

ORIGINAL

1 SUPPLEMENTAL DIRECT TESTIMONY

2 OF

3 JEFF HOUSEHOLDER

4 FLORIDA DIVISION

5 OF

6 CHESAPEAKE UTILITIES CORPORATION

7

8 Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS
9 ADDRESS.

10 A. My name is Jeff Householder. I provide energy consulting and business
11 development services to utilities, propane gas companies and government
12 agencies. My business address is 2333 W. 33rd Street, Panama City,
13 Florida, 32405.

14 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

15 A. The purposes of my supplemental testimony are to update the Company's
16 forecast of billing determinants and revenues for the Projected Test Year
17 involving the Company's large volume industrial customers to reflect
18 recent developments, to correct errors in the Projected Test Year forecast,
19 and to comment on a recent Staff audit report.

20 Q. PLEASE DESCRIBE THE NATURE OF THE INFORMATION LEADING
21 THE COMPANY TO PROPOSE ADJUSTMENTS TO ITS PROJECTED
22 TEST YEAR FORECAST.

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1 A. Within the past two weeks, the Company received notice from two
2 industrial customers that affects the sales volumes and total customers
3 projected in the large volume industrial customer classes. Agrifos, a
4 phosphate mining and processing facility, and SunPac International, a
5 citrus processor, have notified the Company that they will discontinue gas
6 service in 2000.

7 **Q. WHY WILL AGRIFOS DISCONTINUE GAS SERVICE?**

8 A. Agrifos has informed the Company that it intends to permanently terminate
9 operations. According to Agrifos, it will continue to process the
10 phosphorus rock already mined, but has stopped all mining operations.
11 Processing of on-hand raw materials is scheduled to be completed within
12 60 – 90 days, after which the entire Agrifos facility will shut down. This
13 action is not entirely unanticipated. On Page 12 of Mr. Geoffroy's prefiled
14 direct testimony, he alludes to the difficulties experienced by Agrifos, and
15 notes the uncertainty surrounding its future.

16 **Q. WHAT IS THE PROJECTED IMPACT TO THE COMPANY OF THE**
17 **AGRIFOS PLANT CLOSURE?**

18 A. Agrifos consumed 2,789,182 therms in 1999. The Projected Test Year
19 billing determinants included in the MFRs submitted by the Company
20 forecast an estimated 2,800,000 therms for Agrifos. Annual revenues at
21 the proposed GS-9 rate classification were projected at \$238,036.

22 **Q. WHY WILL SUNPAC INTERNATIONAL DISCONTINUE GAS SERVICE?**

1 A. During a meeting with Sunpac last week, the Company was notified that
2 Sunpac intends to bypass the Company's distribution system and direct
3 connect to FGT's pipeline. The Company's sales revenues will stop
4 subsequent to Sunpac's current processing season, in May 2001. The
5 Sunpac plant is located immediately adjacent to the Florida Gas
6 Transmission (FGT) pipeline. Given Sunpac's close proximity to FGT's
7 pipeline, its capital investment to construct interconnection facilities is
8 relatively small.

9 **Q. WHAT IS THE PROJECTED IMPACT TO THE COMPANY OF THE**
10 **SUNPAC BYPASS?**

11 A. Sunpac consumed 1,638,169 therms in 1999. The Projected Test Year
12 billing determinants included in the Company's MFRs forecast an
13 estimated 1,542,000 therms for Sunpac. Annual revenues at the proposed
14 TS-9 rate classification were projected at \$136,186.

15 **Q. WHAT IS THE APPROPRIATE TREATMENT OF SUNPAC'S LIMITED**
16 **REVENUE CONTRIBUTION IN THE FIRST FIVE MONTHS OF THE**
17 **PROJECTED TEST YEAR?**

18 A. Since this revenue is non-recurring, it should not be used for rate-making
19 purposes. Such projected revenue should therefore be removed from the
20 projected test year in its entirety.

21 **Q. ARE THERE OTHER ADJUSTMENTS TO THE COMPANY'S**
22 **PROJECTED TEST YEAR FORECAST THAT ARE APPROPRIATELY**
23 **CONSIDERED AT THIS TIME?**

1 A. Yes. The Company has identified two errors in its Large Volume Customer
2 and Sales Forecast. These were communicated to Staff via the
3 Company's response to Staff's request for Production No. 9. Velda Farms
4 is projected for both 2000 and 2001 at 250,000 annual therms. The
5 forecast volume should be 350,000 therms for both years. The addition of
6 100,000 therms for Velda Farms at the proposed TS-7 rate would increase
7 revenues by \$10,627. Mrs. Allison's Cookies was projected to consume
8 524,000 therms in 2001. The forecast for this account in 2001 should be
9 362,500 therms. The subtraction of 161,500 therms for Mrs. Alison's
10 Cookies at the proposed TS-8 rate would decrease revenues by \$15,625.

11 Q. **WHAT IS THE NET EFFECT THE PROPOSED FORECAST**
12 **ADJUSTMENTS WILL HAVE ON THE COMPANY'S BILLING**
13 **DETERMINANTS.**

14 A. The total customer count will decrease by two. Total therm sales will
15 decrease by 4,280,500.

16 Q. **WHAT IS THE NET REVENUE EFFECT?**

17 A. The revenue decrease from the Agrifos plant closure and Sunpac bypass
18 totals \$374,222, as forecast for the Projected Test Year. The net revenue
19 decrease in the Projected Test Year, resulting from the correction of the
20 Mrs. Allison's Cookies and Velda Farms accounts totals \$4,998. The total
21 revenue decrease related to the account losses and corrections is
22 \$379,220.

