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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**  
**DIRECT TESTIMONY OF**  
**JEFF HOUSEHOLDER**  
**ON BEHALF OF SEBRING GAS SYSTEM, INC.**  
**DOCKET NO. 040270-GU**  
**JUNE 30, 2004**

**Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.**

A. My name is Jeff Householder. I provide energy consulting and business development services to natural gas utilities, natural gas marketers, propane gas retailers, government agencies, and a number of industrial and commercial clients. I have participated in a variety of cases before the Florida Commission including several general rate proceedings. My business address is 2333 West 33<sup>rd</sup> Street, Panama City, Florida, 32405.

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

A. Prior to beginning my consulting business in January 2000, I was Vice President of Marketing and Sales for TECO Peoples Gas. While with TECO, I was also responsible for the management of TECO Gas Services, an unregulated energy marketing company. I joined Peoples Gas subsequent to the 1997 TECO Energy acquisition of West Florida Natural Gas Company. At West Florida Natural Gas, I served as Vice President of Regulatory Affairs and Gas Management from 1995 to the

1           TECO merger. Before that, in 1994-1995, I was Vice President of  
2           Marketing and Sales at City Gas Company, a division of the NUI  
3           Corporation. Prior to joining City Gas, I was employed as Utility  
4           Administrative Officer for the City of Tallahassee. During my ten years  
5           (1984-1994) with the City's utility operations, I also held positions as  
6           Assistant Director of the Consumer Services Division and managed the  
7           Energy Services Department, a marketing and demand-side  
8           management unit. From 1981 to 1984, I was a Section Manager with the  
9           Florida Department of Community Affairs, responsible for administering  
10          the Florida Energy Code and related construction industry regulatory  
11          standards. I also served from 1980 to 1981 as an Energy Analyst in the  
12          Governor's Energy Office. From 1984 to 1995, concurrent with my other  
13          positions, I provided part-time consulting services to the natural gas,  
14          propane gas and homebuilding industries involving a variety of building  
15          code, marketing and energy regulatory matters. I am a 1978 graduate of  
16          Florida State University with a Bachelor of Science Degree majoring in  
17          Economics and Government.

18   **Q.    WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
19   **PROCEEDING?**

20   A.    I will describe the methodology used to forecast sales, customers and  
21          revenues for the Historic Base Year + 1 and the Projected Test Year. I  
22          will support the Company's request for interim and permanent rate relief  
23          along with the proposed permanent rate design. In support of my

1 permanent rate design testimony, I have prepared a cost of service study  
2 by customer class for the Projected Test Year ended December 31,  
3 2004. I will describe how the results of both the cost of service study and  
4 the competitive analysis were used in designing the Company's  
5 proposed rates.

6 **Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR TESTIMONY?**

7 A. Yes. Exhibit No. \_\_\_\_ (JMH-1) is a list of MFR schedules I am sponsoring.  
8 Exhibit \_\_\_\_ (JMH-2) displays the interim rate increase allocation among  
9 current customer classifications. Exhibit No. \_\_\_\_ (JMH-3) is a  
10 comparison of present and proposed rates by rate classification. The  
11 referenced MFR Schedules and exhibits were prepared under my  
12 direction, supervision and control.

13

14 **Sales, Customer and Revenue Forecast**

15 **Q. HAS THE COMPANY PREPARED A FORECAST OF SALES,**  
16 **CUSTOMERS AND REVENUES FOR THE BASE YEAR + 1 AND**  
17 **PROJECTED TEST YEAR?**

18 A. Yes. I prepared, on the Company's behalf, a forecast of sales, customers  
19 and revenue by customer classification, for the Base Year +1 and the  
20 Projected Test Year. The results of this forecast are displayed on MFR  
21 Schedule G-2, pp. 6-9. The forecasts of revenues for both the Base Year  
22 + 1 and the Projected Test Year were computed using net customer and  
23 sales growth (loss) and the Company's existing rates. As detailed on

1 page 8 of MFR Schedule G-2, the Projected Test Year revenues at  
2 current rates, total \$288,089 inclusive of other revenues for the same  
3 period. Miscellaneous revenues are projected, at current rates, to total  
4 \$7,330. The revenue requirement deficiency addressed in this case was  
5 established based on the above forecast result.

6 **Q. DOES THE COMPANY'S CUSTOMER, SALES AND REVENUE**  
7 **FORECAST ACCOUNT FOR PROPOSED REVISIONS TO ITS**  
8 **EXISTING CUSTOMER CLASSIFICATIONS?**

9 A. Yes. The forecasts of customers, sales and revenues presented in the  
10 MFRs filed in this rate proceeding are consistent with the Company's  
11 proposed customer classifications and rate schedules. The proposed  
12 classes are described in detail later in my testimony. The Company's  
13 historical customer, sales and revenue data was sorted based on the  
14 proposed customer classifications. This historical data formed a base-  
15 line for the Company's projections.

16 **Q. PLEASE DESCRIBE THE CUSTOMER AND SALES FORECASTING**  
17 **PROCESS USED IN THIS FILING.**

18 A. Sebring Gas System is a company with close ties to the small community  
19 it serves. Company representatives, through their social and civic  
20 activities, are well informed about opportunities to expand the system or  
21 increase load, as well as potential customer or load loss situations. The  
22 Company Vice President is an active member of the Sebring Chamber of  
23 Commerce as well as the Highlands County Economic Development

1 Council. Any proposed development project would be known well in  
2 advance of construction. Through its active community involvement, the  
3 Company is continually assessing the opportunities and risks of the local  
4 market.

5 Several years of historical information on customer additions and  
6 their usage were used to prepare the forecast for this case. An  
7 assessment of potential growth in the Projected Test Year was based on  
8 discussions with Company employees. A forecast of net customer  
9 additions has been prepared for each customer class. Transportation  
10 volumes were projected by class for both existing and new customer  
11 additions. Average transportation volumes for the proposed new classes  
12 were calculated from historical data and used in the forecasts to trend  
13 existing accounts. Consumption for the limited number of new customer  
14 additions forecast for the second half of 2004 and in 2005 were also  
15 projected based on historical averages. Weather effects for residential  
16 and small commercial customers were considered in the volume  
17 forecasts through the averaging of consumption over a five-year period.  
18 Volume changes for existing customers and conversions of existing  
19 residences or businesses to electricity or propane were assessed. The  
20 Company's only large commercial account (Highlands Regional Medical  
21 Center) was forecast individually. Based on conversations with the  
22 customer we used historical data to estimate the hospital's usage. The

1 customer and sales forecasts were used to derive projected revenues  
2 from sales for each customer class.

3 **Q. PLEASE DESCRIBE HOW YOU DEVELOPED THE NUMBER OF**  
4 **CUSTOMERS BILLED IN EACH CLASS FOR THE BASE YEAR + 1**  
5 **AND THE PROJECTED TEST YEAR.**

6 A. The first step in developing the customer growth forecast was a  
7 determination of the number of customers over the past five years. The  
8 Company has maintained historical records of customers by class and by  
9 month for several years. I used the 1999 through 2003 customer data to  
10 develop an average of active customers per month. I then compared the  
11 data year over year to assess customer gains and losses in both the  
12 residential and commercial classes.

