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March 5, 2004

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COMMISSION CLERK

Blanca Bayo, Director
Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Indiantown Gas Company's Status Report On Aggregated Transportation Service Experimental Pilot Program

Dear Ms. Bayo:

Enclosed for filing, in accordance with Commission Order No. PSC-02-1655-TRF-GU, are the original and fifteen copies of Indiantown Gas Company's Report to the Florida Public Service Commission on the Company's Aggregated Transportation Service Experimental Pilot Program. I will sincerely appreciate your confirming receipt of this Report by stamping the attached filing copy thereof and returning same to my attention.

As always, my thanks to you and to your professional Staff for their kind and courteous assistance. If you have any questions, please give me a call at (850)681-0311.

Cordially yours,

Robert Scheffel Wright

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Indiantown Gas Company
Report to the Florida Public Service Commission
Aggregated Transportation Service Experimental Pilot Program
Order No. PSC-02-1655-TRF-GU
March 5, 2004

On November 5, 2002, the Florida Public Service Commission (the Commission) approved a petition filed by Indiantown Gas Company (Company) to transfer all remaining sales customers to an Aggregated Transportation Service (ATS) program and exit the natural gas merchant function. The Company proposed a three-phased program that, over several years, would transition all customers to a fully competitive marketplace where they would be free to negotiate with any approved marketer. The Commission instead authorized the Company to implement Phase One of its ATS program on an experimental, pilot basis. Under Phase One the Company retained one third-party gas marketer through a competitive bid to provide gas supply and capacity management service to the sales customers. The Company implemented the ATS program effective December 5, 2002. In its Order, the Commission further required the Company to report on the status of the program within 90 days of the end of the first year of implementation. This report is responsive to the Commission Order. A historical perspective on the events that resulted in the creation of the ATS program, as well as a detailed review of the development and first-year implementation of the program, is presented.

Historic Overview

Florida Gas Transmission (FGT) responded to a variety of FERC Orders and began providing open access transportation service in late 1991. As part of the FGT unbundling process, the Company contracted for FTS-1 pipeline capacity in October 1993. The initial contract quantities included 2430 Dt/day for the months November through March; 2430 Dt/day for April; 1300 Dt/day for the months May through September and 1300 Dt/day for the month of October. Concurrent with FGT's open access initiative, the Company retained a gas marketer to facilitate gas supply purchases and delivery on the FGT pipeline.

In the early 1990's, the Company's only large volume customer was the Caulkins Citrus facility. Caulkins was a seasonal customer served under the Company's Large Interruptible Service (LIS) rate class. The Company's other customers included approximately 20 small volume commercial and 600 residential accounts. The small commercial and residential customers used less than 200,000 annual therms and typically required pipeline capacity quantities of less than 50 Dt/day. Most of the capacity costs (for both summer and winter) held by the Company was allocated to Caulkins. As the secondary capacity market matured, the Company actively re-marketed excess capacity on a temporary basis, especially during the summer season, to reduce total fuel costs.

Shortly after FGT opened their system to transportation, the Company contacted Caulkins to offer transportation service on the Indiantown distribution system. Caulkins expressed little interest in transporting and elected to remain a sales customer. Over the next several years the Company discussed transportation service with Caulkins on several additional occasions. In each case Caulkins elected to remain a sales customer. The Company continued to provide sales service to all customers through its Commission-approved PGA mechanism.

In December 1995, the Company initiated new service to the Indiantown Cogeneration Company under the existing LIS tariff rate. The primary fuel for the cogeneration plant was coal. Natural gas was used for start-up and flame stabilization purposes. A transportation service option was discussed for the cogeneration plant. Plant management elected to purchase gas directly from the Company through the PGA rather than obtain FGT capacity and transport.

The cogeneration plant was originally served in the same industrial interruptible class as Caulkins. However, Caulkins became the steam host for the cogeneration plant and subsequently reduced its gas consumption from over 6,000,000 therms to approximately 2,000,000 therms per year. Given the substantial operational changes required to become the steam host and the corresponding reduction in gas usage Caulkins expressed an interest in receiving firm service. The Company petitioned to establish a new Firm Industrial Service (FIS) sales classification for Caulkins. The FIS class was approved by the Commission on December 2, 1996 (Order No. PSC-96-1452-FOF-GU). Also in December 1996, the Company received approval from the Commission for a special interruptible sales service contract with the cogeneration plant at the existing LIS rates.

