PLEASE DESCRIBE THIS NEW RATE.**

8 A. Under this proposed rate, the Company would be authorized to  
9 negotiate an individual service agreement with any potential customer  
10 having an alternative fuel capability. However, the rate protects existing  
11 customers from any subsidization. Mr. DeMoine will discuss this rate in  
12 detail.

13 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

14 A. City Gas is a company in transition. Since its last rate case, City Gas  
15 has undergone significant managerial and operational changes. These steps  
16 include extensive changes in the management force; the implementation of  
17 stricter internal controls; the enhancement of our technological and  
18 marketing systems; and the more effective integration of our workforce into  
19 the NUI Corporation employee base. The many positive steps City Gas has  
20 taken are designed to enable the Company to pursue its corporate mission  
21 of providing reliable, affordable, and efficient natural gas service to as many  
22 Floridians as the dictates of prudence and feasibility permit, and are

1 designed to help the Company navigate in an increasingly competitive  
2 marketplace. As City Gas succeeds, Florida's economy and environment  
3 will benefit. The base rate increase for which City Gas has applied is  
4 necessary to provide the financial strength, managerial and operational  
5 expertise, and technological resources with which to provide this high  
6 quality of service to our customers.

7 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

8 A. Yes.

1                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2                               **DIRECT TESTIMONY AND EXHIBITS**

3   **OF CARL SMITH**

4   **ON BEHALF OF CITY GAS COMPANY OF FLORIDA**

5   **DOCKET NO. 960502-GU**

6    **Q.    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

7    A.    My name is Carl Smith.

8    **Q.    IN WHAT CAPACITY ARE YOU EMPLOYED?**

9    A.    I am Vice President and Director of Marketing for NUI Corporation.

10 I have responsibility for all of NUI Corporation's marketing efforts, including  
11 those of the Southern Division, which encompasses City Gas Company of  
12 Florida.

13 **Q.    PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
14 **PROFESSIONAL QUALIFICATIONS.**

15 A.    I hold a Bachelor of Science degree in personnel management from  
16 the University of Southern Mississippi at Hattiesburg, Mississippi, and a  
17 Master of Science in Organizational Management from Central Connecticut  
18 University in New Berlin, Connecticut.

19           For the first 10 years of my professional life, I was in the United  
20 States Air Force. During this time I held a variety of managerial  
21 assignments with several major commands, including NATO, the Air Force  
22 Communications Command, Strategic Air Command, and Aerospace  
23 Communications. I also served as a recruiter and drill sergeant for the Air

1 Training Command.

2 Upon leaving the United States Air Force, I worked for 9 years as an  
3 energy management consultant with A & C Enercom, Inc. a firm based in  
4 Atlanta. During my tenure at A & C Enercom, I was responsible for the  
5 development of sales and marketing strategies and program development  
6 for over 30 gas and electric companies nationwide.

7 As Business Group Manager at A & C Enercom, I was responsible for  
8 marketing, sales, and implementation of demand side management and  
9 marketing programs for utilities across the southeast that included Atlanta  
10 Gas Light, Georgia Power, Florida Power and Light, Florida Coordinating  
11 Group, Florida Power Corporation and Tampa Electric Company. I also  
12 served as the marketing training consultant for Wisconsin Gas Company  
13 and performed sales and marketing training for numerous companies across  
14 the United States. Since coming to NUI Corporation, I have assumed all  
15 marketing responsibilities for NUI Corporation's regulated activities in the  
16 six states within the NUI family. I oversee the strategic marketing activities  
17 for our companies, including core customer sales, expansion opportunities,  
18 and new technologies.

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

20 **A.** In his testimony, Lyle Motley describes the numerous and profound  
21 changes that have occurred in City Gas' business. The arrival of  
22 competition has required City Gas to rethink and revamp the fundamental

1 way it conducts its business, including its marketing activities. I will  
2 describe internal initiatives to refocus and enhance City Gas' marketing  
3 efforts in response to the changed realities of the markets in which City Gas  
4 does business. I will also identify the opportunities for system expansion  
5 which City Gas is presently pursuing. I will outline how City Gas assesses  
6 the potential for new development, and I will describe the type of marketing  
7 activities in which City Gas engages. Finally, I will address the need for  
8 additional tools, in the form of modifications to rate design, that City Gas  
9 needs to compete effectively.

10 **Q. PLEASE EXPLAIN WHAT YOU MEAN BY A "REFOCUSED"**  
11 **MARKETING EFFORT.**

12 A. City Gas' Marketing Department is changing from an "order taker"  
13 environment to a professionally operated sales and marketing department.  
14 As part of that process, City Gas has established individual and  
15 departmental goals for all sales and marketing staff, including the sales  
16 support office staff. Currently, these goals relate to customer additions,  
17 annual throughput, and annual margin. Beginning in 1996, they will also  
18 include customer satisfaction. In fiscal year 1996, the formal goals became  
19 an integral part of the Company's planning process. As Rand Smith and  
20 Paul Chymiy describe, the sales projections underlying the Company's  
21 budget process, as well as the development of MFRs for this case, take  
22 these goals into account.

1 Q. PLEASE GIVE EXAMPLES OF THE SPECIFIC GOALS THAT HAVE  
2 BEEN ESTABLISHED FOR THE COMPANY'S MARKETING STAFF.

3 A. Beginning in fiscal year 1996, NUI Corporation began using uniform  
4 indicators and methodologies throughout all of NUI's distribution  
5 companies, including City Gas, to measure and track the performance of its  
6 sales staff. Three indicators are used to determine the performance of the  
7 sales department: new customer additions, added load, and annualized  
8 margin dollars.

9 Each sales representative is measured on how well he or she  
10 performs on a monthly, quarterly, and annual basis with respect to each  
11 indicator. Of these three indicators, the primary emphasis is on annualized  
12 margin dollars added. A sales representative is considered successful if the  
13 stated goal is met, even if he or she falls short of the target for customer  
14 additions.

15 Q. HOW WERE THE GOALS QUANTIFIED?

16 A. City Gas analyzed its existing customers in its three defined customer  
17 segments: scattered residential, new home construction, and commercial.  
18 City Gas then conducted a review of its therm usage among these customer  
19 categories to determine the annual average usage for each customer  
20 segment. This annual average was applied to the energy charge for each  
21 customer segment to determine the annualized margin dollars City Gas  
22 receives from these customers. The sales manager and the assigned sales

1 representative then determined how many customers within each segment  
2 the representative would secure for the system on an annual basis. Once  
3 this objective was established, and accepted by upper management as the  
4 goal for added customers, the corresponding therm usage and annualized  
5 margin dollars were assigned to each representative and then combined to  
6 determine the Sales Department's goals for the year.

7 **Q. HOW IS PROGRESS TOWARD MEETING THE GOALS MONITORED?**

8 **A.** Each division has a display board ("Therm-o-meter") that highlights  
9 how well individual representatives and the overall division are progressing  
10 toward their respective goals. This board is centrally located within each  
11 division so each department can review the status of how it is performing.

12 In addition, each week the sales managers review the prior week's  
13 sales performance with each sales representative to determine where each  
14 is within the month as compared to his/her monthly goals. Each month, I  
15 schedule a sales managers' meeting to determine any shortfalls within the  
16 Sales Department and to analyze the reasons certain goals are or are not  
17 being met. Strategies are set for the ensuing month and quarter to ensure  
18 that the goals are attained.

19 At the end of each month, we prepare a sales production report that  
20 shows the performance of each division. The report also describes key  
21 projects and actions taken during the month and provides an overview of  
22 the following month's activities.



1 Q. ARE THE GOALS WORKING?

2 A. To an extent. The goals have served well to focus and motivate the  
3 staff of the Marketing Department. However, both divisions are somewhat  
4 behind on the scattered residential customer goals. In our efforts to add  
5 customers, both divisions continue to contend with such factors as the  
6 higher first cost of natural gas appliances and the basic lack of knowledge  
7 concerning the benefits of natural gas on the part of potential customers.  
8 Both of these factors were cited in the Tellus study (to which Lyle Motley  
9 refers in his testimony) as hurdles natural gas must overcome. We have  
10 found this to be the case for City Gas.

11 Q. WHAT OTHER CHANGES ARE BEING MADE?

12 A. City Gas has taken steps to increase support to its sales staff. For  
13 instance, the gathering of customer data is vital to the effectiveness of our  
14 sales staff in the current competitive arena. City Gas has conducted  
15 studies designed to provide insight into the buying decisions of our  
16 customers. The Company has also performed comparisons of the first  
17 costs and operating costs associated with natural gas appliances and those  
18 fueled with electricity, propane, and oil.

19 City Gas is also moving to increase the utilization of computers and  
20 associated software to enhance the capabilities of its sales staff. Training  
21 has been conducted to increase the computer proficiency of the sales  
22 departments. This training focused on the operation of business office

1 software, including word processing, spread sheet applications, and  
2 customer account tracking.

3 To heighten the awareness of project cost-effectiveness, City Gas  
4 has spent considerable time training its sales staff on the use of its  
5 feasibility model. This model is used to determine the feasibility of bringing  
6 a customer or new home construction project on line. All sales members  
7 have been trained regarding the various components of the model by our  
8 Vice President of Finance. This training has equipped our staff to  
9 understand its priorities better and to determine the proper criteria to  
10 employ in evaluating potential customers.

11 In an effort to improve efficiency, we are in the process of evaluating  
12 how we currently interface with a new customer, from the day the  
13 customer is contacted to the day the customer begins receiving natural gas  
14 service.

15 **Q. ARE THERE OTHER CHANGES?**

16 **A.** Yes. I have determined that in south Florida there is a lack of  
17 awareness of the availability of natural gas, as well as a general lack of  
18 awareness of its benefits. In fiscal year 1997, City Gas intends to increase  
19 the use of communications media to convey the benefits of natural gas. In  
20 addition, City Gas plans an extensive gas awareness campaign that will  
21 emphasize the benefits of natural gas over other competing fuels, address  
22 safety issues, and describe the benefits of various end-use appliances and

1 equipment that use natural gas. The Company intends to help make the  
2 convenient procurement of natural gas appliances possible by organizing a  
3 network of dealers who sell and maintain these appliances.

4 To more effectively convey information about the advantages,  
5 benefits, safety, and availability of natural gas, City Gas plans to make  
6 increased use of radio spots, brochures, fact sheets, and direct mailouts.  
7 In addition, we will conduct seminars designed to educate local real estate  
8 agents, builders, and appliance dealers on the availability, safety, and  
9 benefits of natural gas. We also intend to sponsor selected community  
10 fund raising activities, and we will use these occasions to increase  
11 awareness of the availability and benefits of natural gas. I would like to  
12 emphasize that, while I have described the use of advertising media in  
13 conjunction with our marketing efforts, the purpose of the messages will be  
14 to inform the public concerning the favorable life cycle cost, environmental  
15 benefits, and other properties and advantages of natural gas.

16 During the projected test year, City Gas plans to devote  
17 approximately \$100,000 to the use of such communications media. The  
18 relative success of such marketing will be monitored for each program.  
19 Depending on the effectiveness of the various programs, this spending level  
20 may increase in future years. Here, too, we have integrated the  
21 requirement of cost-effectiveness into our marketing activities. Success is  
22 defined in terms of the annualized margin dollars of increased business

1 arising from the program, the value of which will be compared with the cost  
2 of the program and the cost of adding facilities to serve that new business.

3 **Q. HAS THE LEVEL OF STAFFING CHANGED?**

4 **A.** Yes. City Gas has recognized that, in order to be successful in the  
5 new market, the Company must increase its efforts to attract and to retain  
6 very large commercial customers. To do so, we must become more  
7 competitive and we must provide high quality service. Mr. DeMoine  
8 describes the rate design proposals that are geared to the competitive issue.  
9 I will describe the staffing changes that will enable us to devote the  
10 attention to customer satisfaction that will be necessary to keep the large  
11 key accounts.

12 City Gas will add one commercial sales representative during fiscal  
13 year 1996. The Company plans to add an additional large commercial sales  
14 representative to its Miami division and one additional large commercial  
15 sales representative to its Brevard division at the beginning of fiscal year  
16 1997. These representatives will be responsible for adding customers and  
17 improving customer service within the large commercial customer segment  
18 and within the new expansion opportunities in Vero Beach, Port St. Lucie,  
19 and Homestead. In addition, these new representatives will allow City Gas  
20 to focus better on its existing large commercial and industrial customers  
21 through its planned key account program.