23

1 Q. IS THE COMPANY PROPOSING AN ADJUSTMENT TO ITS
2 REQUESTED REVENUE REQUIREMENT?

3 A. No. The Company proposes no increase in the amount of the requested
4 \$1,826,569 increase in its annual revenue requirement. The Company
5 instead requests that the Commission consider the forecast adjustments
6 identified above in determining the appropriate billing determinants for rate
7 design purposes in this proceeding. Additionally, the Company seeks to
8 have the Commission consider the revenue impacts of the forecast
9 adjustments as an offset to any other adjustments reducing the
10 Company's requested increase in its revenue requirement, up to the
11 extent of the forecast-related adjustments.

12 Q. IS IT LIKELY THAT AGRIFOS OR SUNPAC WILL RESUME GAS
13 SERVICE WITH THE COMPANY IN THE FUTURE?

14 A. No. Given the general decline in the phosphate industry in Polk County it
15 is highly unlikely that Agrifos, or another company, will restart operations
16 at the Agrifos plant site. As noted in Mr. Geoffroy's testimony, several
17 phosphate plants have gone out of business or permanently stopped
18 operations over the past few years. It is virtually certain that Sunpac will
19 not return as a customer in the future. In my experience, once a customer
20 bypasses a local distribution system, they never return.

21

22

1 Q. HOW WILL THE COMPANY RESPOND IF EITHER AGRIFOS (OR ANY
2 SUCCESSOR AT THE AGRIFOS SITE) OR SUNPAC DO NOT
3 ACTUALLY TERMINATE SERVICE AS ANTICIPATED, OR
4 SUBSEQUENTLY RESUMES GAS SERVICE?

5 A. The Company is willing to promptly notify the Commission of any gas
6 service requested by Agrifos (or its successors) subsequent to January 1,
7 2001 or by Sunpac subsequent to July 1, 2001 for a period not to exceed
8 twenty-four months from the date of issuance of the final order in this
9 proceeding so that the Commission may consider whether it would be
10 appropriate to reallocate the Company's approved revenue requirement.

11 Q. WOULD YOU CARE TO COMMENT ON STAFF'S AUDIT REPORT
12 DATED SEPTEMBER 13, 2000 (AUDIT CONTROL NO. 00-159-3-1)
13 REGARDING LARGE VOLUME CUSTOMERS?

14 A. This staff audit report (provided to the Company at my September 21,
15 2000 deposition) specifically indicated that two of the Companies large
16 industrial accounts, Agrifos and IMC Global, were, "demonstrating very
17 abnormal gas usage characteristics compared to 1999". The status of the
18 Agrifos account was described above. I would like to provide information
19 on the IMC Global account. The Company has been monitoring increased
20 gas consumption levels at the IMC Global New Wales phosphate plant
21 during the past several months. Part of the increase was anticipated,
22 resulting from the addition of a new drying kiln. The Company's forecast
23 for 2000 included a net increase of over 1,000,000 therms. This increase

1 accounted for the new kiln, but also reflected some loss of gas sales due
2 to the projected shift of a portion of the plant's production to other facilities,
3 as noted in Mr. Geoffroy's testimony. The Company forecast that IMC
4 would consume 17,500,000 therms in 2000. Through seven months of the
5 current year, IMC is on pace to burn approximately 25,000,000 therms.

6 **Q. WHY HAS IMC INCREASED ITS GAS CONSUMPTION AT THE NEW**
7 **WALES PLANT?**

8 **A.** IMC personnel advise that the recent cost differential between natural gas
9 and #6 fuel oil has been such that it was economically viable to convert
10 part of the IMC Global New Wales processing facilities traditionally served
11 by oil to gas.

12 **Q. DO YOU EXPECT THAT IMC'S INCREASED GAS CONSUMPTION**
13 **WILL CONTINUE THROUGHOUT THE PROJECTED TEST YEAR?**

14 **A.** No. Historically, IMC has not found it economically or operationally
15 advantageous to consume natural gas at the IMC New Wales facility's
16 current level. As noted above, a substantial portion of these processing
17 facilities typically consumes fuel oil. On rare occasions the cost of fuel oil
18 has escalated relative to natural gas to the point that IMC has converted
19 traditional oil facilities to gas. The period of the Gulf War was the last such
20 occurrence. Generally, the price advantage for natural gas exists for a
21 relatively short duration. IMC increased gas usage beginning in December
22 1999. The price advantage for natural gas now appears to be diminishing.
23 As the relative price points of both fuels return to their historical status, I

1 believe it is unlikely that IMC's increased gas usage will continue through
2 the Projected Test Year.

3 **Q. IS THE COMPANY PROPOSING TO ADJUST THE PROJECTED TEST**
4 **YEAR FORECAST BASED ON IMC'S INCREASED CONSUMPTION IN**
5 **2000?**

6 **A. No.**

7 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

8 **A. Yes.**