During the negotiations between the Company, Caulkins and Indiantown Cogeneration it became obvious that the Company's FGT primary firm capacity entitlements exceeded the quantities desired by the two industrial customers. Caulkins anticipated a significant reduction in its FGT capacity requirements once it became steam host for the cogeneration plant. The cogeneration plant's gas requirements were sporadic. They preferred to receive service through interruptible or secondary market capacity as required. After consulting with both large volume customers, the Company permanently relinquished approximately 730 Dt/day for the months November through April; 650 Dt/day for the months May through September and 1250 Dt/day for the month of October of its FGT capacity. The capacity was released at the FERC authorized maximum recourse rate to West Florida Natural Gas.

Given the above capacity relinquishment, at the time the cogeneration plant initiated service the Company held pipeline capacity contracts with FGT for 1700 Dt/day in the months November through April; 650 Dt/day for the months May through September and 50 Dt/day in October. Prior to the initiation of service to Indiantown Cogeneration, the Company, Caulkins and the cogeneration plant's management agreed to a method for the potential disposition of any additional excess FGT capacity originally held by the Company for Caulkins. The parties agreed that Caulkins could, in effect, transfer its payment obligation for certain quantities of FGT capacity to the cogeneration plant. The Company's special contract with the cogeneration plant also stipulated that the plant could, at its option, require the Company to relinquish excess capacity or relieve the plant from any future payment obligations.

In late 1998, Caulkins provided notice of a further reduction in its capacity quantity requirements. Payment obligation for these quantities shifted to the cogeneration plant. Plant management subsequently requested that the Company relinquish a portion of the capacity quantities allocated to the plant. The Company permanently relinquished 600 Dt/day for the months November through April and 600 Dt/day for the months May through September, of its FGT FTS-1 capacity at the FERC authorized maximum recourse rate to Chesapeake Utilities Corporation. Overall the Company's FGT capacity holdings were reduced to 1100 Dt/day for the months November through April, and 50 Dt/day May through October. In the event Caulkins or the cogeneration plant require additional capacity, the Company, through its gas marketer, acquired temporary capacity quantities on a monthly basis to supplement its contract quantities. The cost of this capacity was isolated from the small volume customers and allocated directly to the large industrial customers.

PSC Non-Residential Unbundling Rule; Company Response

On April 4, 2000 the Commission adopted Rule 25-7.0335, F.A.C., requiring each local distribution company to offer gas transportation service to all non-residential customers. The new Rule also allowed LDCs to provide transportation service to residential customers with the stipulation that such service must be cost-effective to the customers. The Company responded to the Rule by filing the Commission staff's Model Gas Transportation Tariff. On January 9, 2001 the Commission approved the Company's petition and the adoption of the model tariff.

The model tariff was similar to a FERC pipeline transportation service tariff. It included a Firm Transportation Service (FTS) customer classification and various terms and conditions for nominating, scheduling and balancing gas deliveries to the Company's distribution system. No rates were included in the FTS customer class. The Company's existing approved rates would continue in effect for any customer electing transportation service. The model tariff simply established the procedures and rules under which transportation service would be provided.

Initial Transportation Service Request

In August 2001, Caulkins sold the citrus processing facility to Louis Dreyfus Citrus. Louis Dreyfus had a sophisticated commodities trading expertise and owned processing facilities served by other LDCs that transported natural gas. They expressed immediate interest in establishing transportation service on the Company's distribution system. The Company utilized the approved model transportation tariff to establish Louis Dreyfus as the first transportation customer on the Indiantown distribution system. A Transportation Service Agreement was executed on October 30, 2001. Louis Dreyfus selected Infinite Energy as its gas marketer.

During its initial transportation discussions with the Company, Louis Dreyfus indicated an interest in reducing the quantity of the Company's FGT capacity allocated to serve their Indiantown facility. Louis Dreyfus had excess capacity at another Florida location. They originally intended to use the excess to deliver to Indiantown and utilize secondary market capacity to provide any incremental requirements. The model transportation tariff provided that the Company's pipeline capacity would "follow the customer" migrating from sales to transportation service. The Commission had on several occasions approved transportation programs for other LDCs in which it affirmed that remaining sales customers should not be burdened by stranded pipeline capacity costs left behind by customers moving to firm transportation service. The Company developed and executed a Transportation Service Agreement with Louis Dreyfus that temporarily relinquishes 800 Dt/day of FGT FTS-1 capacity for the citrus processing facility during the months April through November. The Louis Dreyfus gas marketer provides incremental capacity above the relinquished quantities.