22 While I have spoken in terms of additional employees, I wish to

1 emphasize that because of reductions in staffing that took place in 1995,  
2 these positions would only have the effect of restoring the number of City  
3 Gas' marketing-related positions to 1994 levels. As a result, the initiatives  
4 I have described will have the primary effect of reorienting the department's  
5 focus toward the large commercial accounts, not increasing the size of the  
6 department. Our current activities are designed to build a meaningful track  
7 record within which to measure future sales performance. As we gain  
8 experience, we will determine whether future additions to sales staff are  
9 justified.

10 **Q. DO YOU PROPOSE OTHER STAFFING CHANGES?**

11 A. Yes. In addition to the commercial representatives mentioned above,  
12 City Gas will also add an inside sales coordinator to each division at the  
13 beginning of fiscal year 1997. These coordinators will assist the sales  
14 representatives in the special needs of transportation and large commercial  
15 customers, handling the paperwork involved in signing up a new customer,  
16 and answering day-to-day customer inquiries. In addition, they will assist  
17 in normal administrative duties, such as filing, up-dating the customer data  
18 base, preparation of service proposals and the coordination of marketing  
19 activities with other departments within City Gas, thus allowing marketing  
20 representatives to concentrate on contacting potential new customers.

21 **Q. ON WHAT OPPORTUNITIES FOR ADDING CUSTOMERS IS CITY GAS**  
22 **PRESENTLY FOCUSING?**

1 A. City Gas Company is presently placing an emphasis on "system  
2 infill." In addition, City Gas is pursuing plans with respect to the acquisition  
3 of the "Homestead lateral"; development associated with its City of Port St.  
4 Lucie franchise; and development in Indian River County, including the City  
5 of Vero Beach.

6 **Q. PLEASE EXPLAIN WHAT YOU MEAN BY THE PHRASE "SYSTEM**  
7 **INFILL."**

8 A. Throughout all of our service areas -- the Brevard division, the City  
9 of Port St. Lucie, and the Broward/Dade area -- there are potential  
10 customers who are located on or near an existing distribution main but  
11 who, for whatever reason, have not availed themselves of natural gas  
12 service. These potential customers range from residential to multi-family  
13 users, and from small commercial to light industrial facilities. They may  
14 presently be using electricity, propane, or oil. We have instituted an  
15 aggressive program of identifying such potential customers and marketing  
16 our services to them.

17 **Q. WHAT MEANS DOES THE COMPANY USE TO IDENTIFY SUCH**  
18 **POTENTIAL "INFILL" CUSTOMERS?**

19 A. We use various means. For example, on occasions we have hired an  
20 independent consultant to identify potential customers on or near existing  
21 facilities. We have also used the internal resources of NUI to analyze plat  
22 maps for this purpose. The analyst first identifies the location of our gas

1 line on the map and the names of all property owners on the plat map. By  
2 comparing the universe of potential customers against a data base of  
3 customer information, the analyst can identify those persons or companies  
4 located on the plat maps who are not taking service. From that point, our  
5 new Customer Information System has the capability to develop a potential  
6 customer list. After compiling the potential customer list, we use a variety  
7 of media to contact the potential customers. The mechanisms range from  
8 direct mail-outs, to door hangers, to an innovative "tell your neighbor"  
9 campaign.

10 **Q. YOU INDICATED THAT CITY GAS HAS INSTITUTED AN**  
11 **AGGRESSIVE PROGRAM OF SEARCHING FOR OPPORTUNITIES TO INFILL**  
12 **ITS SYSTEM. DOES THIS REPRESENT A SHIFT IN FOCUS FOR CITY GAS?**

13 **A. Yes. However, over the next several years, we intend to do much**  
14 **more in this area. Because these potential customers are located along or**  
15 **near existing distribution facilities, minimal investment in capital facilities is**  
16 **needed to connect them to the City Gas system. Accordingly, this method**  
17 **of adding customers is extremely cost-effective.**

18 **Q. DOES THE EMPHASIS ON INFILL MEAN THAT CITY GAS IS**  
19 **ABANDONING THE NEW HOME CONSTRUCTION MARKET?**

20 **A. Not at all. However, we have adopted a disciplined business**  
21 **approach to such expansions.**

22 **Q. PLEASE DESCRIBE YOUR APPROACH TO THE MARKETING OF CITY**

1 **GAS SERVICES TO NEW HOME BUILDERS.**

2 A. Each potential project is first subjected to a rigorous analysis of  
3 economic feasibility. Rand Smith will describe the analysis in more detail.  
4 The most effective way to overcome the cost hurdles associated with  
5 extending facilities to new residential developments is to control and, where  
6 possible, decrease the cost associated with reaching those new homes.  
7 The lower our cost, the more residential customers we can justify as  
8 economically feasible in the new home market. We have adopted  
9 centralized purchasing rules and guidelines for competitive bidding, which  
10 leads to lower installation costs. In addition to traditional "brown goods"  
11 (gas furnace, gas water heater), we will also educate those customers  
12 about gas air conditioning and similar premium services.

13 **Q. PLEASE DESCRIBE THE HOMESTEAD PROJECT FROM A**  
14 **MARKETER'S PROSPECTIVE.**

15 A. The Homestead project, which City Gas Vice President Richard Wall  
16 describes in his testimony, presents excellent opportunities. We have  
17 already identified 25 commercial establishments, including national fast  
18 food chains, coin laundries, national hotel chains, citrus nurseries and  
19 packing houses along half of the 16-mile lateral. Based on the purchase  
20 price, we will pay approximately \$8.00 per linear foot for the lateral,  
21 compared to the corresponding cost of new construction in the range of  
22 \$25-30 per linear foot. In short, utilizing the low cost of acquisition and



1 reasonable estimates of throughput in our capital investment model, we  
2 have established that the project meets the prescribed criteria of economic  
3 feasibility.

4 **Q. HOW MUCH POTENTIAL LOAD HAVE YOU IDENTIFIED?**

5 A. We have already identified a load of 900,000 therms annually. This  
6 does not take into account opportunities for growth and expansion into the  
7 Florida City area.

8 **Q. HAVE YOU TARGETED SPECIFIC POTENTIAL CUSTOMERS?**

9 A. Yes. They include, for example, the New Homestead Motor Sports  
10 Park, several hotel chains located near Homestead's professional baseball  
11 spring training complex and several citrus packing houses.

12 **Q. PLEASE TURN TO ACTIVITIES IN PORT ST. LUCIE.**

13 A. Again, Richard Wall has described the physical assets we are  
14 developing in the City of Port St. Lucie in his testimony. In the northern  
15 part of the City, our eight-inch main runs directly through one of two  
16 underground propane residential areas developed by General Development  
17 Utilities (GDU). GDU installed an overall system of mains designed to  
18 deliver propane to over 1500 potential units, including Club Med. The GDU  
19 propane system is now owned by the City of Port St. Lucie, which has  
20 indicated that the system is for sale. We are interested in evaluating this  
21 opportunity. The Company is presently utilizing an independent consultant  
22 to evaluate the marketing and margin potential of the GDU system. We

1 intend to perform a due diligence inspection of the system after this  
2 analysis has been completed. If the results of these evaluations warrant,  
3 we intend to negotiate with the City for the acquisition of the GDU system.

4 The extension along Bay Shore Boulevard to St. Lucie Boulevard that  
5 Mr. Wall describes in his testimony will ultimately allow us to serve 39  
6 potential commercial customers on St. Lucie Boulevard. Bay Shore itself is  
7 one of few existing commercial corridors in the City. The main along Bay  
8 Shore will also provide access to residential communities lying to the east  
9 of Bay Shore.

10 The most exciting growth in Port St. Lucie is occurring west of the  
11 intersection of Prima Vista and I-95. We will extend our eight-inch main to  
12 that area, which will enable us to reach a major hotel en route to a  
13 commercial corridor that will consist, when completely developed, of five  
14 national hotels, several restaurants, and similar commercial developments.  
15 The anchor of the development will be the national headquarters for the  
16 Professional Golf Association (PGA). This extension will also strategically  
17 place us near the City of Port St. Lucie's newly designated downtown  
18 complex. To date, we have identified accounts totaling in excess of  
19 250,000 therms in this area. This does not take into account the 900  
20 additional residential customers that the same extension will enable us to  
21 reach. We are currently finishing the development of natural gas service in  
22 Phase I of the Lake Charles development, where we have realized virtually

1 100% penetration. The developer is working on Phases II and III, and we  
2 intend to expand there with similar success.

3 **Q. PLEASE ADDRESS THE COMPANY'S ACTIVITIES IN THE CITY OF**  
4 **VERO BEACH AND INDIAN RIVER COUNTY.**

5 **A.** There are two aspects of our activities in Indian River County. First,  
6 we have executed a transportation service agreement with Ocean Spray  
7 Cranberry Juice, which operates a large citrus processing plant southwest  
8 of the City of Vero Beach, near I-95. As a part of this overall transaction,  
9 City Gas included the cost of converting Ocean Spray's equipment to utilize  
10 natural gas in its feasibility analysis. We have applied for authority to  
11 construct a gate station on FGT's nearby facility along I-95, from which we  
12 will transport gas to the Ocean Spray plant. The same line will then be  
13 extended to reach other citrus processors in the area. Other opportunities  
14 in this area include an industrial park being developed by Indian River  
15 County, as well as a state correctional facility.

16 Second, we are proceeding with plans to serve the City of Vero  
17 Beach. To serve the City, we have arranged to purchase from South Florida  
18 Natural Gas Company a four-inch lateral extending from FGT's interstate  
19 pipeline eastward to the downtown area of Vero Beach. We are actively  
20 pursuing residential and commercial customers, including a major shopping  
21 mall, along the route of the four-inch lateral. The lateral will also enable us  
22 to reach and serve a hospital and certain commercial accounts located on

1 U.S. Highway 1. City Gas expects to add more than 100 commercial  
2 customers that aggregate approximately \$200,000 in annual margins along  
3 the four-inch lateral alone over the next five years. Of these, we included  
4 approximately one-third in the projected test year.

5 **Q. WHAT HAS CITY GAS DETERMINED REGARDING THE FEASIBILITY**  
6 **OF ITS INDIAN RIVER COUNTY ACTIVITY?**

7 A. The key to the feasibility of this development is the fact that we will  
8 acquire the four-inch lateral for approximately \$8.00 per linear foot. As is  
9 the case with the Homestead project, the low price of the distribution main  
10 provides us with a significant advantage. To study the feasibility of the  
11 project, we applied our financial model, utilizing the Company's present rate  
12 structure and incorporating only the existing accounts we had identified.  
13 The project, as presently defined, passes the feasibility test even under  
14 these moderate assumptions. During the test year, the Company will apply  
15 its feasibility model to assess further main extensions in Vero Beach and  
16 Indian River County.

17 **Q. SO FAR YOU HAVE DISCUSSED ACTIVITIES IN CITY GAS' NEWER**  
18 **FRANCHISES. ARE THERE ANY MAJOR NEW DEVELOPMENT ACTIVITIES**  
19 **IN THE COMPANY'S HISTORICAL SERVICE AREA?**

20 A. Yes. In Brevard County, City Gas is in the discussion phase with  
21 Viera Developers to provide natural gas services to their planned Viera West  
22 community, located west of I-95. City Gas currently provides natural gas

1 distribution services to Viera East. We have an excellent relationship with  
2 the builders there, who will also be the builders for Viera West.

3 Viera plans to build over 17,000 homes in less than 20 years in Viera  
4 West. There are also plans for an estimated 20-30 commercial structures  
5 through this development that will include schools, churches, a regional  
6 mall, golf courses, a town center, medical center, and various eating  
7 establishments. Viera has asked City Gas to provide assistance in the  
8 design of their commercial structures to afford Viera a natural gas cooling  
9 option.

10 **Q. DESCRIBE CITY GAS' ACTIVITIES IN PROMOTING COMPRESSED**  
11 **NATURAL GAS FOR VEHICLES.**

12 A. City Gas is continuing its efforts in this area with the Miami Airport,  
13 Dade County Water and Sewer Department, and NASA. NASA alone  
14 expects to add over 145 new CNG vehicles.

