

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 080318-GU

In the Matter of:

PETITION FOR RATE INCREASE BY  
PEOPLES GAS SYSTEM.

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VOLUME 1

Pages 1 through 113

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PROCEEDINGS: HEARING

BEFORE: CHAIRMAN MATTHEW M. CARTER, II  
COMMISSIONER LISA POLAK EDGAR  
COMMISSIONER KATRINA J. McMURRIAN  
COMMISSIONER NANCY ARGENZIANO  
COMMISSIONER NATHAN A. SKOP

DATE: Wednesday, March 4, 2009

TIME: Commenced at 9:42 a.m.

PLACE: Betty Easley Conference Center  
Room 148  
4075 Esplanade Way  
Tallahassee, Florida

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Official FPSC Reporter  
(850) 413-6734

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7 behalf of Peoples Gas System.

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22 MARY ANNE HELTON, DEPUTY GENERAL COUNSEL, FPSC  
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25 Commission.

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CHAIRMAN CARTER: Good morning. I'd like to call this hearing to order. First of all, welcome to everyone, all the parties and the witnesses and staff and Commissioners. Good morning to you.

Staff, would you please read the notice.

MS. KLANCKE: Certainly. Pursuant to notice issued by the Commission Clerk, this time and place has been set for hearing in Docket 080318-GU.

CHAIRMAN CARTER: Thank you. Let's take appearances.

MR. WATSON: May it please the Commission. I'm Ansley Watson, Jr., of Macfarlane, Ferguson & McMullen appearing on behalf of Peoples Gas System. And I also have with me appearing on behalf of Peoples James D. Beasley of Ausley & McMullen, and it's a pleasure to have him here assisting me.

CHAIRMAN CARTER: Thank you.

MR. MCWHIRTER: John McWhirter appearing on behalf of the Florida Industrial Gas Users Group.

MR. REHWINKEL: Charles Rehwinkel, J.R. Kelly and Patty Christensen on behalf of the citizens of Florida.

MS. KLANCKE: Caroline Klancke and Katherine Fleming on behalf of the Commission.

MS. HELTON: Mary Anne Helton, advisor to the Commission.

1           CHAIRMAN CARTER: Thank you, and good morning to  
2 everyone. Staff, are there preliminary matters?

3           MS. KLANCKE: Yes, Chairman, there are several  
4 preliminary matters to discuss.

5           First, several witnesses have been excused from this  
6 hearing. If you, if you like, I can identify those witnesses  
7 that have been excused.

8           CHAIRMAN CARTER: You may do so.

9           MS. KLANCKE: The following witnesses have been  
10 excused from the hearing: Richard Wall, Susan Richards, Kandi  
11 Floyd, Alan Felsenthal, Daniel Yardley and Jocelyn Stephens.

12           CHAIRMAN CARTER: Okay.

13           MS. KLANCKE: If it's the Commission's preference,  
14 the stipulated prefiled testimony and exhibits of those  
15 witnesses can be taken up in turn as the witnesses are called  
16 at the hearing.

17           CHAIRMAN CARTER: Yes, we'll do that. And also as we  
18 do that, if there are any exhibits with that, we'll do that at  
19 the same time. Okay? You may proceed.

20           MS. KLANCKE: I would also like to note that we have  
21 a Comprehensive Exhibit List that has been distributed to all  
22 parties, and staff recommends that this Comprehensive Exhibit  
23 List be marked as Exhibit Number 1 and moved into the record.

24           CHAIRMAN CARTER: Any objections? Without objection,  
25 show it done.

1 (Exhibit 1 marked for identification and admitted  
2 into the record.)

3 MS. KLANCKE: This exhibit list also includes the  
4 service hearing exhibits that were collected at the service  
5 hearings held in this docket. Staff recommends that the  
6 service hearing exhibits be marked as Exhibit Numbers 2 through  
7 7 and moved into the record.

8 CHAIRMAN CARTER: Any objections? Without objection,  
9 show it done.

10 (Exhibits 2, 3, 4, 5, 6 and 7 marked for  
11 identification and admitted into the record.)

12 MS. KLANCKE: Staff, staff also recommends that  
13 Staff's Composite Exhibit be marked as Exhibit Number 8 on the  
14 Comprehensive Exhibit List and moved into the record.

15 CHAIRMAN CARTER: Are there any objections? Without  
16 objection, show it done.

17 (Exhibit 8 marked for identification and admitted  
18 into the record.)