Assessing a Full Unbundling Program

During the transportation negotiations with Louis Dreyfus the Company began to assess the impact that shifting larger volume customers to transportation service could have on the remaining sales customers. The migration of Louis Dreyfus to transportation service in late 2001 removed approximately 2,300,000 annual therms from the Company's PGA. It appeared to the Company that the cogeneration plant would ultimately migrate to transportation service and remove another 4,000,000 annual therms (forecast therms in the rate restructuring) from the PGA. With minimal firm pipeline capacity available for the cogeneration plant it was becoming increasingly difficult to control fuel costs. Alternate firm capacity costs were escalating during the summer peak electric generation season. FGT's Alert Days were routine during the summer and proved difficult to manage with alternate firm capacity. Gas market commodity costs were reaching historic high levels. These cost increases were already contributing to a decline in usage at the cogeneration plant. It seemed likely that the plant would want to take control of their fuel supply management in the near future.

The Company was in a difficult position. On one hand, the Company was encouraging the cogeneration plant to evaluate transportation service. It appeared that the plant could achieve lower overall fuel costs by exiting the PGA and contracting with a gas supplier serving a large regional customer pool. The

Company's logic was straightforward. Lower fuel costs could help stabilize the load loss at the cogeneration plant and contribute to load retention throughout the system. On the other hand, if the plant migrated to transportation, the Company would be left with only approximately 18,000 annual Dts of gas supply for all remaining sales customers. The Company estimated that other commercial customer migration to transportation could remove an additional 5000 to 6000 annual Dt. The Company's existing gas marketer served notice in December 2001 that due to the loss of the Louis Dreyfus volumes, they could not continue to provide service at the contract margin. If the Company took no action, it was apparent that fuel costs for small volume customers would increase substantially.

The Company recognized, even before the Louis Dreyfus Transportation Service Agreement was finalized, that it would become increasingly difficult to keep its fuel rates competitive for its sales customers. Based on discussions with its gas marketer, the Company anticipated a commodity cost increase of about $0.25 per Dt (approximately $4,500 per year) for the supply premium above index and increased margin related to the projected small quantity of gas. Of additional concern was the cost of pipeline capacity required to reliably serve the seasonal peaking needs of the remaining sales customers.

If the cogeneration plant (at the time an interruptible customer) migrated to transportation without accepting a capacity allocation the remaining sales customers would have been left with approximately 250 Dt/day in excess capacity for the months November through April ($16,650 per year). On an annualized basis these capacity costs could increase the overall cost of gas to remaining sales customers by over $0.90 per Dt. If the larger commercial customers migrated, the increase could be almost $1.40 per Dt. Viewed on a seasonal basis (during the November through April period when the capacity cost actually occur) the cost increase per Dt would almost double the above costs. If Louis Dreyfus were able to avoid its 800 Dt/day (winter) capacity allocation, costs to the remaining customers would increase by $53,280 per year. Over the past several years, the capacity cost for approximately 250 Dt/day had been allocated to the cogeneration plant through the Commission's approved Purchased Gas Adjustment cost recovery procedures.

The fuel cost increases for small customers represented only part of the concern. The Company's existing tariff did not provide for interruptible transportation service. The model tariff only provided a firm transportation option. The tariff also lacked a capacity allocation method that could equitably distribute the Company's embedded capacity costs among all customers, and not strand costs with remaining small volume sales customers. Finally, as noted above, the transportation terms and conditions established in the model tariff were adapted from a FERC pipeline tariff. The tariff needed to be updated to reflect current transportation procedures for an LDC.

Faced with a potential annualized fuel cost increase of well over $1.00 per Dt, and the need for significant revisions to its transportation service tariff provisions, the Company decided to investigate its alternatives. The first alternative was to change gas marketing companies. However, discussions with other gas marketing firms generally confirmed the supply premium and margin cost increases given the Company's small annual volume projections. At an Associated Gas Distributors of Florida meeting in October 2001, attended by the Company's President, Chesapeake Utilities discussed its intent to file a complete unbundling program in 2002. It appeared that Chesapeake was facing similar cost increase issues for its non-transporting customers. Subsequent conversations with Chesapeake personnel indicated their willingness to provide technical assistance to the Company and jointly pursue the development of a full unbundling program.

Work to develop a small volume aggregated customer transportation program began in earnest in January 2002. Over the next three months the Company conducted a technical assessment of the procedures, systems and tariff revisions required to transfer all remaining sales customers, including all residential customers, to Transportation Service. Several fundamental issues were identified that guided the development process:

- Administratively, the program should be designed to operate such that all remaining sales customers would be grouped into a Customer Pool for transportation purposes. The Company would administer scheduling and imbalance resolution for the pool rather than for individual customers within the pool.