15 **Q. IS CITY GAS INVOLVED IN PROMOTING NON-TRADITIONAL END**  
16 **USE EQUIPMENT?**

17 A. City Gas is currently working with a builder in Brevard County to  
18 promote residential gas air conditioning through a jointly sponsored model  
19 home. City Gas is also attempting to lower the initial cost of residential gas  
20 air conditioning for its customers through negotiations with vendors.

21 **Q. PLEASE ADDRESS THE ADEQUACY OF EXISTING RATE DESIGN**  
22 **FOR CITY GAS' COMPETITIVE AND MARKETING NEEDS.**

1 A. City Gas is hampered by the limitations of existing rate design. The  
2 Company's existing rate design does not afford it the degree of flexibility  
3 necessary to enable the Company to compete fully.

4 **Q. IN VIEW OF THE APPLICABILITY OF THE ALTERNATE FUEL**  
5 **DISCOUNT TO EXISTING AND NEW CUSTOMERS, WHY DO YOU SAY THE**  
6 **COMPANY NEEDS MORE FLEXIBILITY?**

7 A. There are several reasons. For one thing, some of our competition  
8 is "gas vs. gas" -- that is, we are competing with producers and brokers,  
9 or with the ability of a customer to bypass our system. In addition, the  
10 provision does not address our need to compete for a potential new  
11 business weighing where to locate, or with a customer whose alternate  
12 source of energy is electricity, propane or oil. The flexible rate proposed by  
13 Mr. DeMoine will enable the Company to engage in genuine competition,  
14 in a way that does not require other customers to subsidize the  
15 competition.

16 **Q. WHAT OTHER MODIFICATIONS DOES THE COMPANY REQUIRE?**

17 A. Mr. DeMoine proposes a new electric power generation rate and a  
18 segmented Large Volume rate. From a marketing standpoint, both will be  
19 valuable additions. Gas-fired cogenerators, probably the most significant  
20 part of the potential market for the new rate, use a high volume of fuel.  
21 The impact of such a power generation project on throughput can make a  
22 significant contribution to recovery of fixed costs. We simply cannot hope

- 1 to attract such an account with our present rates. The newly segmented  
2 Large Volume class is designed to reflect in rates the lower unit cost  
3 associated with serving a very large commercial customer. It will help  
4 make us more competitive in that important portion of the market.
- 5 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?
- 6 A. Yes.

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5

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY AND EXHIBITS

OF PAUL J. CHYMIY

ON BEHALF OF CITY GAS COMPANY OF FLORIDA

DOCKET NO. 960502-GU

6 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

7 A. My name is Paul J. Chymiy. My office is located at 550 Route 202-  
8 206, Bedminster, New Jersey, 07921.

9 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

10 A. I am currently employed as Director of Planning for NUI Corporation  
11 ("NUI" or "the Company"). I have held this position since April 1992.

12 From September 1983 to January 1986, I was employed by NUI's  
13 Elizabethtown Gas Company division as a Staff Attorney. In January 1986,  
14 I was promoted to the position of Senior Attorney. In the Company's Legal  
15 Department, I was responsible for, among other things, general coordination  
16 of the Company's position in federal regulatory proceedings in concert with  
17 the Company's Washington, D. C. counsel and review of long and short  
18 term gas supply and transportation agreements.

19 In July 1988, I was promoted to the position of Manager of Gas  
20 Supply. Among my responsibilities in that role were involvement in long  
21 and short term supply planning and gas acquisition, negotiation of long term  
22 gas supply and service agreements, and supervision of the Administrator of



1 Gas Acquisition and Coordinator, Gas Supply. In July 1991, I assumed the  
2 position of Manager of Planning in the Gas Supply and Planning  
3 Department. In April 1992, I was promoted to my current position.

4 My responsibilities as Director of Planning include supervision of the  
5 Manager, Forecasting and Analysis. My department is responsible for  
6 analyzing and forecasting gas demand and revenues from gas sales and  
7 services on a short and long term basis for all divisions of NUI, including  
8 City Gas Company of Florida ("City Gas"). These activities include  
9 analyzing demand profiles of the various customer classes, planning and  
10 coordinating forecasts of new customer growth and market demand  
11 assumptions with other departments and developing short and long term  
12 forecasts of gas demand and revenues used by the Company for budgeting  
13 and planning purposes. In my position, I am also responsible for the  
14 analysis and evaluation of gas service options and the development of long  
15 and short term gas service strategies and plans for NUI.

16 **Q. WHAT ARE YOUR PROFESSIONAL QUALIFICATIONS?**

17 **A.** I received a Bachelor of Science degree in Civil Engineering from the  
18 New Jersey Institute of Technology in 1980 and a Juris Doctor degree from  
19 the Rutgers School of Law, Newark in 1983.

20 During my tenure with NUI, I have served on the Associated Gas  
21 Distributor's Operating Committee and have retained membership in the  
22 Federal Energy Bar Association. I am also a member of the American Gas

1 Association's Statistics and Load Forecast Methods Committee. Recently,  
2 I served on the Gas Utility Subcommittee of the Industrial Advisory Council  
3 of the New Jersey Energy Master Plan Committee.

4 **Q. HAVE YOU EVER PRESENTED TESTIMONY TO THIS COMMISSION?**

5 **A.** I submitted prefiled rebuttal testimony in City Gas' last general base  
6 rate proceeding before this Commission in Docket No. 940276-GU; that  
7 case reached a settlement. I also submitted prefiled testimony in City Gas'  
8 1995/1996 Purchase Gas Adjustment True-up proceeding in Docket No.  
9 950003-GU.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 **A.** I will support and describe the specific methods employed in  
12 developing the forecast of sales, services and revenues for the Base Year  
13 + 1 ending September 30, 1996, and for the Projected Year ending  
14 September 30, 1997. The normalized level of sales, services and revenues  
15 at the end of the Projected Year period is the base from which the  
16 requested revenue increase has been determined.

17 **Q. ARE YOU SPONSORING ANY MFR SCHEDULES?**

18 **A.** Yes. I have supervised the preparation of MFR Schedules G-2, pages  
19 6-8 for the base period + 1, and Schedule G-2, pages 9-11 for the projected  
20 test period.

21 **Q. DO YOU HAVE ANY EXHIBITS TO YOUR TESTIMONY?**

22 **A.** Yes. Exhibit No. \_\_\_ (PJC-1) is the heating degree day pattern for

1 City Gas' service territory.

2 **Q. WHAT IS CITY GAS' BASE YEAR + 1 AND PROJECTED YEAR**  
3 **PERIOD FORECAST OF DEMAND AND REVENUES?**

4 **A.** City Gas' forecast of normalized sales, services and revenues for the  
5 Base Year + 1 and the Projected Year periods are displayed on Schedule  
6 G-2 pp. 6-11.

7 These schedules detail the number of customers billed per class for  
8 the respective periods, as well as the weather normalized consumption  
9 forecast by class by month for each of the periods. The monthly revenues  
10 by rate class for the Base Year + 1 and the Projected Year periods are  
11 calculated using existing rates and are shown on Schedule G-2, pp. 6-11.

12 The total Projected Year period revenues from the sale and  
13 transportation of natural gas are \$78,458,174, plus other income of  
14 \$577,961 as shown on page 11 of Schedule G-2, was the base from which  
15 the additional revenue requirement being sought in this proceeding was  
16 developed.

17 **Q. PLEASE DISCUSS CITY GAS' APPROACH TO FORECASTING**  
18 **DEMAND AND REVENUES FOR THE BASE YEAR + 1 AND PROJECTED**  
19 **YEAR PERIODS.**

20 **A.** Sales, services and revenues are forecast using a multi-step process  
21 for each of the customer classes we serve. The process includes four  
22 steps. First, consumption equations are developed that model consumption

1 per customer for each of the homogeneous customer classes. The  
2 consumption for the large industrial classes or other unique classes that are  
3 not homogeneous in nature are forecast in a different manner. Second, the  
4 number of customers billed for each class is developed. Third, a  
5 consumption forecast for each class is calculated by applying the results of  
6 the consumption equations to the number of customers billed in the class.  
7 In some classes, as I describe later in my testimony, this step is somewhat  
8 modified. Fourth, a revenue forecast is generated by applying the class  
9 consumptions, along with other billing determinants, including customers'  
10 service charges, to the existing rate structure.

11 **Q. IS THIS THE MANNER IN WHICH CITY GAS HAS TRADITIONALLY**  
12 **DEVELOPED ITS FORECAST?**

13 **A.** No, the forecasting methods described in my testimony represent a  
14 departure from the procedures employed by City Gas in previous base rate  
15 proceedings. As one of the results of the merger of City Gas with NUI, the  
16 consolidation and centralization of certain corporate functions, including  
17 demand and revenue forecasting, has taken place. NUI's Planning  
18 Department at its Bedminster, New Jersey headquarters has assumed  
19 responsibility for demand and revenue forecasting for all divisions of the  
20 Company, including City Gas. The Planning Department has performed  
21 these activities for NUI's New Jersey division, Elizabethtown Gas Company,  
22 for many years. We are now extending our expertise to NUI's other

1 divisions and are employing more sophisticated forecasting tools and  
2 techniques, such as those discussed below. In doing so, we continue to  
3 work closely with City Gas personnel. We are in an evolutionary process;  
4 on an on-going basis our methods will be reviewed, through activities such  
5 as variance analyses, and, will be adjusted, when required.

6 **Q. HOW WERE THE CONSUMPTION EQUATIONS DEVELOPED FOR THE**  
7 **COMPANY'S VARIOUS CUSTOMER CLASSES?**

8 **A.** Consumption equations were developed for the Residential Service  
9 (RS) and Commercial Service (CS) classes. Consumption for all other  
10 classes, Interruptible - Preferred (IP), Interruptible Large Volume Gas Service  
11 (IL), Commercial Transportation Service (CTS), Interruptible Transportation  
12 Service (ITS), Interruptible Large Volume Transportation Service (ILT),  
13 Contract Interruptible - Large Volume Transportation Service (CI-LVT) and  
14 Contract Interruptible - Transportation Service (CI-TS), was forecast on an  
15 individual customer basis.

16 Two different modeling techniques were used in developing the  
17 consumption equations for the residential and commercial classes. The  
18 various City Gas service territories, located in Dade/Broward, Brevard, St.  
19 Lucie and Indian River counties, are geographically and climatologically  
20 distinct. For this reason, it was necessary to develop consumption  
21 equations on both a rate class and geographic area basis. Where applicable  
22 and statistically valid, causal, least squares regression models were

1 developed. The Brevard area RS class consumption equation was  
2 developed using multiple regression with heating degree days as the  
3 principle driver. The Dade/Broward area RS class consumption equation  
4 was developed using an ARIMA or Box-Jenkins model with heating degree  
5 days as a regressor term. Similarly, the Dade/Broward area CS class and  
6 the Brevard area CS class consumption equations were developed using the  
7 ARIMA or Box-Jenkins approach with heating degree days and the number  
8 of weekends per month as regressor terms. Because of the limited  
9 empirical data available for the St. Lucie and Indian River areas, no  
10 consumption equations were developed separately for these areas; instead  
11 the demand forecast relied on consumption equations from the  
12 Dade/Broward and Brevard models that exhibited similar behavioral  
13 characteristics to the demand in the St Lucie and Indian River areas.

14 The models employed eight years (8) of historical consumption and  
15 temperature data, over the period October 1987 through September 1995.  
16 From these models, the Planning Department derived the consumption  
17 equations that are used to develop monthly average usage per customer for  
18 each class, RS and CS. The consumption equations can, in their most basic  
19 form, be broken down into a base use component (non-temperature  
20 sensitive) and a heat use component (temperature sensitive). Review of the  
21 output statistics, use of hold back periods, and validation through  
22 "backcasting" (i.e., comparing actual historical results to the fitted values

1 generated by the statistical model) demonstrated the accuracy of the  
2 regression models selected.