13 The residential customer group experienced an overall  
14 decrease in accounts in 2003, as has been the case for several years.  
15 The permanent loss of residential customers appears to be trending at  
16 an average of approximately sixteen (16) customers per year. The total  
17 loss in average annual residential customers since 1999 totals  
18 approximately 65 accounts, over 10% of the Company's residential  
19 customer base.

20 Given the declining residential customer base, using a five or  
21 even a three-year average customer total as a base would over-project  
22 customers in the Test Year. I obtained a complete report of individual  
23 residential customers active in 2003 from the Company. The report

1 included annual consumption data. I also obtained reports with 2003  
2 monthly customer data. I used the actual monthly customers active in  
3 2003 as a base. The 2003 customer consumption data was used to split  
4 residential customers into the proposed TS-1 and TS-2 customer  
5 classes. There were 96 residential customers who used over 200 therms  
6 in 2003. These customers were subtracted from the remaining monthly  
7 residential customers to identify the TS-1 accounts.

8 I reduced the TS-1 customer totals derived from the 2003 CIS  
9 data by 15 total customers to account for the typical net loss in  
10 customers noted above. I assumed no loss of the higher volume TS-2  
11 accounts. Total average residential customers (both classes) was  
12 reduced in the forecast from 472 in 2003 to 457 in 2005. Given the  
13 Company's proposed Load Retention Program, I assumed no additional  
14 customer loss in 2005 and held the customer totals constant.

15 **Q HOW WAS THE COMMERCIAL CUSTOMER FORECAST**  
16 **PREPARED?**

17 A. I obtained a list of the Company's individual commercial accounts by  
18 month, including consumption in CCF's as recorded from meter  
19 readings. The CCF's were converted to therms using the actual monthly  
20 conversion factors from the Company's billing system. The individual  
21 commercial accounts were separated into the proposed rate classes. I  
22 compiled monthly customer and consumption data for each account, and  
23 totals for each proposed class. The 2003 active customers were

1 separated into the proposed classes based on the 2003 consumption  
2 data. I prepared five-year and three-year average customer totals by  
3 month. The five-year average totaled 93 commercial customers. The  
4 three-year average totaled 94 customers. Actual 2003 average  
5 commercial customers equaled 94 accounts.

6 The number of commercial customers has not significantly  
7 changed over the past few years. There is virtually no discernable,  
8 consistent seasonal customer gain or loss pattern represented in the  
9 commercial customer data. Based on discussions with the Company  
10 representatives, and a review of CIS records, the commercial additions  
11 and losses over the past several years have been essentially equal. The  
12 Company is forecasting a small net increase of three (3) commercial  
13 accounts in the Projected Test Year. The number of active commercial  
14 customers in October 2003 was continued throughout 2004 and the  
15 additions were included in the 2005 projections. No large volume  
16 industrial customer additions are expected in the Projected Test Year.

17 **Q. HOW WAS THE RESIDENTIAL THERM SALES PROJECTION**  
18 **DEVELOPED?**

19 A. Historical monthly residential consumption data for the years 1999 –  
20 2002 were obtained from Company records. Consumption data from  
21 2003 for each of the Company's residential customers was available  
22 from the Company's CIS. I prepared five-year and three-year averages  
23 by month for residential consumption using the above data. I also



1 compared actual residential consumption for the first five months of 2004  
2 to the average data for the respective months. The 2003 individual  
3 customer consumption data was used to separate residential customers  
4 into the proposed TS -1 and TS – 2 customer classes.

5 I developed a ratio of therm usage for each class to the total  
6 residential therm consumption in 2003. I then applied these ratios to the  
7 actual total residential monthly therm consumption for the historic years  
8 1999 through 2003. The result was an assignment of historic monthly  
9 residential therms into the proposed customer classes. I used the historic  
10 therms by proposed class to develop five-year and three-year average  
11 monthly consumption totals for each proposed class. The combined  
12 three-year average resulted in 71,545 total therms; the five-year average  
13 was 72,393. I selected the three-year average for forecasting purposes.

14 The three-year average for the proposed respective TS - 1 and  
15 TS – 2 classes were assumed as the base case. I assumed no net  
16 growth in therms for 2004 or 2005. I did not reduce the therm forecast  
17 based on the net projected loss of fifteen residential customers. It  
18 appears that the residential customer loss is generally attributable to very  
19 small volume single appliance customers. The therm consumption from  
20 these accounts is relatively small. The therm forecast for both the TS-1  
21 and TS-2 residential customers assumes no net change in consumption  
22 for 2004 and 2005 compared to the three-year average.

23 **Q. PLEASE DESCRIBE THE COMMERCIAL THERM SALES FORECAST.**

1 A. Similar to the residential forecast procedure described above, I first  
2 obtained historical monthly commercial consumption data for the years  
3 1999 – 2002 from Company records. Consumption data from 2003 for  
4 each of the Company's commercial customers was available from the  
5 Company's CIS. I prepared five-year and three-year averages by month  
6 for commercial consumption using the above data. I also compared  
7 actual commercial consumption for the first five months of 2004 to the  
8 average data for the respective months.

9 The 2003 individual customer consumption data was used to  
10 separate commercial customers into the proposed TS –1 through TS - 5  
11 customer classes. A ratio of therm consumption for each month and for  
12 each class was developed by comparing actual 2003 monthly  
13 consumption for the customers in each class to total monthly  
14 consumption. The monthly consumption ratios by class were applied to  
15 the actual 1999 – 2003 monthly commercial therm consumption totals  
16 from the Company's records. The result was a monthly distribution of  
17 historic commercial therms by proposed class.

18 The three-year average for commercial therms by class was used  
19 as a base to forecast 2004 and 2005 activity. The Company projects no  
20 net gain in commercial customers or therm sales in 2004 compared to  
21 the average. In 2005 the therm sales forecast increases the TS – 3 class  
22 by 500 therm per month beginning in March (Denny's) and the TS – 5

1 class by 1,250 therms (Holiday Inn) and 1000 therms per month  
2 beginning in May (Sebring Diner).

3 **Q. HOW DID THE COMPANY ESTIMATE REVENUES FOR THE BASE**  
4 **YEAR + 1 AND THE PROJECTED TEST YEAR?**

5 A. The customer forecast described above provided the number of  
6 customers billed each month during the Base Year + 1 and the Projected  
7 Test Year for the proposed classes. Annual therm sales for these  
8 respective customer classes were estimated by multiplying the projected  
9 number of customers billed each month by the estimated usage per  
10 customer for the month, totaled for the year. Revenue projections  
11 displayed on MFR Schedule G-2 were prepared by applying the  
12 forecasts of customers and sales volumes described above for the  
13 respective periods using both the Company's current and proposed rate  
14 structures.