- The proposed program would need to accommodate all of the Company's residential customers and those non-residential accounts initially transferred into the program. In addition, any non-residential customer unable to meet the credit worthiness standards of a gas marketer on a stand-alone basis would need to be accommodated in the proposed program.

- The Company was interested in ultimately transitioning its customers to a fully competitive open market. In such a market customers would be free to select any approved gas supplier and negotiate price and terms to suit their particular situation. The initial program however, required a means of immediately transferring customers out of sales service and into a transportation service program. It did not appear practical to extend the option of electing transportation service to the Company's remaining sales service customers on a voluntary basis. If the Company were to allow a slow migration of these customers from sales to transportation service, only the migrating customers would enjoy reduced gas supply costs. Any further reduction in the load served under the Company's sales service would have lead to ever-increasing fuel costs.

- In addition to increased fuel costs for sales customers, the Company would be unable to administer an optional program implemented over an extended period. The Company's systems and administrative capabilities were not sufficient to manage such a voluntary program for such a small number of customers with a correspondingly small level of throughput. The Company determined that the combination of escalating fuel prices for sales customers and the associated burdensome administrative costs and requirements for the Company under an optional program warranted immediate and mandatory conversion of the remaining sales service customers to transportation service.

- The program should be designed to minimize the opportunity for customer "slamming." Over the first several years of the proposed program the Company would retain an oversight responsibility through a contractual agreement with participating gas suppliers.

- The Company needed to combine its sales volume into a larger pool for the purpose of attracting a gas supplier(s) and reasonable pricing.

- A new capacity allocation methodology would be required to equitably assign pipeline capacity to all customers.

- Any program proposed by the Company would need to ensure reliable service.

- The Company's participation in PGA cost recovery procedures would need to be terminated and proper disposition of any over or under recovery would be required.

- A tariff-authorized mechanism was needed to account for any charges or credits received by the Company related to pipeline capacity, Delivery Point Operator services or emergency Supplier of Last Resort services. Such mechanism would be used to allocate these charges or credits to all shippers on a non-discriminatory basis consistent with the methodology of the interstate pipelines.

- A method of ensuring that customers could not "game the system" and avoid service disconnect by paying only the regulated transportation charges was required. It appeared that under currently prevailing Law, it was not feasible to give gas marketers the ability to order a disconnect of service for non-payment of fuel bills.

- The billing and payment system for customers should be simple and easy to understand.

Joint Gas Supply and Management RFP

On March 22, 2002 the Company and Chesapeake jointly issued a RFP to retain a qualified gas marketer to provide natural gas sales and management services to the entire body of residential customers and selected non-residential customers served by each company's distribution system. The RFP established the minimum requirements for bidders. It also noted that the transportation service program specifications and tariff provisions applicable to residential transportation service for both utilities had been proposed to the Florida Public Service Commission (FPSC), but had not, at that time, been approved. Each bidder was advised that the proposed unbundling programs could be altered during the regulatory approval process at the FPSC.

The initial term of the agreement resulting from the RFP was proposed for a minimum period of twenty-four (24) months. The contract period was designed to begin with the implementation of each company's respective program. It appeared that the Company's program would begin 30 to 60 days following the Chesapeake implementation. At the conclusion of the initial twenty-four (24) month contract period, each LDC's would be free to extend the agreement for an additional twelve (12) month period, or issue a new RFP, either jointly or separately.

The joint RFP was designed to combine the respective transportation service customer pools at Chesapeake and Indiantown for the expressed purposes of minimizing administrative costs and increasing gas volumes to attract greater response to the RFP. It was intended that the successful bidder would enter into a separate contract with each LDC. Neither the Company or Chesapeake would have any responsibility or obligation to each other or the selected Gas Marketer for any financial obligations or terms and conditions established in or resulting from their respective agreements with the Gas Marketer. Responses to the RFP were received and evaluated by both companies. Infinite Energy was selected as the program's initial Pool Manager.

Aggregated Transportation Service (ATS) Petition

On May 24, 2002, the Company filed its petition with the Commission to establish an Aggregated Transportation Service (ATS) program. Concurrently, the Company also filed a revenue neutral rate restructuring petition to bring the rates for all class closer to parity. The proposed ATS program would immediately convert all remaining sales customers to transportation service and enable the Company to exit the merchant function. The Company proposed a three-phased program that, over several years, would transition all customers to a fully competitive marketplace where they would be free to negotiate with any approved marketer. The multi-phased transition proposed by the Company was intended to allow all stakeholders adequate time to develop the knowledge and experience needed for a successful transition to a fully competitive open market.