3 **Q. WHY WAS MULTIPLE REGRESSION USED TO MODEL RESIDENTIAL**  
4 **DEMAND IN BREVARD?**

5 **A.** The class that exhibited the strongest correlation between  
6 temperature and consumption was the RS class in the Brevard area and it  
7 is for this reason that a least squares regression analysis was applied. A  
8 strong relationship between temperature and usage in the Brevard RS class  
9 is attributable to several causes. First, climatologically, this part of City  
10 Gas' service territory is the farthest north and therefore, has a greater  
11 number of heating degree days than that of any other area served by City  
12 Gas. Second, the homes in this region include natural gas heating units,  
13 while the homes in the southern service areas are primarily heated by  
14 electricity.

15 **Q. WHY WAS A DIFFERENT STATISTICAL APPROACH USED TO**  
16 **MODEL THE REMAINING CLASSES?**

17 **A.** A different approach to the Brevard CS and Dade/Broward RS and CS  
18 classes was required because the statistical results from the multiple  
19 regression models were not satisfactory. For these classes, temperature  
20 alone did not provide a strong enough correlation with gas consumption to  
21 warrant use of the multiple regression model form. This is primarily due to  
22 the fact that a majority of the load resulting from these customer classes

1 is non-heating, i.e. cooking, water heating, etc. Since a significant portion  
2 of the load is non-temperature sensitive, the ARIMA or Box-Jenkins  
3 technique is a better approach because its time series model captures  
4 trends present in the predominantly base load weighted demand data.  
5 However, there is still a component of heating load present in the data, and  
6 therefore we included this term as a regressor in the ARIMA model to  
7 strengthen the model. The regressor terms used in the CS classes were  
8 heating degree days and the number of weekends per month. The  
9 Dade/Broward RS class used heating degree days as a regressor.

10 **Q. FOR THE BASE YEAR + 1 AND THE PROJECTED YEAR PERIOD,**  
11 **HOW WAS THE NUMBER OF CUSTOMERS BILLED IN EACH CLASS**  
12 **DEVELOPED?**

13 **A.** The number of customers billed by class for the Base Year + 1 was  
14 developed as follows:

15 - The actual number of customers by class that were billed as of  
16 August 31, 1995 was determined and used as the base starting point upon  
17 which new customer growth was added.

18 - A monthly forecast of new customers (or reduction in customers)  
19 by class was developed in coordination with the Marketing and Engineering  
20 Departments.

21 - A seasonal pattern of changes in the number of inactive and  
22 customers locked for non-payment was developed from historical customer



1 count data.

2 - The aggregate number of customers by class by month was  
3 developed by adding the monthly growth projections and seasonal changes  
4 in customer patterns to the August 1995 starting point.

5 The number of customers by class for the Projected Year period were  
6 developed in the same manner as described above, except that the base  
7 starting point for this period is the number of customers ending September  
8 30, 1996 as forecast in the Base Year + 1 period.

9 Page 1 of each of the exhibits, PJC-1 and PJC-2, presents the  
10 monthly number of customers by class used to develop the normalized  
11 consumption and revenues.

12 **Q. HOW WAS CONSUMPTION DEVELOPED FOR THE HOMOGENEOUS**  
13 **CUSTOMER CLASSES?**

14 **A.** Consumption by class for those classes for which we employed  
15 consumption equations was developed by multiplying the projected number  
16 of customers billed in the class for each month by the usage per customer  
17 for the month. The usage per customer was developed by applying the  
18 consumption equation for the month with an input of normal heating degree  
19 days for that month and multiplying by the number of average meter read  
20 days in the month.

21 **Q. HOW WAS CONSUMPTION DEVELOPED FOR THE REMAINING**  
22 **CLASSES?**

1 A. For classes that were forecast by individual customer (IP, IL, CTS,  
2 ITS, ILT, CI-ILT, CI-TS), the monthly consumption for the class represents  
3 the aggregate of the individual customer forecasts. The forecast by  
4 individual customer was prepared by reviewing historical monthly  
5 consumption data with the Marketing Department and correcting for future  
6 changes in demand resulting from customer expansions and contractions  
7 and one-time, extraordinary events such as re-tooling, strikes and storms.

8 The Gas Lights (GL) consumption was developed by multiplying the  
9 number of gas lights by the rated inputs.

10 For the Natural Gas Vehicle Sales Service (NGVSS) class,  
11 consumption was developed by reviewing historical monthly demand and  
12 adding projected load from new customers.

13 **Q. WERE ADJUSTMENTS MADE TO CONSUMPTION AS A RESULT OF**  
14 **CUSTOMER MIGRATION FROM SALES SERVICE TO TRANSPORTATION**  
15 **SERVICE?**

16 A. Yes. An adjustment was made to the CS consumption forecast as  
17 a result of the migration of several large CS customers to the CTS class  
18 over the past two years. The adjustment was necessitated by the fact that  
19 consumption for several large, former CS customers was included in a  
20 majority of the historical data used in developing the CS consumption  
21 equation. Historical consumption data by customer for the CS class is not  
22 maintained on a long term basis by the Company and therefore demand for

1 those customers opting for CTS could not be removed readily from the data  
2 set. In order to reflect the impact on the average CS usage resulting from  
3 the migration of several large CS customers to CTS, an adjustment was  
4 made to the forecasted monthly consumption. The adjustment represents  
5 the ratio of forecasted CS usage to the sum of forecasted CS and CTS  
6 usage.

7 **Q. WHAT HEATING DEGREE DAY PATTERN WAS APPLIED TO THE**  
8 **CONSUMPTION EQUATIONS?**

9 **A.** To develop a normalized consumption forecast for those classes  
10 where consumption equations were employed, it was necessary to develop  
11 a normal heating degree day pattern for the months of the year. Heating  
12 degree days are the difference between a base temperature of 65°F, the  
13 temperature above which space heating generally is not needed, and the  
14 average temperature for a day when the average is below 65°F. Heating  
15 degree days are simply a measure of weather change that influences gas  
16 consumption.

17 The heating degree day pattern that was employed is presented in  
18 Exhibit No. \_\_\_ (PJC-1). It is based on 10 years of daily weather data (July  
19 1, 1985 through June 30, 1995) as measured by the National Oceanic and  
20 Atmospheric Administration (NOAA) for Miami International Airport and  
21 Daytona Beach Airport. This weather distribution is then adjusted for the  
22 Company's meter read schedule.

1 Q. HOW WERE REVENUES FOR THE BASE YEAR + 1 AND THE  
2 PROJECTED YEAR PERIODS DEVELOPED?

3 A. The revenues shown on Schedule G-2 were developed by applying  
4 the forecast, normalized consumption and number of customers billed by  
5 class for the Base Year + 1 and the Projected Year periods to a model of  
6 the existing rate structure of the Company's tariff.

7 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

8 A. Yes, it does.

**HEATING DEGREE DAY PATTERN**

10 Year Average - July 1, 1985 through June 30, 1995

	<u>Daytona Airport</u>		<u>Miami International Airport</u>	
	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1996</u>	<u>FY 1997</u>
October	-	-	1	1
November	1	1	28	28
December	11	11	116	116
January	35	35	209	209
February	31	31	227	228
March	17	17	130	127
April	6	7	40	41
May	-	-	40	41
June	-	-	-	-
July	-	-	-	-
August	-	-	-	-
September	-	-	-	-

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
DIRECT TESTIMONY AND EXHIBITS  
OF RICHARD WALL  
ON BEHALF OF CITY GAS COMPANY OF FLORIDA  
DOCKET NO. 960502-GU

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Richard Wall. My business address is 955 East 25th Street, Hialeah, Florida 33013-3498.

Q. IN WHAT CAPACITY ARE YOU EMPLOYED BY CITY GAS COMPANY OF FLORIDA?

A. I am Vice President of Operations.

Q. PLEASE DESCRIBE YOUR QUALIFICATIONS AND WORK EXPERIENCE.

A. I began working for City Gas in 1979. Since that time I have been employed in various capacities, including the installation and service of gas equipment and systems, and the inspection of installations of gas and distribution lines. I have also held the positions of Measurement Superintendent; General Manager of Operations; Assistant Vice President and General Manager of Operations. In 1989 I assumed my present position of Vice President of Operations.

My education in the natural gas business includes specialized courses in areas such as Distribution, Regulation, Corrosion Control, Natural Gas Distribution Systems, and Measurement & Engineering conducted by the

1 Institute of Gas Technology, the Southern Natural Gas Association, the  
2 American Gas Association and other professional industry groups. I hold  
3 master gas fitter licenses in Dade and Broward Counties and I formerly sat  
4 on the Licensing and Examination Board of Dade County.

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. I am sponsoring certain MFR schedules and the Company's capital  
7 budget. I will explain why the portion of the Company's investment in Port  
8 St. Lucie that was excluded from rate base in 1994 should be included  
9 now, and I will describe continuing activities to further develop the  
10 Company's franchise in that city. Finally, I will address the Company's  
11 plans to expand and increase the reliability of its system, focusing on Port  
12 St. Lucie, the acquisition of the Homestead Pipeline Lateral, the Brevard  
13 County Division system improvement project and opportunities in the Vero  
14 Beach area.

15 **Q. DO YOU HAVE ANY EXHIBITS TO YOUR TESTIMONY?**

16 A. Yes. Exhibit No. \_\_\_\_ (RW-1) is the list of MFR schedules I am  
17 sponsoring. Exhibit No. \_\_\_\_ (RW-2) shows the components of the St. Lucie  
18 system which were included and those that were excluded from rate base  
19 in the last case. Exhibit No. \_\_\_\_ (RW-3) is a map that locates the  
20 components of the Port St. Lucie system that were treated as property held  
21 for future use in the last rate case. Exhibit No. \_\_\_\_ (RW-4) is a map  
22 showing the Port St. Lucie system, including planned additions through the

1 test year. Exhibit No. \_\_\_\_\_ (RW-5) is a map of the Brevard County  
2 Expansion.

3 Q. TURNING TO THE SUBJECT OF PORT ST. LUCIE, PLEASE DESCRIBE  
4 THE COMPANY'S ACTIVITIES UP TO THE TIME OF THE LAST RATE CASE.

5 A. In 1992, City Gas applied for and received from the City of Port St.  
6 Lucie a franchise to provide natural gas distribution service within the City.  
7 Soon after we began construction of the first portion of the infrastructure  
8 needed to serve the City, a territorial dispute arose between City Gas and  
9 the Ft. Pierce Utilities Authority. Ultimately, the parties resolved the  
10 dispute, and a territorial agreement awarding the right to serve the City of  
11 Port St. Lucie to City Gas was approved by the Commission.

12 The beginning phase of our activities in the Port St. Lucie area  
13 consisted of the design of a comprehensive system configuration that  
14 would, when completed, provide looped, reliable natural gas distribution  
15 service. To commence the implementation of that design configuration, we  
16 placed the components of the basic infrastructure in place prior to the filing  
17 of our last rate case. (These components are identified on Exhibit No. \_\_\_\_  
18 (RW-2) and depicted on Exhibit No. \_\_\_\_ (RW-4), which has been coded to  
19 distinguish between facilities in place at the time of the last rate case, and  
20 those that have been added since.)

21 First, we constructed a gate station at the intersection of Prima Vista  
22 and I-95. From that point, we installed a main westward to the Western



1 Energy Development (now St. Lucie West area). Again starting from the  
2 gate station, we proceeded eastward with a main to U.S. Highway 1,  
3 crossing the North Fork of the St. Lucie River in the process. As a result  
4 of the territorial agreement with Ft. Pierce, we purchased Ft. Pierce Utilities  
5 Authority's distribution system running northward on U.S. 1 to Midway  
6 Boulevard (the boundary of the territorial agreement). We extended our  
7 system southward along U.S. 1 to St. Lucie Boulevard. Finally, we seized  
8 the opportunity to install a main along St. Lucie Boulevard before it  
9 vanished with the commencement of a major highway widening project  
10 there.

11 **Q. WHAT WAS CITY GAS' TOTAL INVESTMENT IN PORT ST. LUCIE**  
12 **INFRASTRUCTURE AT THE TIME OF ITS LAST RATE CASE?**

13 **A.** The total investment was \$4,182,205.

14 **Q. WHAT AMOUNT DID THE COMMISSION AUTHORIZE CITY GAS TO**  
15 **PLACE IN RATE BASE?**

16 **A.** The Commission authorized \$2,280,826. (This figure adjusts the  
17 amount stated in City Gas' last rate case order to account for the  
18 differences between projected and actual numbers.)