15

16 **Interim Rate Increase**

17 **Q. ON WHAT HISTORICAL PERIOD IS THE SGS REQUEST FOR AN**  
18 **INTERIM INCREASE BASED?**

19 A. The historical period is the 12-month period ended December 31, 2003.

20 **Q. WHAT IS THE AMOUNT OF THE INTERIM INCREASE SGS IS**  
21 **REQUESTING IN THIS PROCEEDING?**

22 A. SGS requests that annual revenues be increased by \$110,957 on an  
23 interim basis. This amount represents a 42.16% increase in base rates.

1 **Q. HAS THE INTERIM REQUEST BEEN CALCULATED IN**  
2 **ACCORDANCE WITH THE COMMISSION'S REQUIREMENTS?**

3 A. Yes. In my opinion, the requested interim increase is consistent with  
4 Rule 25-7.040, Florida Administrative Code, and Section 366.071,  
5 Florida Statutes, regarding interim awards.

6 **Q. PLEASE DESCRIBE THE METHOD USED TO PROPOSE INTERIM**  
7 **RATE RELIEF.**

8 A. The Company followed the methodology provided in MFR Schedule F for  
9 calculating and allocating appropriate interim rates.

10 **Q. PLEASE DESCRIBE THE CALCULATION OF THE PROPOSED**  
11 **INTERIM RATE RELIEF?**

12 A. The Revenue Deficiency for the interim rate increase is calculated on  
13 MFR Schedule F-7. It was derived based on an Adjusted Rate Base of  
14 \$782,836 and a Requested Rate of Return of 7.13%, yielding an NOI  
15 requirement of \$55,789. The Adjusted Rate Base is calculated on MFR  
16 Schedule F-1, and the Requested Rate of Return is calculated on MFR  
17 Schedule F-8. As required by Florida Statute 366.071 (5)(b)3, the  
18 Company used the bottom of the range (10.0%) of its most recent  
19 authorized return on equity (Order No. PSC-02-1666-PAA-GU) to  
20 determine the weighted cost of capital. The Company's Adjusted NOI for  
21 2003 is (\$32,891), which has been calculated on MFR Schedule F-4. An  
22 NOI Deficiency of \$88,680 was determined by subtracting the  
23 Company's Adjusted NOI from the NOI Requirement. The requested

1 interim rate increase of \$110,957 equals the NOI Deficiency grossed up  
2 by the Revenue Expansion Factor (1.2512) calculated on MFR Schedule  
3 F-6.

4 **Q. HAS THE COMPANY APPROPRIATELY REFLECTED ALL**  
5 **ADJUSTMENTS REQUIRED BY THE COMMISSION IN ITS LAST**  
6 **RATE CASE?**

7 A. Yes.

8 **Q. HOW WAS THE INTERIM RATE INCREASE ALLOCATED AMONG**  
9 **CUSTOMER CLASSES?**

10 A. The revenue deficiency calculated on MFR Schedule F-7 was allocated  
11 on an equal percentage basis (42.16%) to each of the Company's  
12 existing customer classifications. The transportation charge for each  
13 respective class has been adjusted to achieve the proposed interim  
14 increase. Exhibit No. \_\_\_\_ (JMH-2), which is a summary of MFR Schedule  
15 F-10, presents the allocation of the Company's requested interim rate  
16 relief.

17

18 **Cost of Service and Rate Design**

19 **Q. PLEASE DESCRIBE THE PROCESS USED TO DESIGN THE**  
20 **PROPOSED PERMANENT RATES.**

21 A. I performed a fully embedded cost-of-service study to determine the  
22 appropriate assignment of expense and investment costs to each of the  
23 Company's classes of service. The cost study utilized information from

1 all areas of the Company's operations, including customer billing and  
2 consumption records, engineering studies, forecasts of growth, and cost  
3 data from the accounting records. The total cost of service was assigned  
4 or allocated to determine the revenue requirements of each class of  
5 customers. The results of my analysis provided the principal basis for the  
6 Company's proposed rate design, which is detailed on MFR schedule H-  
7 1, and is summarized on Exhibit No. \_\_\_\_ (JMH-3).

8 **Q. WAS A PARTICULAR METHODOLOGY OR MODEL USED TO**  
9 **PREPARE THE COST OF SERVICE STUDY?**

10 A. Yes. The standard methodology traditionally used by Commission Staff  
11 formed the principal basis of the cost of service study. The Company's  
12 study also follows the presentation format contained in the H Schedules  
13 of the prescribed MFR forms.

14 **Q. YOU NOTED ABOVE THAT THE COST STUDY PROVIDES "THE**  
15 **PRINCIPAL BASIS" FOR DESIGNING RATES. WERE OTHER**  
16 **FACTORS USED TO ESTABLISH THE PROPOSED RATES?**

17 A. Yes. As described in more detail later in the testimony, there are two  
18 specific adjustments that were made to the initial cost allocations  
19 produced by the Commission Staff's model. First, I adjusted the final  
20 rates in several of the classifications to address alternate fuel  
21 competition and other market issues. Each of the market-based rate  
22 adjustments was accomplished through a reallocation of cost in the  
23 Direct and Special Cost section of the Commission Staff's cost model,

1 MFR Schedule H-2. Second, I included a direct allocation of costs to the  
2 proposed Third Party Supplier customer class.

3 **Q. PLEASE DESCRIBE THE OBJECTIVES IN PERFORMING A COST OF**  
4 **SERVICE STUDY.**

5 A. There are two primary objectives in cost of service analysis. The first  
6 objective is the development of “unbundled” cost information by function  
7 (production, storage, transmission and distribution) and classification  
8 (customer, commodity, demand and revenue) in order that cost based  
9 rates may be designed for each customer service classification. The  
10 second objective is the determination of the rate of return for each of the  
11 SGS customer service classifications based on present rates. Such  
12 information will provide guidance in equitably allocating the Company’s  
13 proposed revenue increase.

14 **Q. HOW IS A COST OF SERVICE STUDY PERFORMED?**

15 A. Traditional cost studies can be segmented into three individual activities:  
16 functionalization, classification and allocation.

17 Functionalization refers to the process of relating plant  
18 investments and associated operating expenses to four basic functional  
19 categories. The functional categories are production, storage,  
20 transmission and distribution. Plant investments and related operation,  
21 maintenance, depreciation and tax expenses are assigned to the  
22 functional categories. The functional assignment of costs is a relatively  
23 straightforward process. The Company maintains its accounting records

1 in accordance with the FERC Uniform System of Accounts. FERC  
2 accounting assigns plant facilities and investments to cost of service  
3 functions. Related expenses follow the same functionalization.

4 Classification refers to the process of dividing the functional costs  
5 into categories based on cost causation. Each local distribution system is  
6 designed and operated based on the individual and collective service  
7 requirements of its customers. The cost of providing such service is  
8 categorized in order to assign costs to the customer classes that are  
9 principally responsible for those costs. Typically, there are four  
10 categories used to group costs: capacity or demand costs, commodity  
11 costs, customer costs and revenue costs. Rate base and the overall cost  
12 of service are classified on MFR Schedule H-1.