The Company included in the filing a complete replacement of its existing 1972 tariff. Additionally, the model transportation tariff adopted in 2001 was proposed for deletion. The Company's new tariff was designed to provide transportation service to all customers. An Individual Transportation Service (ITS) program was proposed for large volume customers interested in negotiating their own gas supply arrangements. The ATS program was proposed for all other customers. The revised tariff proposed a capacity allocation method that equitably assigned the Company's pipeline capacity and ensured that no capacity costs were stranded.

Since the Company's ATS program is virtually identical to the Transitional Transportation Service (TTS) program implemented by Chesapeake, the major program elements included in the respective Company's petitions were also virtually identical. These program elements were described in detail in the TTS program report filed with the Commission by Chesapeake on March 5, 2004. The following information summarizes the primary features of the Company's proposal:

Proposed Transitional Phases

The Company's proposed a flexible transition period, the length of which would be dependent upon customer response to the first phase of the program, the improvement of the Company's administrative and system capabilities and the evolution of the competitive gas marketplace in Florida. All remaining residential and non-residential sales customers would be immediately transferred to the ATS program and receive gas supply service through one qualified Pool Manager. Customers would have the option to select between two pricing options: a monthly indexed (floating) price alternative similar to the PGA pricing mechanism, or a pricing option that enabled customers to mitigate the potential price volatility of the monthly indexed price (through a fixed-price or other hedging method). In subsequent phases the options for customers would expand until the transition of all customers to an open market was completed.

ITS Open Enrollment Opportunity

Non-residential sales customers eligible for ITS transportation (greater than 25,000 annual therms) would be periodically allowed to exit the ATS program and choose any authorized gas marketer as their fuel supplier. These open enrollment periods would be offered soon after the program was initiated and again at the end of each annual period the program was in place.

Interstate Pipeline Capacity Allocation

The Company's proposed tariff established a methodology to equitably allocate its existing FGT capacity to all non-residential customers. First, the monthly peak requirements for customers in the ATS pool would be temporarily relinquished to the Pool Manager. The Company would relinquish such quantities of capacity for use by the ATS pool, prior to the relinquishment of capacity to the ITS industrial customers, ensuring reliable service to small volume accounts. The existing contractual capacity relinquishment of 800 Dt/day during the winter to Louis Dreyfus did not impact the Company's ability to provide sufficient capacity to the ATS commercial and residential customers. Second, to the extent capacity is available, the Company would temporarily relinquish to an ITS customer pipeline capacity based on the historical monthly quantity requirements of the Customer. In the event an ITS customer requests a quantity of capacity for a month that is greater than the respective month's relinquished capacity quantity the Company would have the right of first refusal to temporarily relinquish the additional capacity. If the Company waives its right to relinquish the additional capacity, the customer would be free to acquire the additional capacity quantities from any source. Third, if any quantities of capacity remain after the relinquishments described above, such quantities would be assigned to the ATS pool.

In the event the ATS pool requires a quantity of capacity that exceeds the current relinquished quantity, capacity may be recalled from the ITS customers on a pro rata basis, or alternatively provided by the ATS Pool Manager from market sources. The ATS Pool Manager's agreement with the Company requires that the Pool Manager be capable of providing sufficient capacity to serve all customers assigned to the customer pool during the term of its ATS agreement with the Company.

Supplier of Last Resort

The Company is prepared to act as the Supplier of Last Resort in the event of the default of the ATS Pool Manager. All interstate pipeline capacity would be recalled. The Company would arrange for gas supply and perform all other necessary functions to ensure delivery to affected customers until arrangements to qualify a replacement Pool Manager could be made. Should the Company be required to provide such temporary emergency back-up service, the cost of gas charges would be allocated to customers through proposed revisions to the existing Operational Balancing Account mechanism in the Company's tariff.

Payment Hierarchy

The Company proposed to follow a prescribed hierarchy in applying customer payments. All payments would first be applied to any taxes and fees imposed by government; second, to Pool Managers' fuel charges for gas supply; and third, to the Company's regulated transportation charges. This payment hierarchy would enable the Company to retain the capability to disconnect customers for non-payment or partial payment. Applying the payment to the Pool Manager's gas supply cost prior to the Company's regulated charges would prevent customers from taking advantage of the absence of the Pool Manager's service disconnect authority by paying only the regulated charges. However, this arrangement would not provide protection to the Pool Manager in the event that the customer failed to pay at all. The Pool Manager, through the ATS Agreement, would have the ability to secure customer accounts through cash deposits or similar means.