19 **Q. WHICH COMPONENTS OF THE COMPANY'S INVESTMENT IN PORT**  
20 **ST. LUCIE INFRASTRUCTURE WERE INCLUDED IN RATE BASE IN THE**  
21 **COMPANY'S LAST RATE CASE, AND ON WHAT BASIS?**

22 **A.** The amount included in rate base in the last case represents an

1 agreement reached between Staff and the Company for settlement  
2 purposes that was approved by the Commission. The rate base figure  
3 includes the essential gate station. It also includes the main that the  
4 Company placed along St. Lucie Boulevard, and a river crossing that the  
5 Company coordinated with the Department of Transportation to incorporate  
6 in the Department's plans (at a considerable savings to customers) when  
7 it was designing a new bridge. In addition to these discrete components,  
8 the included amount reflects the portion of the investment in the new  
9 distribution network that would correspond to four times the expected  
10 annual revenues associated with the customers that were connected at the  
11 time. This factor was based upon the guidelines contained in the tariff  
12 governing the maximum "free" extension an individual new customer could  
13 receive that was then in effect. At the time, because the Company was in  
14 the early stages of developing the franchise, the approach resulted in a  
15 figure that was substantially less than the total amount of the Company's  
16 investment.

17 **Q. WHAT AMOUNT WAS EXCLUDED FROM RATE BASE ON THIS**  
18 **BASIS, AND WHICH PORTIONS OF THE FACILITIES DOES THE EXCLUDED**  
19 **AMOUNT REPRESENT?**

20 **A.** In the last case \$2,112,808 of the investment in Port St. Lucie  
21 infrastructure was excluded from rate base. This amount reflects the cost  
22 to install the eight-inch distribution main from Prima Vista Boulevard east

1 to the St. Lucie River; the continuation of this eight-inch main from the river  
2 east to U.S. 1; the six-inch main from U.S. 1 south to Village Green; the  
3 six-inch Village Green main; the eight-inch main from Prima Vista west to  
4 the Western Energy system; the large diameter mains built in the original  
5 Western Energy subdivision, that were sized to have the capacity to serve  
6 more areas; and certain general work order mains. Because the formula of  
7 the extension of facilities tariff did not "cover" them, these facilities were  
8 categorized as Plant Held for Future Use, and as such did not receive rate  
9 base treatment.

10 Q. DO YOU AGREE THAT THE FORMULA OF THE EXTENSION OF  
11 FACILITIES TARIFF IS AN APPROPRIATE MEASUREMENT OF THE  
12 PORTION OF INVESTMENT IN PORT ST. LUCIE THAT SHOULD BE  
13 INCLUDED IN RATE BASE?

14 A. No. The stipulation in the last case was for purposes of settlement.  
15 For reasons I will describe, I do not believe the extension of facilities tariff  
16 is necessarily the most meaningful way to gauge a new, start-up situation.

17 Q. PLEASE EXPLAIN WHY THE EXTENSION OF FACILITIES TARIFF  
18 MAY NOT BE A MEANINGFUL TOOL WITH WHICH TO GAUGE  
19 INVESTMENT IN A NEW SERVICE AREA.

20 A. The extension of facilities tariff is generally designed to determine the  
21 amount the Company can spend on new facilities to reach a new customer  
22 from an existing facility before the customer must pay a contribution in aid

1 of construction. This scenario differs from a start-up situation in previously  
2 unserved territory. When a natural gas distributor initiates service to an  
3 unserved community, a substantial investment in infrastructure is necessary  
4 before the first customer can be connected. As was the case in Port St.  
5 Lucie, there will be occasions when the utility will not be able to  
6 immediately demonstrate sufficient revenues to meet the same feasibility  
7 requirements that the tariff places on proposed extensions of existing  
8 systems to individual new customers. In other words, before the  
9 application of the extension of facilities tariff makes sense, there will be  
10 times when there must first be some facilities to extend. I am not saying  
11 that the utility should lay pipe without an adequate analysis, or that the  
12 Commission should be unconcerned about the economics of investments  
13 in new areas. A sensible balance has to be found. Otherwise, as Mr.  
14 Motley says, a natural gas utility will have little incentive to introduce  
15 service to a new area. This is because the utility would have to invest a  
16 significant amount of capital dollars early, with the expectation of receiving  
17 little or no return on that investment until the new area has been fully  
18 developed. However, for this case the important point is that  
19 circumstances are changing in Port St. Lucie, in a way that bears on the  
20 issue of the investment treated as Plant Held for Future Use in the last  
21 case.

22 Q. HOW ARE CIRCUMSTANCES CHANGING IN THE PORT ST. LUCIE?

1 A. As Carl Smith will develop in his testimony in more detail, we have  
2 added and will be adding more customers to the system. Accordingly, test  
3 year throughput will be higher, and associated revenues greater, than  
4 projected at the time of the last rate case. Significantly, as I will discuss  
5 in greater detail, the growth is sufficient to justify, on the basis of economic  
6 feasibility, the construction of additional facilities in Port St. Lucie.

7 Q. HOW DOES THE COMPANY PLAN TO CONTINUE THE  
8 DEVELOPMENT IN PORT ST. LUCIE?

9 A. We have several near-term objectives. One priority is to activate the  
10 main along St. Lucie Boulevard, which we had to construct in 1994 in order  
11 to coordinate our facility construction with the major road-widening project  
12 and which presently carries no gas, into a revenue-producing segment of  
13 the system. We intend to expand the distribution system south to reach  
14 the Treasure Coast Mall located at the intersection of U.S. Highway 1 and  
15 Jensen Beach Boulevard and serve customers along this route. We intend  
16 to develop customers in the Club MED area, a development of residential  
17 and commercial units. The existing mains in the St. Lucie West area  
18 (originally Western Energy) give us access to hotels and other potential  
19 residential and commercial accounts in the vicinity of the Professional Golf  
20 Association's major new development. All in all, the pace of development  
21 in the Port St. Lucie area is quickening. Carl Smith, Vice President of  
22 Marketing for NUI, will provide further information regarding the market

1 potential there.

2 Q. SPECIFICALLY, WHAT PLANS DOES CITY GAS HAVE TO CONTINUE  
3 THE DEVELOPMENT OF DISTRIBUTION FACILITIES IN PORT ST. LUCIE IN  
4 ORDER TO ACHIEVE THE OBJECTIVES YOU HAVE DESCRIBED?

5 A. We have evaluated several scenarios. The most advantageous  
6 approach is to extend a main along Bay Shore Boulevard, and connect it to  
7 existing facilities at St. Lucie Boulevard. This planned extension is shown  
8 on Exhibit No. \_\_\_\_ (RW-4). This route would present us with new  
9 opportunities in residential and commercial areas, including the commercial  
10 zone along the Florida Turnpike corridor. The project would also enable us  
11 to realize the reliability benefits of a looped configuration, assuring  
12 continuous service to the hospital, and other commercial and residential  
13 customers along this area of the system.

14 Q. HOW DO THESE DEVELOPMENTS RELATE TO THE FACILITIES  
15 THAT WERE CLASSIFIED AS PLANT HELD FOR FUTURE USE IN THE LAST  
16 CASE?

17 A. Serving the particular growth that is described in Carl Smith's  
18 testimony and mine requires increased utilization of the mains that were  
19 placed in Plant Held for Future Use in the last case. The outstanding  
20 example of this consists of the mains in the former Western Energy  
21 development, which was regarded by Staff as something of an underserved  
22 enclave at the time of the last rate case. As a result of development, these

1 mains now function as a distribution path enabling us to reach and serve  
2 other connected growth areas in the vicinity, such as Lake Charles (Phases  
3 I, II, III), Kings Isles, and Westbrooke Isles. See Exhibit No. \_\_\_\_ (RW-4).  
4 Thus, these "Western Energy" mains, which were only partially permitted  
5 in rate base in the last rate case, have proven to be a valuable investment;  
6 one that now has increased in functionality and is needed to serve this new  
7 and growing area.

8 Similarly, the eight-inch main that runs east from Prima Vista to the  
9 river enables us to serve a growing commercial area along U.S. 1 from  
10 Prima Vista to St. Lucie Boulevard. The same main is now interconnected  
11 with the facility we acquired from Ft. Pierce.

12 The six-inch main that follows U.S. 1 south to Village Green serves  
13 a growing number of commercial customers along the U.S. 1 corridor,  
14 which is blossoming. Among other things, the U.S. 1 main will enable us  
15 to reach and add new commercial customers, and serve the Treasure Coast  
16 Mall.

17 The six-inch Village Green main loops away from U.S. 1 to enable us  
18 to serve a hospital and other medical facilities before returning to U.S. 1.

19 The eight-inch main that runs west from Prima Vista Boulevard under  
20 the Florida Turnpike is the main that provides access to the former Western  
21 Energy development. Now, it also enables the Company to reach through  
22 the former Western Energy development to the growing developments west

1 of that subdivision.

2 The increased functionality and value of all of these portions of the  
3 original infrastructure should be recognized by placing them in rate base.

4 **Q. WHAT IS THE PROPOSED LEVEL OF CONSTRUCTION SPENDING**  
5 **THROUGH THE PROJECTED TEST YEAR IN PORT ST. LUCIE?**

6 A. The amount of additional construction spending related to Port St.  
7 Lucie through the projected test year is \$1.3 million. I want to stress that  
8 the construction of these facilities meets City Gas' rigorous criteria of  
9 economic feasibility, including the net present value test that Rand Smith  
10 describes and to which Lyle Motley alludes in testimony. For that reason  
11 alone, all of this incremental investment should be placed in rate base.  
12 Moreover, the Company believes this fact further justifies including the  
13 amount that was excluded from rate base in the last case.

14 **Q. PLEASE EXPLAIN.**

15 A. I have already described the additional functionality the "excluded"  
16 mains now provide. The growth we predicted would occur is materializing  
17 to the extent that we have been able to justify adding more facilities on the  
18 basis of demonstrated economic feasibility. I believe this fact presents  
19 even stronger support for the Company's position. It is evidence that the  
20 Company made a good decision when it began to develop the franchise in  
21 1992, and therefore supports the conclusion that the amount placed in  
22 Property Held for Future Use in the last case belongs in rate base now.



1 Homestead Lateral

2 Q. PLEASE DESCRIBE THE PLANNED HOMESTEAD LATERAL  
3 EXPANSION.

4 A. This expansion, which will add 100 square miles of new service  
5 territory at the southern end of our distribution system, will begin with the  
6 acquisition of a 16-mile pipeline lateral that is, at the time this testimony is  
7 being prepared, part of Florida Gas Transmission's interstate pipeline  
8 system. City Gas has contracted to purchase it once regulatory  
9 requirements have been met. The lateral, which we are purchasing for  
10 \$450,000, follows the U.S. 1 Highway corridor in southern Dade County.  
11 It will provide excellent opportunities for commercial and industrial growth,  
12 as well as opportunities for expansion in unincorporated residential areas of  
13 the County and in the City of Homestead. Our analysis shows the  
14 acquisition and development will meet criteria of economic feasibility. Carl  
15 Smith will elaborate.

16 Q. ARE THERE ANY ADDITIONAL CONSIDERATIONS UNDERLYING THE  
17 PURCHASE OF THE HOMESTEAD LATERAL?

18 A. Yes. The purchase is fully justified by the opportunities to add  
19 customers and increase throughput that we have identified. In addition, we  
20 will be providing a foundation on which the area that bore the brunt of  
21 Hurricane Andrew can build industrial and commercial growth.

22 Brevard System Improvement Project

1 Q. PLEASE DESCRIBE THE BREVARD COUNTY PROJECT.

2 A. In the last rate case I described how the construction of a main to  
3 serve Kennedy Space Center presented the opportunity to cost-effectively  
4 loop the Brevard County system, achieving needed reliability improvements  
5 while simultaneously reaching new markets. The project was defined in  
6 three phases. Phase I, the extension to the Space Center, was completed  
7 in July 1994. Phase II involves extending that main through Canaveral Air  
8 Force Base and into the Port Canaveral area. In the part of the program  
9 originally identified as Phase III, the Company will build a main from  
10 Kennedy Space Center southward through Merritt Island, interconnecting  
11 with the existing system at just north of the Barge Canal at S.R. 3 and  
12 Highway 528. The project is shown on Exhibit No. \_\_\_ (RW-5).