13 1. Capacity or demand costs are those costs incurred by the  
14 utility to meet the on-demand service requirements of the total customer  
15 base. Capacity costs are related to the peak or maximum demand  
16 requirements placed on the system by its customers. Capacity costs are  
17 incurred to ensure that the system is ready to serve customers at peak  
18 requirements levels. These costs are generally considered to be "fixed",  
19 and are incurred whether or not a customer uses any gas.

20 2. Commodity costs are variable and relate to the quantitative  
21 units of product consumed. Costs which can be linked to the volume of  
22 gas sold or transported fit into this category.



1           3. Customer costs are those costs incurred to connect a  
2 customer to the distribution system, meter their usage and maintain their  
3 account. In addition, other costs such as meter reading, which are a  
4 function of the number of customers served, should be included in this  
5 category. Customer costs continue to be incurred without regard to a  
6 customer's level of consumption.

7           4. Revenue costs are related to those costs items which can be  
8 assigned based on the percentage of total revenue received from each  
9 class of customer. These costs vary with the amount of sales revenue  
10 collected by the Company. Gross receipts taxes and regulatory  
11 assessment fees fall into this category.

12           I have utilized the cost classification methodology contained in the  
13 MFR model. The "classifiers" identified in the model were not altered.  
14 The classification of each functionalized cost component is contained in  
15 MFR schedule H-1, pages 2-5.

16           Allocation involves the distribution or assignment of the classified  
17 costs to the Company's service classes. Those costs which can be  
18 directly attributable to a specific customer or class of customers are  
19 assigned to that customer or class. The remaining costs are assigned by  
20 applying a series of allocation factors. The allocation factors attempt to  
21 distribute costs based on the causal relationships between the respective  
22 customer classes and the classified costs. The development and  
23 application of the allocation factors and direct assignment of costs is the

1 final step in a cost of service study. MFR Schedule H-2, page 5, details  
2 the development of allocation factors by class of service.

3 **Q. YOU INDICATED THAT COSTS WERE ALLOCATED BY SERVICE**  
4 **CLASS. PLEASE DESCRIBE HOW CLASSES OF SERVICE ARE**  
5 **ESTABLISHED.**

6 A. Customers of a utility are usually grouped into relatively homogeneous  
7 classes according to their service characteristics. Consumption levels,  
8 pressure requirements, load factors, conditions under which service is  
9 provided (curtailment status, for example), and end-use application of the  
10 fuel can be considered when establishing service classes. Traditionally,  
11 LDC's have established classes based on customer type (residential,  
12 commercial, industrial) and/or annual volumetric therm consumption  
13 ranges. Other class distinctions, firm vs. interruptible and sales vs.  
14 transportation, for example, are also common.

15 Typically, the utility can identify a different level of cost to provide  
16 service to each discrete service class. Distinctions between classes  
17 established by customer type or volume have generally been based on  
18 the discernable cost differences from one class to another or the  
19 presence of market conditions that dictate the classification. Several cost  
20 breakpoints can be identified which can generally be linked to annual  
21 volumetric requirements. Meter and regulator type and size, service line  
22 size, and on-going maintenance costs are among the cost items that  
23 distinguish one service class from another. Another important factor that

1            may be considered in classifying customers is the impact of a customer  
2            or class of customers on the Company's local distribution capacity. The  
3            facility related costs to serve are a function of peak hour load  
4            requirements not annual transportation volumes. System demand  
5            considerations are critical in assessing the overall cost of providing  
6            service to the respective service classes. However, most LDC's have  
7            elected to group customers by annual volume rather than a peak hour or  
8            other demand requirement.

9    **Q.    PLEASE DESCRIBE THE COMPANY'S CURRENT SERVICE**  
10   **CLASSIFICATIONS.**

11   A.    The SGS current service classifications were established in the  
12        Company's original 1992 rate proceeding (Order No. PSC-92-0229-FOF-  
13        GU). The Company's present tariff includes the following service  
14        classifications (Original Sheet Nos. 21-25):

- 15        • Residential Service
- 16        • General Service
- 17        • General Service Large Volume (Over 100,000 annual therms)

18            Each of the above classes has a corresponding rate schedule. In  
19        addition to the rate schedules for each service class, the Company's  
20        current tariff also includes a Contract Transportation Service Rider (Rider  
21        CTS) applicable to customers in Service Classes that exceed 100,000  
22        therms in annual consumption (Original Sheet No. 26).

1 **Q. IS THE COMPANY PROPOSING CHANGES TO ITS EXISTING**  
2 **SERVICE CLASSIFICATIONS?**

3 A. Yes. The Company is proposing several significant modifications to its  
4 current customer classes. At present the Company differentiates  
5 customer classifications based on customer type (Residential or  
6 Commercial). No customers are served in the GSLV class. The  
7 Company's cost of service analysis in the current rate case determined  
8 that there are few cost differences between customer types at given  
9 annual volumetric levels. The Company has reviewed the cost of  
10 providing service to customers of varying sizes and usage  
11 characteristics. Several cost breakpoints were identified which could  
12 generally be linked to annual volumetric requirements. Meter and  
13 regulator type and size, service line size, and on-going maintenance  
14 costs are among the cost items that distinguish one service class from  
15 another. My analysis of these costs indicated that the "customer type"  
16 has little impact on the cost required to serve a given customer. While I  
17 recognize that many of the facility related costs to serve are more a  
18 function of peak hour load requirements than of annual consumption  
19 volumes, it is possible to establish annual volumetric classifications  
20 based on discernable cost differences and market conditions. The  
21 Company's analysis of the facility costs by customer classification is  
22 included on MFR Schedule E-7.

1 Q. ARE THERE OTHER CONSIDERATIONS BEYOND REMOVING  
2 TRADITIONAL CUSTOMER TYPE DESIGNATORS THAT WARRANT  
3 THE PROPOSAL OF NEW CUSTOMER CLASSES BASED ON  
4 ANNUAL VOLUMES?

5 A. Yes. Significantly greater stratification in the customer classes is  
6 proposed. The cost study identified significant cost differences at the  
7 proposed annual consumption volume levels. The volume differences  
8 among the existing classes are relatively large. For example, the existing  
9 General Service class (rate schedule GS) ranges from 0 to 100,000  
10 annual therms. Within this volume range there are several distinct cost of  
11 service levels. In addition, I believe that there are both cost to serve and  
12 market environment reasons to split the existing residential class into two  
13 groups. Obviously, there are also substantial differences in the margin  
14 contributions of customers at various consumption levels within a given  
15 class. This situation results in clear rate inequities within the current  
16 class. Efforts to establish parity in the rates-of-return among customer  
17 classes is difficult to justify when there are major cost of service  
18 differences within a given class. Continuing the current volume ranges in  
19 the Company's customer classes would perpetuate the undue  
20 subsidization of certain customer groups. SGS will not resolved all of the  
21 rate inequities within a given class with this rate filing, however, we take  
22 an important first step.