Customer Account Administration Service

The Company also proposed to provide a Customer Account Administration Service (CAAS) to the ATS Pool Manager. This service would include billing, collection services, payment tracking, non-pay disconnects, various account reports and related administrative activities. The Company proposed such a service to simplify the transition for customers, to virtually eliminate the potential for "slamming," and to ensure that the fuel rates billed to ATS customers are in compliance with the Pool Manager Agreement. A CAAS fee of $2.00 per month per ATS customer would be billed to the ATS Pool Manager.

Under the proposed ATS Program and the Company's tariff, customers would continue to receive only one monthly bill, since the Pool Manager's charges would appear in lieu of the Company's fuel charges. The potential for customer "slamming" would thereby be essentially eliminated. The ATS Pool Manager would be able to focus their efforts on gas supply and capacity management, without the financial and administrative burdens of maintaining a customer database, billing system and customer service support staff. The potential for errors and customer confusion would be minimized.

Customer Notice

On June 24, 2002 the Company mailed a notice to all customers announcing its rate restructuring and transportation service proposals. The notice provided information on the Company's proposed ATS program filing with the Commission and announced the date, time and location of a customer meetings on the proposed rate restructuring and ATS program. The meeting was held at the Indiantown Middle School on July 11, 2002. The above notice was mailed to approximately 660 customers. The Company received less than ten total telephone and walk-in customer inquiries following the customer notice. No customers attended the customer meeting.

ATS Program Commission Order

On November 5, 2002, the Commission approved the implementation of Phase One of the Company's ATS proposal, effective December 5, 2002 (Order No. PSC-02-1655-TRF-GU). The ATS program was approved as an experimental, pilot program. The Commission order indicated, "... it is reasonable and prudent to monitor the results of the implementation of Phase One before ruling on the Company's request regarding Phases II and III". The Company was required to provide a status report to the Commission within 90 days of the end of the first year and again at the end of the second year of the program. The

Commission ordered that no substantive change to the program could occur without an affirmative action on its part.

The Commission otherwise substantially approved all of the Company's transportation proposals, including the selection of an ATS Pool Manager, the revised tariff, the open enrollment opportunity for ITS eligible customers, the interstate pipeline capacity allocation, the Supplier of Last Resort procedures, the payment hierarchy process and the CAAS. The Commission also ordered that all expenses and revenues related to the program be accounted for above the line, in a "business as usual" manner. All costs and revenues related to the program would be subject to typical earnings surveillance and rate of return authorizations. The Commission further ordered that the Company, in a subsequent filing, address the appropriate disposition of any over or under-recovery in the PGA following its exit of the merchant function.

Implementation Of The Approved ATS Program

The Company implemented Phase One of the approved ATS program on December 5, 2002, and immediately assigned approximately 600 residential and 25 non-transporting small commercial customers to Infinite Energy, the gas marketer selected to manage the ATS customer pool during Phase One. In addition, the cogeneration plant was assigned to the ATS pool, since they had not established an ITS gas supply relationship.

The Company anticipated that a transitional period would be required to completely exit all of its merchant function activities. The following activities highlight the major actions undertaken to implement the Company's ATS program.

- The Company identified several revisions to its CIS and internal procedures that were necessary to support the implementation of the ATS and ITS programs. The Company has completed those items required to implement Phase One. The Company has included the replacement of its CIS in its capital budget forecast for 2004. A significant portion of the system upgrade is dedicated to automating the back office accounting, billing and reporting required by the ATS program.

- The Company discontinued all gas commodity purchases effective December 5, 2002. The transfer of all remaining sales service customers to transportation service shifted the Company's remaining gas supply responsibilities to the ATS Pool Manager. The Company had no long-term supply contract obligations on December 5, 2002. No commodity-related stranded costs existed.

- The Company also discontinued all retail fuel sales through its PGA on December 5, 2002. The Company bills Infinite Energy's cost of gas each month to customers based on a price per therm provided by Infinite. Infinite's cost of gas is determined by the pricing terms included in the ATS Pool Manager Agreement.

- The Commission in its November 2002 Order states, "As the Company prepares to exit the merchant function, participation in the purchased gas cost recovery proceedings will no longer be necessary." The Company complied with the September 2002 projected PGA filing that established the billing rate cap for 2003. However, with the activation of Phase One of the ATS program, the need to have an active PGA billing mechanism or rate cap ceased. The Company duly filed its final monthly PGA for the month of November 2002. Based on the Commission's approval of the ATS program, the Company discontinued the application of the PGA billing mechanism beginning with all bills rendered in December 2002. The disposition of the final PGA balance is dicussed later in this report.