13 Q. HOW HAS THE PROJECT CHANGED SINCE THE LAST RATE CASE?

14 A. The plan to accomplish all three phases has not changed. The  
15 construction schedule has been modified somewhat, as has been the  
16 planned sequence of construction. Also, we have taken steps that will  
17 result in smaller, but more immediate, improvements in reliability while the  
18 larger project is being planned and constructed.

19 Q. WHAT ARE THE INTERIM IMPROVEMENTS TO WHICH YOU REFER?

20 A. At various points in the Brevard system, we have upgraded pipe  
21 sizes, removed restrictions, replaced old construction practices and  
22 materials with those of modern and more efficient design, and (on a much

1 smaller scale, of course), added system interconnections and system loops.  
2 While the large project is still needed, all of these smaller measures will  
3 contribute to the reliability of the system.

4 **Q. PLEASE EXPLAIN WHAT YOU MEANT WHEN YOU SAID THE**  
5 **SEQUENCE OF PLANNED CONSTRUCTION HAS BEEN MODIFIED.**

6 **A.** Whereas we originally planned to build Phase II before Phase III, we  
7 now regard Phase III as having the greater priority because it will provide  
8 greater reliability benefits and will be more cost-effective. We plan to  
9 construct Phase III beginning in late 1997. We have budgeted \$2 million  
10 for the project. Phase II, which we view as relating more to new service  
11 than to reliability, will follow once opportunities to add customers along the  
12 path of Phase II is sufficient to render Phase II economically feasible.

13 Vero Beach

14 **Q. DESCRIBE THE COMPANY'S ACTIVITIES IN VERO BEACH.**

15 **A.** The area of Vero Beach is one that has excellent growth potential  
16 and represents an exciting new area for expansion.

17 As a result of the recent settlement of a territorial dispute with South  
18 Florida Natural Gas, approved by the Commission on May 21, 1996, City  
19 Gas will be acquiring a four-inch lateral. The acquisition of this lateral will  
20 enable the Company to serve Indian River County and the City of Vero  
21 Beach (which the Company acquired a franchise to serve in November  
22 1995). Additionally, the Company has applied to the FERC for a delivery

1 point to be located on Oslow Road. This will enable City Gas to serve a  
2 proposed industrial park, a prison and several major citrus packing  
3 operations, and other opportunities as they develop.

4 **Q. WHAT OTHER BENEFITS WILL THE VERO BEACH EXPANSION**  
5 **CONFER?**

6 A. With the Vero Beach expansion, City Gas will have three  
7 geographically contiguous service territories (Brevard, Port St. Lucie, Vero  
8 Beach). Ultimately, City Gas intends to physically interconnect all three of  
9 them.

10 **Q. HAS CITY GAS PREPARED A CAPITAL SPENDING BUDGET THAT**  
11 **REFLECTS THE PROJECTS YOU HAVE DESCRIBED?**

12 A. Yes. In fiscal year 1996, the Company intends to spend  
13 \$8,304,823. In the test year, we project capital expenditures of  
14 \$10,579,605. MFR Schedule G1, pages 23 and 26, respectively, provides  
15 a detail of these amounts.

16 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

17 A. Yes.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of City Gas Company )  
of Florida for an Increase in its )  
Rates and Charges. )  
\_\_\_\_\_ )

Docket No. 960502-GU

Filed: June 18, 1996

PETITION OF CITY GAS COMPANY OF FLORIDA

City Gas Company of Florida ("City Gas" or the "Company"), the Florida operating system of the Southern division of NUI Corporation ("NUI"), files this, its Petition for an increase in rates, pursuant to Sections 366.06 and 366.071, Florida Statutes (1995).

Background

1. City Gas was incorporated under the laws of Florida in 1949. Its headquarters are located at 955 East 25th Street, Hialeah, Florida 33013-3498. City Gas began its operations as a distributor of liquid petroleum gas ("LPG") through underground pipelines in Florida. In 1960, City Gas began to purchase natural gas for distribution and thus became regulated by the Florida Public Service Commission.
2. In 1988, City Gas was acquired by NUI. City Gas became a division of

Elizabethtown Gas Company, which was then a subsidiary of NUI.

3. When NUI merged with Pennsylvania and Southern Gas Company (a natural gas distribution company with service areas in four states), it also merged with its subsidiary, Elizabethtown. NUI is now a single entity with two operating divisions conducting business in six states. City Gas is part of the Southern operating division of NUI. The principal offices of NUI, a New Jersey corporation, are located at 550 Route 202-206, Bedminster, New Jersey.

4. City Gas currently serves nearly 100,000 customers in parts of Dade, Broward, Brevard and St. Lucie Counties, Florida. The Company intends to initiate service to customers in Indian River County in 1996.

5. By this Petition, City Gas seeks the determination of a fair and reasonable rate of return, the approval of interim rates, the approval of proposed new and revised rate schedules, and a permanent increase in its rates and charges.

6. Order No. PSC-94-1570-FOF-GU issued December 19, 1994, in Docket No. 940276-GU, is the most recent Commission order addressing the Company's rates and charges. In that docket, the Commission found that the Company's cost of equity capital was 11.3%, and that the fair and reasonable rate of return for City Gas was 7.26%.

7. The test period for this proceeding is the projected 12-month period ending September 30, 1997.

Request for Permanent Rate Relief

8. Section 366.06, Florida Statutes (1995), is sometimes referred to as the

"file and suspend law." The Florida Supreme Court has said that the file and suspend law was "expressly designed to reduce so-called 'regulatory lag' inherent in full rate proceedings." Citizens v. Mayo, 333 So.2d 1, 4 (Fla. 1976). The purpose of this statute was accomplished, the Court said, by providing: "a series of alternatives for the Commission whenever, in conjunction with the general rate increase request for which a full rate proceeding is required, a utility seeks immediate financial relief." Id.

9. Under Section 366.06, Florida Statutes, if the Commission takes no action within 60 days to suspend the operation of the Company's proposed rates, they will go into effect on a permanent basis, without bond. If the Commission suspends all or a portion of the proposed rates, the suspension would continue day-to-day pending a final decision.

10. In 1993, the Florida Legislature enacted Section 366.06(4), Florida Statutes. This statute authorizes natural gas utilities subject to the Commission's ratemaking jurisdiction to elect to have their petitions for approval of modifications to base rates processed under the Commission's procedures governing Proposed Agency Action. Under Section 366.06(4), if the Commission fails to issue an Order on Proposed Agency Action (PAA) within 5 months of the filing, the petitioning utility is entitled to place the proposed rates in effect under bond or corporate undertaking. If the PAA is contested, the Commission must conduct appropriate proceedings and enter its final order within eight months of the date the protest is filed. Pursuant to Section 366.06(4), Florida Statutes, City Gas hereby elects to proceed under the rules governing Proposed Agency Action.

Reasons for Base Rate Increase:

11. Since the entry of Order No. PSC-94-1570-FOF-GU, City Gas has taken stringent measures to control its costs. City Gas has reduced its total number of employees by a greater number than the reduction projected by the Company in Docket No. 940276-GU. The Company has established a Strategic Planning Committee, consisting of the Vice President - Finance, the Vice President - Marketing, and the Vice President - Operations, the purpose of which is to ensure that each proposed new connection passes a rigorous analysis of economic feasibility. The Company has implemented a new accounting system, designed to establish Responsibility Centers and impose strict accountability on specific managers for all expenditures emanating from a particular center. The Company has also implemented formal bidding procedures to reduce the costs of goods and services obtained from outside the Company.

12. Despite these and other measures, the rates established in Docket No. 940276-GU have not generated sufficient revenues to provide City Gas with the opportunity to earn a fair return. For fiscal year 1995, City Gas' earned rate of return was only 5.49%. The Company projects that, absent rate relief, the earned return will continue to be inadequate.

13. Other factors contribute to the necessity for an increase in base rates. As the Commission is aware, the nature of the local distribution companies' business has undergone a fundamental, radical transformation in a short period of time. From the time when City Gas bought gas from a single interstate monopoly provider at



tariffed rates and sold it locally as a monopoly provider to an exclusive customer base, federal initiatives have rapidly thrust the Company into a complex and competitive market -- one which requires markedly increased levels of sophistication and expertise of any participant who wants to function, much less flourish, in the new era. City Gas is going through a critical transition period. It is building the "managerial infrastructure" that will be necessary to enable the Company to meet the challenges of, and thrive in, the new business environment. In some instances, this means adding personnel having expertise in areas -- human resources and regulatory affairs, for instance -- in which the Company previously had no dedicated positions of responsibility. In others -- marketing, for example -- it means enlarging and strategically refocusing earlier activities. A primary way in which City Gas is acquiring the requisite degree of talent and sophistication is through the increased utilization of numerous services, including accounting, gas purchasing, data processing and risk management, to name a few, provided by NUI corporate headquarters to its operations in all jurisdictions on a centralized basis. By centralizing these functions, NUI can realize economies of scale and can field a depth and breadth of talent and expertise that individual component operations, such as City Gas, could not afford on a stand-alone basis. The fair and reasonable allocation of the cost of these common corporate services to City Gas constitutes a prudent and legitimate component of the Company's jurisdictional cost of service.

14. Ratepayers will benefit from the measures designed to build City Gas' management infrastructure. As stated earlier, City Gas now faces a significant level

of competition. City Gas expects the competition to increase. The increasingly competitive market will necessarily place pressure on the magnitude of the margins that the Company will be able to achieve on individual transactions. In this environment, to minimize the need for future base rate increases, it will become critically important for the Company to overcome the effect of narrower margins by selling and/or transporting greater volumes of natural gas. The measures designed to enhance City Gas' management skills and tools are crucial aspects of its efforts to increase system throughput.

15. In addition to enabling it to adapt successfully to the competitive market, City Gas Company's attempts to increase throughput will also advance a significant Commission policy objective. As City Gas competes successfully, natural gas will become available to greater numbers of Florida residents and businesses. The capital expenditures set forth in the accompanying Minimum Filing Requirements reflect initiatives of the Company to develop significant new markets.

16. In its last rate case, the Company described its initial efforts to place infrastructure to serve its new franchise in the City of Port St. Lucie. The Company invested \$4,402,350 in facilities and infrastructure to commence service to the area. For purposes of settlement, in its last case the Company accepted adjustments to rate base calculated using the criteria of its extension of facilities tariff, with the proviso that the \$2,112,808 that was excluded from rate base on that basis would be revisited as circumstances warranted. The level of development and growth in the City, which was nascent at the time of the last base rate proceeding, has begun to

increase. As a result, the Company's total investment in City of Port St. Lucie infrastructure will have increased during the test period. All decisions to place additional infrastructure in the City of Port St. Lucie since the entry of Order No. PSC-94-1570-FOF-GU have been subjected to stringent tests of economic viability. Significantly, the components of the system that were classified as property held for future use in the last rate proceeding -- which were essential to enable the Company to reach and serve these new and growing markets -- will themselves experience greater functionality and value during the test period. The pace and degree of planned development do more than simply justify individual mains or other specific facilities; they validate the Company's decision to introduce natural gas service to this formerly unserved area. All of the Company's investment in facilities and infrastructure in the City of Port St. Lucie, including the amount excluded from rate base in the last case, should be placed in rate base in this proceeding.

17. City Gas has identified additional new markets in Indian River County, which involve the development of a franchise granted by the City of Vero Beach; along the path of the 16-mile Homestead pipeline lateral that the Company is in the process of acquiring from Florida Gas Transmission; and in burgeoning new areas of its existing Brevard Division. In all cases, City Gas is bringing to bear a disciplined emphasis upon demonstrated feasibility and cost control, as well as enhanced marketing techniques called for by the competitive business environment. In addition to good management, such ventures require financial viability. The instant base rate proceeding is intended to provide City Gas with the financial strength required to

improve and maintain a high quality of service and extend that service to new areas.

18. Under present rates and charges, the Company does not have an opportunity to earn a fair rate of return on its property used and useful in serving the public. The Company's projected 1997 average rate base, adjusted for known changes, totals \$94,432,747. Under existing rates, the Company's projected 1997 adjusted net operating income is \$4,515,834. The Company calculates that, unless relief is granted, its present rates and charges would permit the Company an opportunity to earn an adjusted rate of return of only 4.78% in 1997. A fair and reasonable rate of return for the Company is at least 8.25%, based on the Company's projected 1997 adjusted average capital structure and a fair and reasonable return on equity capital of 11.9%.