1 Q. PLEASE PROVIDE A LIST OF THE NEW VOLUMETRIC CUSTOMER  
2 CLASSES THE COMPANY IS PROPOSING.

3 A. The following chart displays the proposed volumetric customer classes.

4	<u>Customer Classes</u>	<u>Annual Therm Usage</u>
5	TS - 1	0 – 200
6	TS - 2	>200 – 1,000
7	TS - 3	>1,000 – 10,000
8	TS - 4	>10,000 – 50,000
9	TS - 5	>50,000

10  
11  
12 Q. IS THE COMPANY PROPOSING NEW CUSTOMER  
13 CLASSIFICATIONS OTHER THAN THE VOLUMETRIC CLASSES  
14 LISTED ABOVE?

15 A. Yes. One additional new classification is proposed.

16 Q. PLEASE DESCRIBE THE NEW SERVICE CLASSIFICATIONS THE  
17 COMPANY IS PROPOSING?

18 A. The Company is proposing to establish a Third Party Supplier (TPS)  
19 Service classification. The TPS class recognizes that the Company  
20 provides significant services to its Pool Manager, and potentially to other  
21 gas marketers delivering gas to the Sebring distribution system. As  
22 described later in my testimony, the Company's cost study proposes the  
23 allocation of certain recurring O&M costs to this new class.

24 It should be noted, that, while the proposed TPS rate schedule is  
25 new, the concept of charging gas marketers is not. Sebring's current  
26 tariff (Section XIX, H) allows the recovery of recurring costs for a  
27 Customer Account Administration Service (CAAS) provided to the

1 Aggregated Transportation Service Pool Manager. Additionally, the  
2 Commission has approved the recovery of recurring transportation  
3 administrative costs through similar charges for Chesapeake Utilities and  
4 TECO Peoples Gas. The Company's current authorized CAAS includes  
5 providing meter reading data, monthly customer billing, payment  
6 processing, limited collection services, account record maintenance and  
7 other administrative services. The current \$2.00 per bill charge was  
8 approved by Commission (Order No. PSC-04-0499-TRF-GU) as part of  
9 the Company's unbundling proceeding in 2004.

10  
11 **Q. DOES THE COMPANY'S CUSTOMER, SALES AND REVENUE**  
12 **FORECAST ACCOUNT FOR THE PROPOSED REVISIONS TO ITS**  
13 **EXISTING CUSTOMER CLASSIFICATIONS?**

14 A. Yes. The forecasts of customers, sales and revenues presented in the  
15 MFRs filed in this rate proceeding are consistent with the Company's  
16 proposed customer classifications and their respective rate schedules.

17 **Q. HAS THE COMPANY PROVIDED BILLING DETERMINANT**  
18 **INFORMATION THAT WILL ALLOW THE COMMISSION TO**  
19 **COMPARE THE EXISTING CLASSIFICATIONS TO THE PROPOSED**  
20 **CLASSIFICATIONS?**

21 A. Yes. MFR Schedules E-1 and E-5 have been prepared to enable the  
22 Commission to compare bills, terms and revenues under the existing  
23 classes to the proposed classes.

1 **Q. DOES THE COMPANY INTEND TO MAINTAIN CUSTOMER**  
2 **INFORMATION THAT WILL ENABLE IT TO CONTINUE TO PROVIDE**  
3 **DATA TO THE COMMISSION BY TRADITIONAL CUSTOMER TYPE?**

4 A. Yes. The Company's current Customer Information System is capable of  
5 maintaining account records by customer type. In addition, such  
6 information is necessary for the Company to apply the appropriate tax  
7 factors and certain billing adjustments that currently are based on the  
8 existing customer classes.

9 **Q. PLEASE DESCRIBE HOW YOU ALLOCATED CAPACITY COSTS IN**  
10 **THE COST OF SERVICE STUDY.**

11 A. Capacity costs were allocated on the basis of peak and average monthly  
12 sales volume for all customer classes. The principle underlying the peak  
13 and average allocator is that fixed demand costs should be apportioned  
14 to rate classes in a manner that reflects both the basis for which the  
15 costs are incurred, as well as the actual utilization of the system by  
16 customers entitled to receive service once the system has been installed.

17 **Q. HOW WERE COMMODITY COSTS ALLOCATED?**

18 A. Commodity related costs were allocated on the basis of annual sales  
19 volumes.

20 **Q. PLEASE DESCRIBE HOW YOU ALLOCATED CUSTOMER COSTS.**

21 A. Customer costs were allocated based on the relative number of  
22 customers served in each customer class. The "weighted number of  
23 customers" allocator was used to distribute costs based on the



1 recognition that larger customers exhibit higher customer costs. Meters,  
2 regulators and service lines are generally more expensive for larger  
3 customers. The weightings used were derived from the relative  
4 investment in meters, regulators and service lines required to serve  
5 representative customers in each class. The weightings can be found on  
6 MFR Schedule E-7.

7 **Q. HOW WERE REVENUE COSTS ALLOCATED?**

8 A. Revenue costs were allocated on the basis of gross revenues by  
9 customer class.

10 **Q. IT WOULD APPEAR THAT A COST OF SERVICE STUDY IS**  
11 **PRIMARILY A MECHANICAL ACCOUNTING OF COSTS. ARE**  
12 **THERE OPPORTUNITIES TO APPLY JUDGMENT, CONSIDER**  
13 **MARKET CONDITIONS OR OTHER MITIGATING FACTORS IN THE**  
14 **STUDY?**

15 A. Yes. Cost studies, at the outset, are not simply formula based  
16 accountings of costs by rate classification. They require judgment by an  
17 experienced analyst to appropriately allocate and assign costs. An  
18 understanding of the utility's business strategy, market area and  
19 competitive position is necessary to complete an appropriate rate design.  
20 Within the cost of service study, the selection and application of  
21 allocation factors requires not only a mechanical understanding of the  
22 Company's costs, but also a common sense understanding of a variety  
23 of economic, social, regulatory and competitive considerations.

1 **Q. SHOULD A COST OF SERVICE STUDY BE EXCLUSIVELY RELIED**  
2 **UPON TO ESTABLISH UTILITY RATES?**

3 A. No. As noted above, there are a number of factors that must be  
4 considered when designing rates. One of the most critical is the  
5 competitive position of the Company in the marketplace. Customers in all  
6 rate categories have fuel alternatives. Price is only one factor considered  
7 when evaluating fuel types. There are numerous non-price issues in all  
8 customer classes that affect fuel selections. For example, maintenance  
9 concerns, fuel storage, emissions levels, appliance efficiency, comfort  
10 and aesthetics all play a part in a customer's fuel decisions. The bottom  
11 line is that customers have choices. The Company's proposed rate  
12 design utilizes a cost of service study as a starting point, but the final rate  
13 recommendations consider the above issues and make appropriate  
14 adjustments.