- The Company operates only a single delivery point on FGT's pipeline. Unlike Chesapeake, it was not faced with the complex allocation of capacity on two pipelines with over twenty delivery points and numerous receipt points to allocate among a dozen shippers. At the time of the ATS program implementation the bulk of the Company's capacity was allocated contractually to Louis Dreyfus. All remaining customers initially elected to join the ATS customer pool. The remaining capacity was allocated to the ATS Pool Manager.

- In its ATS program petition the Company indicated that during Phase One customers would be able to choose between two fuel price options. The Company's ATS Pool Manager Agreement with Infinite required that customers have the option to establish a fixed monthly fuel price over an annual period as an alternative to a fluctuating monthly index fuel price. The fixed price was to include all Infinite fuel-related charges. The Company's charges for transportation service would remain separately stated on the customer bills. Infinite developed a fixed price option, along with a Letter of Authorization (LOA) agreement form. On September 25, 2003, the Company sent a notice to each ATS customer advising them of the fixed price option and enclosing the Infinite LOA. The notice was designed to continue to educate the Company's customers on the choices available through the ATS program. Customers were given until October 15, 2003, to respond. The fixed price was established at $0.76 per therm for a period beginning November 1, 2003 through October 31, 2004. The Company received 68 customer LOAs (62 residential and 6 commercial), exercising the fixed price option.

- The ATS program also included an open enrollment period for customers eligible to participate in the Company's approved ITS program to exit the ATS pool and receive service as an ITS customer. Originally, the Company had intended to establish an annual open enrollment window of thirty days. Subsequent to program implementation the Company determined that offering a continuous "open enrollment" period was feasible. Any non-residential customer exceeding the ITS annual therm threshold (25,000 therms) can, at any time, exit the ATS pool at the beginning of the next month of service. ATS customers with fixed price commitments would be required to continue in the ATS pool until the fixed price expires. The cogeneration plant has taken advantage of the opportunity to exit the ATS pool. In November 2003 the plant began receiving service as an ITS customer.

- The Company's ATS Pool Manager Agreement with Infinite provides for a periodic audit of the program. The Company is in the process of conducting an audit for the period of December 2002 through November 2003. The initial site visit to review the Infinite records is scheduled for later this month. The Company anticipates completing the by the end of April 2004. The audit includes the following major components:
    - Verification of NYMEX monthly index fuel prices.
    - Reconciliation of capacity release quantities to customer billings.
    - Verification of interstate pipeline capacity utilization.
    - Verification of appropriate margin billings to ATS customers.
    - Verification of the appropriate tax rate applications.
    - Inspection of efforts to re-market excess capacity and the application of re-market credits.
    - Reconciliation of true-up charges and credits related to partial payments, uncollectible accounts, partial month billings, cancel re-bills, etc.
    - Inspection of program record keeping activities.
    - Review of information exchange and operational procedures.

PGA Disposition and Transportation Cost Recovery (TCR) Petition

The Commission's November 25, 2002 Order directed the Company to submit a proposal to address the final disposition of the PGA. On May 24, 2003 the Company filed a petition with the Commission for the final disposition of the PGA. The Commission staff conducted a PGA true-up audit and concluded that the final PGA balance was $36,743 over-recovered.

The Company's petition also included the proposed recovery of non-recurring costs related to the implementation of the Company's transportation service programs. The Commission had previously approved several Transportation Cost Recovery (TCR) surcharge mechanisms for other LDCs. The Commission staff conducted a detailed analysis of the transportation costs proposed by the Company for recovery. The staff concluded that the appropriate amount of transportation costs to be recovered through the TCR was $48,986.

Rather than refund the PGA over-recovery and, at the same time, surcharge the transportation costs through a TCR mechanism, the Company proposed to net its under-recovered transportation costs against its over-recovered PGA balance. On October 6, 2003 the Commission approved (Order No. PSC-03-1109-PAA-GU) the Company's proposal to net the TCR amount against the PGA balance. The TCR obligation for all sales customers was satisfied through the application of the PGA balance against the TCR balance. The remaining TCR balance was related to development work on the ITS program and was allocated to Louis Dreyfus. The Commission also approved the Company's proposal to recover the balance from Louis Dreyfus over a twenty-four month period.

Results And Conclusions

Commission Rule 25-7.0335, F.A.C., allows local distribution companies to provide transportation service to residential customers with the stipulation that such service must be cost-effective to the customers. The Company's ATS program meets the standard established in the Rule. The Company's ATS customers are experiencing lower overall costs than would have been the case had they remained sales service customers.