19. In order to afford City Gas an opportunity to earn a fair rate of return for the period when the rates will be effective, the Company is entitled to receive additional annual revenues of \$5,283,344. This increase should afford the Company an opportunity to earn a fair and reasonable rate of return of 8.25%.

20. Simultaneous with the filing of this petition, City Gas is filing Minimum Filing Requirements ("MFRs") and proposed rate schedules as required by Commission Rule No. 25-7.039, Florida Administrative Code. These MFRs are included in Exhibit 1 filed herewith and are incorporated herein by reference.

21. To the Company's knowledge, this Petition is the first base rate request of a natural gas utility to be processed under procedures governing Proposed Agency Action, as authorized by Section 366.06(4), Florida Statutes (1995). In other

contexts, when the Commission proceeds to issue an order on Proposed Agency Action, parties typically do not file testimony unless and until the PAA order is protested and the issues arising from the protest have been set for hearing. Given the relatively more complex subject of the Company's request for an increase in base rates -- and in an effort to facilitate the Commission's review of its Petition -- City Gas is submitting with this Petition the prefiled testimony of seven witnesses in support of its Petition. However, by the inclusion of prefiled testimony at this point, the Company does not imply that it believes a protest and hearing necessarily will be involved in the disposition of the Petition. In addition, the Company does not waive - in fact, specifically reserves -- its right to submit additional testimony following the issuance of the PAA order addressing any and all issues that may be identified in any protest of the PAA order, including a protest (if applicable) by the Company.

#### Interim Rate Request

22. Basic concepts of fairness and substantial justice require that City Gas be allowed to collect, subject to corporate undertaking and subject to refund, interim rates until a final order is entered in this proceeding and new permanent rates become effective.

23. City Gas has calculated interim relief based on its fiscal year ending September 30, 1995. MFR Schedule F-7, entitled "Calculation of Interim Rate Relief - Revenue Deficiency, " shows an annual gross revenue deficiency of \$2,312,853, calculated under the interim rate procedure specified in Section 366.071, Florida Statutes. The Company has calculated its 13-month average rate base to be

\$85,689,571. The rate base calculation has been made on a basis consistent with the final order issued in the Company's last full revenue requirements case. This calculation of rate base, when compared with the adjusted earnings of \$4,864,567 (adjusted to recognize the annualized impact of rates established in Docket No. 940276-GU), produces an earned rate of return of only 5.68%, as compared with the 7.35% cost of capital for interim rate purposes, computed under methods established in the Company's last full revenue requirements case. This deficiency leaves an annual gross revenue shortfall of \$2,312,853.

24. Schedules of proposed interim rates and charges are included in the MFRs on Schedule F-10. In the event the Commission suspends the proposed permanent rates, the Company requests that the Commission authorize the interim rate schedules to be placed into effect pursuant to Sections 366.06(4) and 366.071, Florida Statutes, pending the final order in this docket.

25. City Gas hereby undertakes to keep accurate account and detail of all amounts received by reason of placing into effect interim rates subject to refund, and to refund, with interest at a fair rate to be determined by the Commission, any portion of the interim award that the Commission, in its final order, shall find not to be justified.

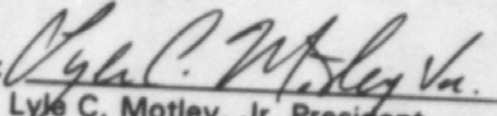
WHEREFORE, City Gas Company of Florida requests that the Commission:

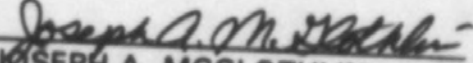
- (1) Either take no action and allow the proposed new rates on MFR Schedule E-2 to be placed into effect on a permanent basis; or consent to placing

- the proposed interim rates attached hereto on MFR Schedule F-10 into effect, subject to refund, thus allowing an interim increase of \$2,312,853 in operating revenues on an annual basis pending final order.
- (2) After review, enter its Order on Proposed Agency Action finding that the fair and reasonable rate of return for City Gas should be 8.25%, to be applied to the Company's average rate base of \$94,432,747 for the year ended September 30, 1997, to derive additional gross revenue requirements of \$5,283,344, and finding that the proposed rates attached hereto should become effective on a permanent basis.
  - (3) Grant to the Company such other and further relief as the Commission may find reasonable and proper.

NUI CORPORATION  
SOUTHERN DIVISION

By:

  
Lyle C. Motley, Jr. President  
NUI Corporation, Southern Division

  
JOSEPH A. MCGLOTHLIN  
McWhirter, Reeves, McGlothlin  
Davidson, Rief & Bakas  
117 S. Gadsden Street  
Tallahassee, FL 32301  
(904) 222-2525

Attorneys for City Gas  
Company of Florida



AFFIDAVIT

STATE OF FLORIDA

COUNTY OF DADE

Before me, the undersigned authority, personally appeared Lyle C. Motley, Jr. who being by me first duly sworn, says that he is President of NUI Corporation's Southern Division, is duly qualified and that he executed the foregoing Petition in such capacity, and that he is authorized to execute the Petition and to make this oath thereto; that he is acquainted with the matters and facts stated in the Petition, and they are true to the best of his knowledge and belief; and that, insofar as they are derived from or dependent upon the knowledge of others, he verily believes them to be true.

Lyle C. Motley, Jr.

Sworn to and subscribed before me this 15<sup>th</sup> day of June, 1996, by Lyle C. Motley, Jr. who is personally known to me or who ~~has produced~~ \_\_\_\_\_ as identification, at Hialeah, Dade County, Florida.



Rachel E. Turner  
MY COMMISSION # CC540886 EXPIRES  
April 28, 2000  
BONDED THRU TROY FAIR INSURANCE, INC.

Rachel E. Turner  
Notary Public

Rachel E. Turner  
Type or Print Name

My Commission Expires: 4/28/2000

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Petition and Minimum Filing Requirements have been furnished by hand delivery to the Division of Legal Services, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850 and to Jack Shreve, Public Counsel, 111 W. Madison Street, Suite 812, Tallahassee, Florida 32399-1400, and copies of the foregoing Petition have been furnished by U.S. mail to each of the following Chief Executive Officers of the governing bodies of the municipalities and counties within the service area affected this 18th day of June, 1996.

Chief Executive Officer  
Town of Medley  
Town Hall  
7331 NW 74 Street  
Medley, FL 33166

Chief Executive Officer  
City of North Miami  
776 NE 125 Street  
North Miami, FL 33161

Chief Executive Officer  
City of Miami Springs  
201 Westward Drive  
Miami Springs, FL 33166

Chief Executive Officer  
City of South Miami  
6130 Sunset Drive  
South Miami, FL 33143

Chief Executive Officer  
City of Opa Locka  
777 Sharazad Blvd.  
Opa Locka, FL 33054

Chief Executive Officer  
City of West Miami  
901 SW 62 Avenue  
Miami, FL 33144

Chief Executive Officer  
Village of Virginia Gardens  
6498 NW 38 Terrace  
Virginia Gardens, FL 33166

Chief Executive Officer  
City of North Miami Beach  
17011 NE 19 Avenue  
North Miami Beach, FL 33152

Chief Executive Officer  
City of Coral Gables  
405 Biltmore Way  
Coral Gables, FL 33134

Chief Executive Officer  
City of Hialeah  
501 Palm Avenue  
Hialeah, FL 33010

Chief Executive Officer  
Town of Hialeah Gardens  
1001 N.W. 87 Avenue  
Hialeah, FL 33016

Chief Executive Officer  
City of Miami  
300 Biscayne Blvd. Way  
Suite 210  
Miami, FL 33131

Chief Executive Officer  
City of Cape Canaveral  
Post Office Box 326  
Cape Canaveral, FL 32920

Chief Executive Officer  
City of Cocoa Beach  
Post Office Box 322430  
Cocoa Beach, FL 32932-2430

Chief Executive Officer  
City of Indian Harbour Beach  
2055 South Patrick Drive  
Indian Harbour Beach, FL 32937

Chief Executive Officer  
Town of Melbourne Beach  
507 Ocean Avenue  
Melbourne Beach, FL 32951

Chief Executive Officer  
City of West Melbourne  
2285 Minton Road  
West Melbourne, FL 32904-4928

Chief Executive Officer  
City of Palm Bay  
120 Malabar Rd. SE  
Palm Bay, FL 32907

Chief Executive Officer  
City of Satellite Beach  
565 Cassia Blvd.  
Satellite Beach, FL 32937

Chief Executive Officer  
Dade County  
111 NW 1st Street, Suite 2910  
Miami, FL 33128

Chief Executive Officer  
Town of Pembroke Park  
3150 SW 52 Avenue  
Pembroke Park, FL 33023

Chief Executive Officer  
City of Miramar  
6700 Miramar Parkway  
Miramar, FL 33023

Chief Executive Officer  
Broward County  
115 S. Andrews Avenue  
Room 409  
Ft. Lauderdale, FL 33301

Chief Executive Officer  
City of Cocoa  
Post Office Box 1750  
Cocoa, FL 32923-1750

Chief Executive Officer  
Town of Indialantic  
216 5th Avenue  
Indialantic, FL 32903-0108

Chief Executive Officer  
Brevard County  
2725 St. John Street  
Melbourne, FL 32940

Chief Executive Officer  
Town of Melbourne village  
555 Hammock Road  
Melbourne, FL 32904-2513

Chief Executive Officer  
City of Melbourne  
900 E. Strawbridge Avenue  
Melbourne, FL 32901

Chief Executive Officer  
Brevard County  
Post Office Box H  
Titusville, FL 32781-0139

Chief Executive Officer  
City of Port St. Lucie  
121 Southwest Port St. Lucie Blvd.  
Port St. Lucie, FL 34984

Chief Executive Officer  
St. Lucie County  
2300 Virginia Avenue  
Fort Pierce, FL 34982

Chief Executive Officer  
City of Vero Beach  
1053-20th Place  
Vero Beach, FL 32961-1389

Chief Executive Officer  
Village of Pinecrest  
Attn: Mayor Evelyn Greer  
2400 S. Dixie Highway  
Suite 200  
Miami, FL 33133

Chief Executive Officer  
City of Rockledge  
1600 Huntington Lane  
Rockledge, FL 32956-0488

Chief Executive Officer  
City of Titusville  
555 South Washington Avenue  
Titusville, FL 32780

Chief Executive Officer  
Dade County  
111 NW 1st Street, Room 210  
Miami, FL 33128-1903

Chief Executive Officer  
Indian River County  
1840 25th Street  
Vero Beach, FL 32960

  
Joseph A. McGlothlin

List of MFR Schedules Sponsored  
by Richard Wall

<u>Schedule</u>	<u>Title</u>
B5, p. 1	Allocation of common plant
B5, p. 2	Detail of common plant
B5, p. 3	Detail of common plant
B8	CWIP
B11	Accumulated Depreciation-Common Plant
C6	Allocation of expenses
C19	Alloc depr/amort - common plt
E3, p. 1	Cost of connections/reconnections
E3, p. 2	Cost of connections/reconnections
E3, p. 3	Cost of connections/reconnections
E3, p. 4	Cost of connections/reconnections
E3, p. 5	Cost of connections/reconnections
E3, p. 6	Cost of name/address change
E7, p. 1	Average Cost of Meter Set and Service
E8	Cost of derivation of facilities
G1, p. 15	Common plant, base + 1
G1, p. 16	Common plant - detail base + 1
G1, p. 17	Common plant - detail base + 1

<u>Schedule</u>	<u>Title</u>
G1, p. 18	Common plant - projected
G1, p. 19	Common plant - detail, projected
G1, p. 20	Common plant - detail, projected
G1, p. 21	Accum depr common plant, base + 1
G1, p. 22	Accum depr common plant, projected
G1, p. 23	Construction budget, base yr + 1
G1, p. 24	Plant addns, base + 1
G1, p. 25	Plant retirements, base + 1
G1, p. 26	Construction budget, projected
G1, p. 27	Plant addns, projected
G1, p. 28	Plant retirements, projected
G1, p. 28	Allocation of Depreciation/Amort. Expense
I1	Interruptions
I2, p. 1	Rule Violations
I3(a), p. 1-44	Meter testing
I3(b), p. 45-54	Meter testing
I3(c), p. 55	Meter testing
I4, p. 1	Vehicle allocation
I4, p. 2	Vehicle allocation
I4, p. 3	Vehicle allocation

<u>Schedule</u>	<u>Title</u>
14, p. 4	Vehicle allocation
14, p. 5	Vehicle allocation
14, p. 6	Vehicle allocation
14, p. 7	Vehicle allocation
14, p. 8	Vehicle allocation

**PORT ST. LUCIE INFRASTRUCTURE**

**PORT ST. LUCIE COMPONENTS INCLUDED IN RATE/BASE IN DOCKET NO. 940276-GU**

Gate Station	\$ 487,000
St. Lucie River Crossing	130,897
6" Village Green Main	173,463
6" U.S. 1 South to Port St. Lucie	110,000
6" St. Lucie Blvd.	677,022
Residential Services	587,444 (*)
Fort Pierce Acquisition	<u>115,000</u>
	<b>\$2,289,542</b>

(\*) This amount was developed by Staff by multiplying 572 Services by \$1027, the average imbedded investment in plant for services.