15 **Q. DOES THE COMPANY'S PROPOSED RATE DESIGN REFLECT**  
16 **ADJUSTMENTS BASED ON ALTERNATE FUEL PRICING OR OTHER**  
17 **MARKET FACTORS.**

18 A. Yes. The Company considered alternate fuel prices, customer rate  
19 impact and other market factors in designing rates. The proposed  
20 classes of service and their respective rates were selected based on the  
21 Company's primary need to retain customers. In setting rates for the low  
22 usage class (TS-1), the Company was particularly sensitive to the  
23 Company's competitive concerns with electricity and propane. The

1 Company's rate design for non-residential customers in the TS-3 and  
2 TS-4 class also proposes rates that reflect competition with electricity  
3 and propane gas. Proposed rates for the large industrial classes are  
4 designed to provide the Company its best opportunity to compete with  
5 the other alternatives available to large volume customers, yet recover  
6 an appropriate cost of service.

7 **Q. PLEASE BRIEFLY SUMMARIZE THE PROCESS EMPLOYED TO**  
8 **IMPLEMENT MARKET BASED ADJUSTMENTS TO THE COST**  
9 **ALLOCATIONS IN STAFF'S MODEL.**

10 A. An initial cost allocation was prepared using the Staff's cost of service  
11 model without modification. A second cost study was prepared that re-  
12 allocated certain costs among classes to reflect price competition, and  
13 other market concerns. As described above, this second cost allocation  
14 was accomplished through the direct and special assignment of costs in  
15 Staff's model. All of the cost re-allocations occurred in the Customer  
16 related O&M expense classification "All Other". The specific adjustments  
17 included reducing the TS-1 costs by \$78,757 and reducing the TS-2  
18 costs by \$33,999. I increased the cost allocations to the TS-3 class by  
19 \$51,228, to the TS-4 class by \$43,860, and to the TS-5 class by  
20 \$17,668. I allocated \$19,893 to the new TPS customer class. The final  
21 proposed allocation of cost of service by customer class, as filed, is  
22 presented on MFR Schedule H-2 pages 3 and 4. The allocation of rate  
23 base to each customer class is included in MFR Schedule H-2, page 2.

1 **Q. IS THE COMPANY PROPOSING CHANGES TO ITS CURRENT RATE**  
2 **STRUCTURE FOR VOLUMETRIC CUSTOMER CLASSES?**

3 A. No. The rate structure proposed for all volumetric rate classes includes  
4 the continuation of a traditional fixed monthly Customer Charge and a  
5 variable Transportation Charge based on the quantity of gas consumed  
6 during a billing period. However, the overall proposed rate structure is  
7 intended to begin a shift toward a Straight Fixed Variable (SFV) or  
8 Modified Fixed Variable (MFV) rate design.

9 **Q. TO WHAT EXTENT IS THE COMPANY PROPOSING TO MOVE**  
10 **TOWARD A SFV OR MFV RATE STRUCTURE?**

11 A. The Company is proposing a rate design for all customers that  
12 incorporates the primary elements of SFV or MFV rates. That is, a  
13 significant portion of the Company's proposed revenue requirement  
14 would be collected through an increase in the existing fixed monthly  
15 customer charges. The variable rate component would collect a smaller  
16 percentage of the overall revenue requirement. The revenue recovered  
17 through the Company's proposed fixed customer and TPS charges  
18 represents approximately 40% of the total proposed target revenues in  
19 the Projected Test Year compared to less than 26% in the Projected Test  
20 Year under present rates.

21 **Q. WHY IS SFV OR MFV APPROPRIATE?**

22 A. As the interstate pipelines unbundled FERC recognized that, in the  
23 absence of commodity sales by the pipelines, few variable cost

1 components remained. The pipelines continued to have compressor and  
2 odorization costs that were dependent on gas throughput. However the  
3 revenue requirement was largely defined by fixed costs unaffected by the  
4 volume of gas transported on the pipeline. The pipeline made an  
5 investment in its facilities and incurred operating costs that did not vary  
6 with usage. The SFV rate design used by virtually all FERC regulated  
7 pipelines collects the vast majority of revenues through fixed demand or  
8 capacity reservation charges. For example, FGT's rates for reserving  
9 capacity represent approximately 95% of their total charges. These  
10 reservation or demand rates are applied on a take or pay basis, further  
11 evidence of FERC's acknowledgement that fixed costs are more  
12 appropriately recovered through fixed charges. At the outset of open  
13 access, several pipelines, including FGT, adopted a modified version of  
14 SFV rate design. The MFV design split the fixed rate components into  
15 two separate fixed charge elements, similar to the Customer Charge and  
16 Demand Charge the Company is proposing for larger customers.

17 The Company has fewer variable cost elements than the  
18 interstate pipelines. Apart from a minimal annual cost for odorant, there  
19 are few expenses that can be directly linked to throughput. The  
20 Company understands that a complete shift to fixed rates for all classes  
21 is not practical at this time. Nonetheless, the Company is proposing to  
22 initiate moving toward a rate design that may ultimately recover a  
23 majority of the Company's revenue requirement from fixed charges.

1 **Q. WHAT FACTORS WERE CONSIDERED IN ESTABLISHING THE**  
2 **PROPOSED CUSTOMER CHARGES?**

3 A. Exhibit No. \_\_\_\_ (JMH-3) displays the difference between the existing and  
4 proposed monthly Customer Charges for each of the proposed classes.  
5 The Company's proposed Customer Charges are designed to recover a  
6 greater proportion of the revenue requirement for each customer class  
7 than under current rates. The Company's intent is to move individual rate  
8 elements closer to cost based levels. The unit cost data from the cost  
9 study was used to guide the Company's determination of appropriate  
10 Customer Charge rates.

11 **Q. WHY IS THE LEVEL OF THE CUSTOMER CHARGE IMPORTANT?**

12 A. There are three fundamental reasons why it is important to carefully  
13 consider Customer Charge rates for each customer class. First, to the  
14 extent rates are established on the basis of cost, the Customer Charge  
15 provides customers with a reasonable price signal related to the impact  
16 of receiving service from the Company's distribution system. Second, to  
17 the extent that a portion of customer-related costs are recovered through  
18 variable or usage charges, intra-class subsidies would be created as  
19 larger customers pay a disproportionate share of such costs. The  
20 Company's proposed rate design addresses this concern through the  
21 increased stratification of the existing customer classes. Third, the  
22 Customer Charge provides a greater degree of revenue stability for the

1 Company by allowing it to recover fixed costs to serve through a fixed  
2 charge.

3 **Q. PLEASE DESCRIBE THE PROPOSED RATE DESIGN TO RECOVER**  
4 **THE COSTS ALLOCATED TO THE PROPOSED THIRD PARTY**  
5 **SUPPLIER (TPS) CLASS.**

6 A. As previously stated, the Company provides certain administrative and  
7 billing services to the Pool Manager as part of its Aggregated  
8 Transportation Service (ATS) program. In addition, the Company offers  
9 Individual Transportation Service to customers over 100,000 annual  
10 therms (proposed for reduction to 50,000 therms in this filing). The  
11 Company is proposing to recover the recurring costs to provide service  
12 to the Pool Manager and other potential gas marketers through charges  
13 to the entities causing the cost; that is the Pool Manager and marketers.