It is impossible to project with certainty what might have occurred had the Company retained its merchant function responsibilities. However, as described earlier in this report, the Company was facing a potential increase in overall annualized fuel costs ranging from approximately $1.15 to $1.65 per Dt, depending on the quantity of gas actually purchased for the PGA. The estimated cost increase was attributable to commodity cost premiums for small volume purchase, increases in gas marketer margins based on reduced PGA volumes and the potential stranding of pipeline capacity with the remaining sales customers.

As a result of the approved capacity allocation methodology, the ATS Pool receives an allocation appropriate to the consumption requirements of the commercial and residential customers in the pool. The industrial ITS customers receive a capacity allocation based on historic load requirements. The tariff allocation methodology will prevent a large volume customer from avoiding a capacity allocation to the ultimate detriment of the small volume ATS customers. In addition, the burden to provide adequate gas supply and interstate pipeline capacity now falls on the ATS Pool Manager and the ITS customer suppliers rather than the Company. The ATS Pool Manager Agreement specifically requires Infinite to deliver each day gas quantities sufficient to meet the requirements of the customer pool. Infinite delivers gas to a large pool of customers with diversified load profiles. Meeting an occasional ATS pool peak day during the winter does not pose a problem for Infinite. There will be no future need for the Company to obtain capacity at peak day quantities (and costs) for occasional use during the winter.

Migrating to transportation service on most LDC systems typically results in significant tax savings. In most cases the sale of gas as a product is taxed, but the transportation of gas as a service is not. However, no franchise fees or local utility service taxes are levied in the Company's current service territory. The Company continues to apply Gross Receipts Tax to its transportation service revenues. Some of the historic tax obligation has shifted to the ATS Pool Manager. Infinite charges a 2.5% Gross Receipts Tax on its fuel sales to the ATS customers. Infinite also collects sales tax on its fuel sales to all non-exempt ATS customers. The monthly therm sales data from the Company's measurement records enables Infinite to determine their tax obligations. Remittance of all applicable taxes on the sale of fuel to the ATS customers is the responsibility of Infinite. To the Company's knowledge Infinite has no obligation, through statute, rule or local ordinance, to collect or remit RAFs, Franchise fees or utility services taxes for customers in the Company's service area.

When the Commission authorized the ATS program it approved a $2.00 per month per customer charge to the Pool Manger to recover recurring program administration costs. On an annual basis the Company would recover approximately $15,000 per year from this charge. Infinite Energy's fees for program administration are approximately $5,400 per year. The Company is avoiding an annual fee of $6,000 for the preparation of its monthly an annual PGA filings.

A summary of the projected overall cost-effectiveness for the total ATS Pool follows:

Supplier Premium/Margin Increase Avoided	$ 4,500	
(18,000 Dt/yr @ $0.25)		
Capacity Cost Allocated to ITS Customers		
(Minimum 250 Dt/day/180 days @ $0.37)	$ 16,650*	
(Maximum 1050 Dt/day/180 days @ $0.37)		$ 69,930**
PGA Preparation Fees	$ 6,000	
Total Estimated Potential Savings	$ 27,150	

Program Administration Cost Recovery	$ 20,400
Total Estimated ATS Pool Net Savings	$ 6,750

*Amount of capacity allocated to the cogeneration plant upon exiting the ATS pool.

**Total amount of capacity allocated to Louis Dreyfus (800 Dt/day) and the cogeneration plant (250 Dt/day). The existing 800 Dt/day capacity relinquishment agreement with the Louis Dreyfus expires in 2005, however, the tariff allocation methodology precludes Louis Dreyfus from returning this capacity to the Company and stranding the costs in the ATS pool.

The ATS program has been operational for fifteen months. The Company has completed its transition out of the gas sales merchant function. Substantial revisions and enhancements have been completed to traditional CIS billing, account administration, payment tracking and reporting procedures. Additional adjustments to gas management and accounting systems and procedures have been put in place. The disposition of the PGA has been completed. The authorized TCR mechanism is in place and will enable recovery of non-recurring transportation costs by the end of August 2005. The ATS Pool Manager, Infinite Energy, and the Company have worked closely to ensure that customers are seamlessly transitioned to transportation service. The Company knows of no customer concerns related to the implementation or continuing operation of the ATS or ITS programs. There has been no reduction in service reliability. In fact, the Company's customers have been able to avoid FGT Alert Day charges on several occasions due to Infinte's enhanced delivery capabilities. The Company has successfully transitioned its Transportation Service programs for all customers to "business as usual".