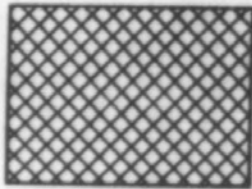
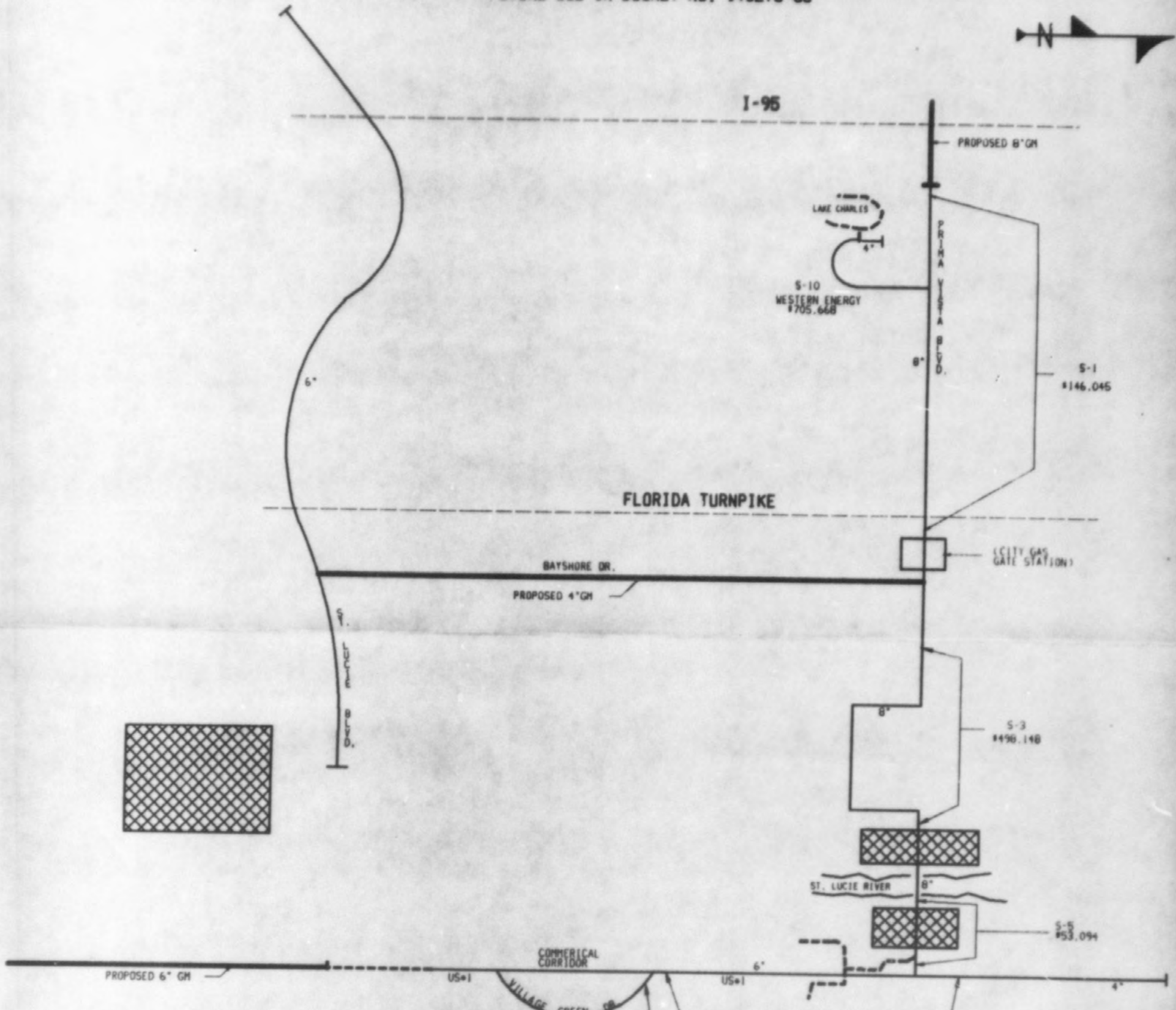
**PORT ST. LUCIE COMPONENTS THAT WERE EXCLUDED FROM RATE BASE IN DOCKET NO. 940276-GU**

	Actual Plant as of 12/31/94	Included in Rate Base	Plant Held for Future Use
8" East Prima Vista to River	498,148	-	498,148
8" East Prima Vista to U.S. 1	53,094	-	53,094
6" U.S. 1 South to Village Green	408,010	-	408,010
6" Village Green Main	286,958	173,463	113,495
8" West Prima Vista Blvd. Main	146,045	-	146,045
Western Energy/SLW Mains	738,675	33,007	705,668
General Work Orders Mains	<u>565,240</u>	<u>376,892</u>	<u>188,348</u>
Plant Held for Future Use	<u>2,696,170</u>	<u>583,362</u>	<u>2,112,808</u>



**CITY GAS COMPANY OF FLORIDA PORT ST. LUCIE DIVISION**

SYSTEM COMPONENTS CATEGORIZED AS PLANT HELD FOR FUTURE USE IN DOCKET NO. 940276-GU



**LEGEND**

- PROPOSED EXPANSION
- EXISTING GAS MAINS (PRIOR TO 12/94)
- EXISTING GAS MAINS (12/94 TO PRESENT)
- GDU PROPANE SYSTEMS

**NOTES**

S - SECTION  
DRAWING NOT TO SCALE

- 6" VILLAGE GREEN MAIN
- 8" WEST PRIMA VISTA BLVD. MAIN
- 8" EAST PRIMA VISTA TO RIVER
- 8" EAST PRIMA VISTA TO U.S. 1
- 6" U.S. 1 SOUTH TO VILLAGE GREEN
- WESTERN ENERGY/SLW MAINS

- S-7
- S-1
- S-2
- S-3
- S-4
- S-5
- S-6
- S-10



**LEGEND**

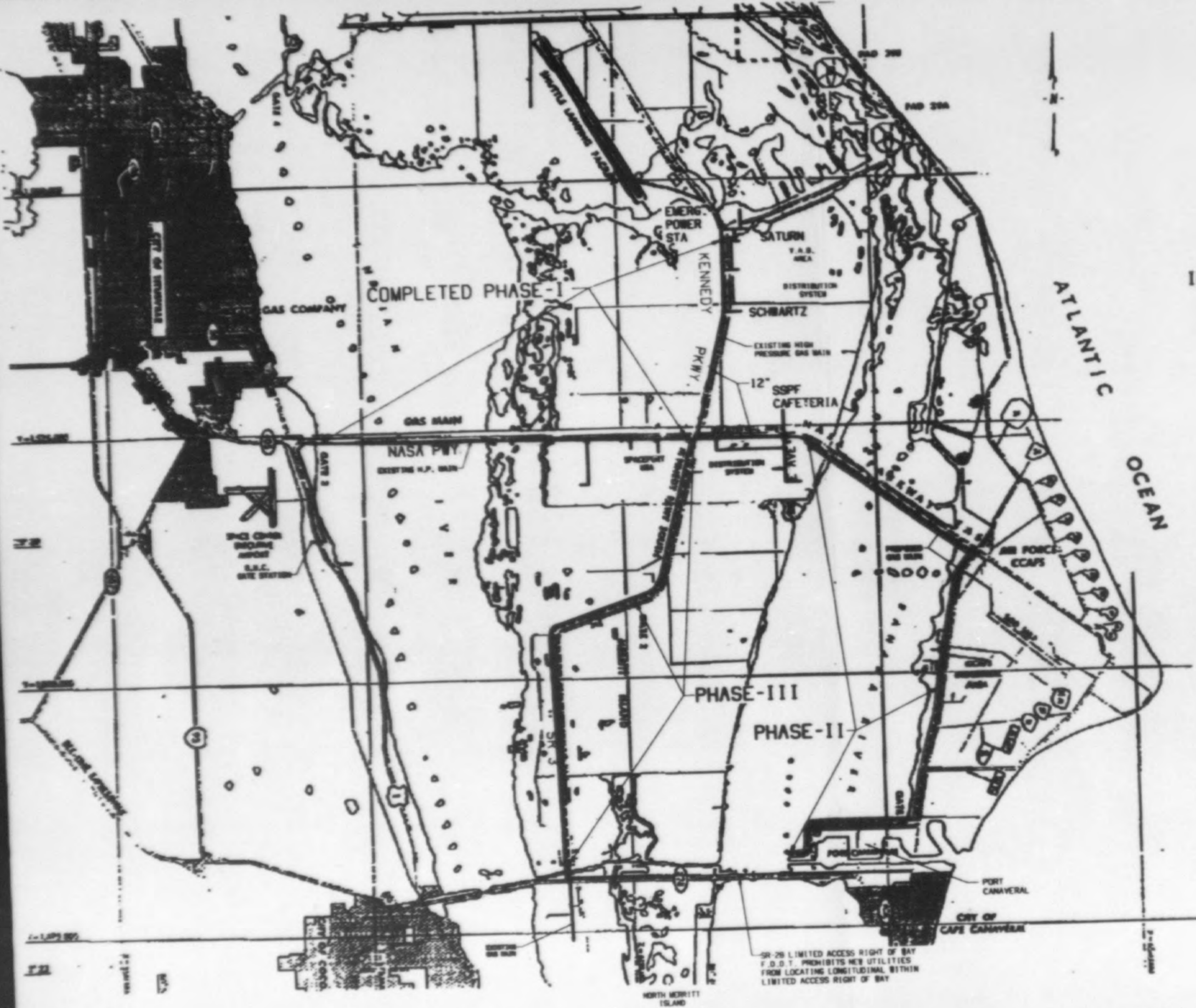
- 1 LAKE CHARLES
  - 2 KINGS ISLES
  - 3 COMMERCIAL HOTELS/RESTAURANTS
  - 4 ST. LUCIE WEST INDUSTRIAL PARK
  - 5 WESTBROOK ISLES
  - 6 NEW HIGH SCHOOL
  - 7 THE LINKS
  - 8 TREASURE COAST MALL
  - 9 GDU-PRIMA VISTA
  - 10 GDU-CLUB MED
  - 11 PALMS APARTMENTS
  - 12 DARWIN SQUARE SHOPPING CENTER
- EXISTING GAS LINES (PRIOR TO 12/94)
  - EXISTING GAS LINES (12/94 TO PRESENT)
  - PROPOSED EXPANSION
  - GDU PROPANE SYSTEMS

**CITY GAS COMPANY OF FLA.**  
 NATURAL GAS DISTRIBUTION SYSTEM FOR THE  
 PORT ST. LUCIE SERVICE AREA

DATE	BY	CHK'D BY

REVISED 6-3-96 SMD

MARTIN COUNTY



**BREVARD SYSTEM  
 IMPROVEMENT PROJECT**

**LEGEND**

- EXISTING GAS MAIN PHASE I
- PROPOSED GAS MAIN PHASE II
- PROPOSED GAS MAIN PHASE III

SR-26 LIMITED ACCESS RIGHT OF BAY  
 F.O.D.T. PROHIBITS NEW UTILITIES  
 FROM LOCATING LONGITUDINAL WITHIN  
 LIMITED ACCESS RIGHT OF BAY