14 There are several cost elements I am proposing to allocate to this  
15 new service class. The cost of service study identifies operation and  
16 maintenance expenses related to Customer Accounts on MFR Schedule  
17 H-1, page 3. I allocated certain O&M costs based on the ratio of SGS  
18 variable rate revenues to the projected fuel related revenues collected by  
19 the Pool Manager or other marketers. These revenues are dependent on  
20 volumetric meter readings provide by the Company. SGS revenues from  
21 variable rates in the Projected Test Year are \$306,960. Total therms  
22 sales are projected at 766,380. Assuming an average total fuel price of

1 \$6.00 per Dt, the fuel revenue would total \$459,828. The ratio of these  
2 revenues equals 60% to the TPS and 40% to SGS.

3 I allocated 60% of the costs classified in Account 902 Meter-  
4 Reading Expense and Account 903 Records and Collection Expense to  
5 the TPS class. The allocation from Account 902 totaled \$2,389; the  
6 allocation from account 903 totaled \$6,169. I also assigned 75% of the  
7 incremental increase in salary expense (\$11,700) related to the addition  
8 of a part-time position to help administer the ATS program Account 903).  
9 The total cost allocated to the proposed TPS class is \$20,258.

10 The Company is forecasting that it will provide 6,631  
11 transportation service bills in the Projected Test Year. Dividing the cost  
12 allocation by the number of bills would result in a \$3.06 per bill rate. The  
13 Company is proposing to increase its existing \$2.00 fixed charge per  
14 transportation bill per month to a flat \$3.00. The proposed \$3.00 rate  
15 would generate annual revenue equal to \$19,893 in allocated cost. This  
16 revenue has been reflected in a separate rate class in the Company's  
17 cost of service study and appropriately adjusted out of the target  
18 revenues used to establish rates by volumetric class.

19 **Q. IS THE COMPANY SEEKING RECOVERY OF ANY NON-RECURRING**  
20 **TRANSPORTATION COSTS IN THIS PROCEEDING?**

21 **A.** No. The Company plans to seek authorization from the Commission to  
22 recover the non-recurring costs of its authorized unbundling program  
23 through a Transportation Cost-Recovery Mechanism.



1 **Q. DID YOU CONSIDER THE COMPANY'S RATE OF RETURN FOR**  
2 **YOUR PROPOSED CUSTOMER CLASSES AT PRESENT RATES IN**  
3 **YOUR ANALYSIS?**

4 A. Yes. Prior to designing the Company's final proposed rates I reviewed  
5 the rate of return results for each of the new customer classes. The  
6 returns for each proposed customer class at present rates is displayed  
7 on MFR schedule H-3, page 2. At present rates, it is clear that  
8 substantial rate of return disparities exist within and between classes. It  
9 is also clear that existing rates are not producing positive returns in  
10 virtually all of the Company's proposed rate classes.

11 **Q. HOW DID YOU DEVELOP THE PROPOSED RATES?**

12 A. The Company's proposed rate design results in each customer moving  
13 toward a more uniform contribution to costs compared to present rates.  
14 The final rates were designed on the basis of cost of service by class,  
15 the competitive considerations discussed above and a review of the  
16 current structure of rates and classes. The rate design I am proposing on  
17 the Company's behalf establishes rates of return for each customer class  
18 that continue to improve the historical inequity within and between  
19 classes. The final rate design ensures that each proposed volumetric  
20 class generates a return at the Company's projected cost of capital of  
21 8.65%. Rates of return for each proposed class under projected rates are  
22 included in MFR Schedule H-3, page 3.

1 **Q. IS THE COMPANY PROPOSING CHANGES TO ITS OTHER**  
2 **OPERATING REVENUE CHARGES?**

3 A. No adjustments to other operating revenue charges are proposed. The  
4 forecast of other revenue in the Projected Test Year is \$7,335 and  
5 includes the forecast customer additions. The current other revenue  
6 charges are displayed on MFR Schedule E-1, page 3.

7 **Q. PLEASE COMPARE THE PROPOSED RATES TO THE PRESENT**  
8 **RATES.**

9 A. A comparison of present and proposed base rates and customer charges  
10 by customer class is presented in MFR Schedule H-3, page 5, and is  
11 summarized on Exhibit No. \_\_\_\_ (JMH-3).

12 **Q. HOW MUCH REVENUE WILL THE PROPOSED RATES PRODUCE?**

13 A. The rates and charges are designed to produce additional revenues of  
14 \$232,409, as indicated on MFR Schedule H-3, page 4. Total target  
15 revenues under the proposed rates are \$520,478.

16 **Q. PLEASE SUMMARIZE THE CONCLUSIONS YOU HAVE REACHED**  
17 **BASED ON YOUR COST ANALYSIS AND RATE DESIGN.**

18 A. The cost of service analysis provided a reasonable basis upon which to  
19 begin the design of rates by customer class. I compared the initial results  
20 of the cost study to the Company's historic rates, the competitive cost  
21 analysis and the Company's objective to minimize rate subsidizations  
22 among and within classes. My final rate design brought the rate of return  
23 for all customer classes to the Company's cost of capital. The rate

1 design begins to shift toward a SFV or MFV structure for all accounts. In  
2 the Company's view, the SFV or MPV structure represents the future for  
3 LDC rate design. I believe the proposed rate design is just and  
4 reasonable, producing fair and equitable rates for each customer class.

5 **Q. IS THE COMPANY REQUESTING ANY SUBSTANTIVE REVISIONS**  
6 **TO ITS PRESENT TARIFF OTHER THAN THOSE RELATED TO RATE**  
7 **DESIGN?**

8 A. Yes. The Company's current tariff includes a 100,000 annual therm  
9 eligibility threshold for several types of customers.

- 10 • Alternate Fuel Customers. Customers using over 100,000 annual  
11 therms with fuel alternatives other than SGS gas transportation  
12 service are designated Alternate Fuel Customers and are eligible  
13 for flexible rate under the Company's Contract Transportation  
14 Service (CTS) rate schedule. Refer to Original Sheet No. 14 in the  
15 SGS tariff.
- 16 • Interruptible Customers. Customers using over 100,000 annual  
17 therms who agree to periodically interrupt their Transportation  
18 Service and discontinue operations to the benefit of other  
19 distribution system customers, may be designated an Interruptible  
20 Customer and served under the Special Contract provisions of the  
21 Company's tariff. Refer to Original Sheet No. 14 in the SGS tariff.
- 22 • Special Contract Customers. Customers using over 100,000  
23 annual therms may be served under the terms and conditions

1 other than those in the tariff with the approval of the Commission  
2 through a Special Contract Refer to Original Sheet No. 18 in the  
3 SGS tariff.

4 • Individual Transportation Service Customers. Any customer above  
5 the established annual therm threshold of 100,000 may select a  
6 gas marketer other than the authorized ATS Pool Manager and  
7 transport on an individual basis. Refer to Original Sheet No. 19 in  
8 the SGS tariff.

9 The Company proposes to reduce the annual therm thresholds for each  
10 of the above customer types to 50,000 therms. At present, no existing  
11 customers qualify for any of the above services. At the 50,000 therm  
12 level the Highlands Regional Medical Center would qualify. The lower  
13 level would provide the Company a better opportunity to negotiate  
14 service with potential future larger volume customers.

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

16 A. Yes.

**LIST OF MFR SCHEDULES SPONSORED BY JEFF HOUSEHOLDER**

<u>Schedule</u>	<u>Title</u>
E-1 Pp. 1-3	Cost Of Service - Therm Sales And Revenues
E-2 Pp. 1	Cost Of Service - Revenues At Present And Proposed Rates
E-3 Pp. 1-4	Cost Of Service – Miscellaneous Revenue
E-4 Pp. 1-2	Cost Of Service - Peak Monthly Sales Volumes
E-5 Pp. 1-4	Cost Of Service - Monthly Bill Comparisons
E-6 Pp. 1-5	Cost Of Service – Derivation Of Overall Cost Of Service
E-7 Pp. 1	Cost Of Service – Meter Set And Service
E-8 P. 1	Cost Of Service – Dedicated Facilities
E-9 P. 1	Cost Of Service - Tariff
F-1 P. 1	Calculation Of Interim Rate Relief - Rate Of Return
F-2 Pp. 1-2	Calculation Of Interim Rate Relief - Working Capital
F-3 Pp. 1-3	Calculation Of Interim Rate Relief - Adjustments To Rate Base
F-4 P. 1	Calculation Of Interim Rate Relief - Net Operating Income
F-5 Pp. 1-2	Calculation Of Interim Rate Relief - Net Operating Income Adjustments

F-6	P. 1	Calculation Of Interim Rate Relief - Revenue Expansion Factor
F-7	P. 1	Calculation Of Interim Rate Relief - Revenue Deficiency
F-8	P. 1	Calculation Of Interim Rate Relief - Cost Of Capital
F-9	P. 1	Reconciliation Of Average Capital Structure To Average Jurisdictional Rate Base (Interim)
F-10	P.1	Calculation Of Interim Rate Relief - Deficiency Allocation
G-2	Pp. 6-7	Calculation Of The Historic Base Year+ 1 - Revenues And Cost Of Gas
G-2	Pp. 8-9	Calculation Of The Projected Test Year - Revenues And Cost Of Gas
H-1	P. 1	Cost Of Service – Classification Of Rate Base - Plant
H-1	P. 2	Cost Of Service – Classification Of Rate Base – Accum. Dep.
H-1	Pp. 3-4	Cost Of Service – Classification Of Expense
H-1	P. 5	Cost Of Service – Summary
H-2	P. 1	Cost Of Service – Development Of Allocation Factors
H-2	Pp. 2-5	Cost Of Service - Allocation Of Rate Base To Customer Classes
H-2	P. 6	Cost Of Service - Summary
H-3	P. 1	Cost Of Service –Derivation Of Revenue Deficiency

H-3	P. 2	Cost Of Service – Rate Of Return Present Rates
H-3	P. 3	Cost Of Service – Rate Of Return Proposed Rates
H-3	P. 4	Cost Of Service – Proposed Rate Design
H-3	P. 5	Cost Of Service – Calculation Of Proposed Rates

Exhibit No. JMH-2  
Sebring Gas System, Inc.  
Docket No. 040270-GU



## PROPOSED INTERIM RATE INCREASE BY CLASS



FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE THE ALLOCATION OF INTERIM RATE RELIEF.

TYPE OF DATA SHOWN:  
HISTORIC BASE YEAR DATA: 12/31/03  
WITNESS: HOUSEHOLDER

COMPANY: SEBRING GAS SYSTEM, INC.

DOCKET NO: 040270-GU

YEAR ENDED 12/31/03

LINE NO.	(1) RATE SCHEDULE	(2) BILLS	(3) THERM SALES	(4) CUSTOMER CHARGE	(5) ENERGY CHARGE	(6) TOTAL (4+5)	(7) DOLLAR INCREASE	(8) % INCREASE	(9) INCREASE CENTS PER THERM
1	Residential	5,658	73,372	\$39,608	\$26,047	\$65,653	\$27,678	42.16%	\$0.3772
2	Commercial	1,136	672,525	19,312	178,219	197,531	53,278	42.16%	0.1238
3	Industrial	0	0	0	0	0	0	0.00%	0.0000
4		0	0	0	0	0	0	0.00%	0.0000
5		0	0	0	0	0	0	0.00%	0.0000
6		0	0	0	0	0	0	0.00%	0.0000
7		0	0	0	0	0	0	0.00%	0.0000
8		0	0	0	0	0	0	0.00%	0.0000
9		0	0	0	0	0	0	0.00%	0.0000
10	TOTAL	6,794	745,897	\$58,918	\$204,268	\$263,184	\$110,957	42.16%	\$0.1488

SUPPORTING SCHEDULES: F-7

RECAP SCHEDULES:

COMPARISON OF PRESENT TO PROPOSED RATES BY CLASS

<u>Proposed Rate Schedule</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
TS-1 (Residential)		
Customer Charge per month	\$7.00	\$10.00
Transportation Charge per therm	\$0.3550	\$0.60536
TS-1 (Commercial/Industrial)		
Customer Charge per month	\$17.00	\$10.00
Transportation Charge per therm	\$0.2650	\$0.60536
TS-2 (Residential)		
Customer Charge per month	\$7.00	\$15.00
Transportation Charge per therm	\$0.3550	\$0.50020
TS-2 (Commercial/Industrial)		
Customer Charge per month	\$17.00	\$15.00
Transportation Charge per therm	\$0.2650	\$0.50020
TS-3 (Commercial/Industrial)		
Customer Charge per month	\$17.00	\$17.00
Transportation Charge per therm	\$0.2650	\$0.45647
TS-4 (Commercial/Industrial)		
Customer Charge per month	\$17.00	\$250.00
Transportation Charge per therm	\$0.2650	\$0.34955
TS-5 (Commercial/Industrial)		
Customer Charge per month	\$17.00	\$1350.00
Transportation Charge per therm	\$0.2650	\$0.34375
Third Party Supplier		
Charge per Customer	\$2.00	\$3.00

The Company is proposing substantial changes to its traditional customer classes and rate schedules. As proposed, the current Residential Transportation Service, General Transportation Service and General Transportation Service – Large Volume rate schedules are replaced by five volumetric-based rate schedules without regard to

customer type. Exhibit JMH-2 provides information, similar to that included in MFR Schedules E-2 and E-5, to enable the Commission to compare rates under the existing classes and proposed classes. For example, the proposed TS-1 volumetric class for customers using up to 200 annual therms does not distinguish between residential, commercial or industrial customer classifications. The information on Exhibit JMH-2, however, has been separated to display TS-1 rates for both residential and commercial customer. The Company is not proposing two TS-1 rate classes. The information is provided solely for the purpose of clarifying the Company's proposal. It should be noted that the Company has an existing General Transportation Service – Large Volume rate schedule for customers using over 100,000 therms per year. No customers receive service under this rate schedule.