19 MS. KLANCKE: Chairman, it was also brought to my  
20 attention this morning that Peoples Gas has two errata sheets  
21 to the deposition testimony of Witnesses Gillette and Murry.  
22 It is staff's recommendation that these errata sheets be marked  
23 as a composite Exhibit Number 88 on staff's Comprehensive  
24 Exhibit List.

25 CHAIRMAN CARTER: Okay. That's for Witnesses

1 Gillette --

2 MS. KLANCKE: Gillette and Murry.

3 CHAIRMAN CARTER: -- and Murry.

4 MS. KLANCKE: And at this time copies of these errata  
5 sheets are being handed out for ease of reference.

6 CHAIRMAN CARTER: Okay. Do all the parties have a  
7 copy?

8 MR. WATSON: They will shortly.

9 CHAIRMAN CARTER: Okay. Commissioners, do you all  
10 have a copy?

11 COMMISSIONER EDGAR: It's coming.

12 CHAIRMAN CARTER: Oh, it's coming. See, I told you.

13 What we'll do is that when we get to those witnesses,  
14 we'll deal with admission into evidence at that point in time,  
15 but right now we'll just mark for identification.

16 MS. KLANCKE: For ease, for clarity of the record,  
17 these depositions are already part of Staff's Composite  
18 Exhibit.

19 CHAIRMAN CARTER: Okay.

20 MS. KLANCKE: So perhaps it would be preferable to  
21 move them in at this time.

22 CHAIRMAN CARTER: Okay. Are there any objections?  
23 Without objection, show it done. So this will be Exhibit 88.

24 (Exhibit 88 marked for identification and admitted  
25 into the record.)



1           Okay. May proceed.

2           MS. KLANCKE: Staff recommends that Peoples Gas and  
3 OPC's prefiled exhibits be marked as designated on the  
4 comprehensive list.

5           CHAIRMAN CARTER: Okay. And they're marked in  
6 sequential order.

7           MS. KLANCKE: Yes.

8           CHAIRMAN CARTER: Okay. You may proceed.

9           MS. KLANCKE: Also staff recommends that exhibits  
10 proffered during the technical hearing that, that are not  
11 identified on this Comprehensive Exhibit List be numbered  
12 sequentially following those in this exhibit list beginning  
13 with Number 89.

14          CHAIRMAN CARTER: Are there any objections? Without  
15 objection, show it done.

16          MS. KLANCKE: In addition to those matters of which  
17 we just spoke, staff has prepared a separate document outlining  
18 the proposed stipulations in this docket, it's titled Proposed  
19 Stipulations, for the Commission to vote on at its convenience.  
20 There are several proposed stipulations, including stipulations  
21 on the following issues: 2, 3, 12, 19, 21, 22, 27, 45, 47, 48,  
22 51, 52, 53, 56, 58 and 59. Staff recommends that the proposed  
23 stipulations should be approved.

24          CHAIRMAN CARTER: Has this been agreed to by the  
25 parties?

1 MR. WATSON: Yes.

2 MR. REHWINKEL: Yes. Mr. Chairman, the stipulations  
3 are two types of categories that have traditionally been done  
4 with the Office of Public Counsel; some we affirmatively agree  
5 with and some we take no position on. But, yes, we agree in  
6 that regard.

7 CHAIRMAN CARTER: Thank you.

8 Commissioners, a motion on stipulations.

9 COMMISSIONER EDGAR: Mr. Chairman, I can make a  
10 motion at this time in favor of the proposed stipulations  
11 outlined on the document that our counsel described.

12 COMMISSIONER SKOP: Second.

13 CHAIRMAN CARTER: It's been moved and properly  
14 seconded. Commissioners, any questions on the stipulations?  
15 Hearing none, all those in favor, let it be known by the sign  
16 of aye.

17 (Unanimous affirmative vote.)

18 All those opposed, like sign. Show it done.

19 You may proceed.

20 MS. KLANCKE: I'd like to also note for the clarity  
21 of the record the parties have agreed that Issues 4, 6 and  
22 11 may be dropped as the respective positions as those issues  
23 are contained within the positions of the parties with respect  
24 to other issues that are currently in the record.

25 CHAIRMAN CARTER: Is this an agreement of the

1 parties?

2 MR. McWHIRTER: No objection.

3 CHAIRMAN CARTER: Okay. Show it done.

4 You may proceed.

5 MS. KLANCKE: Chairman, at this time it is my  
6 understanding that Peoples Gas also has an additional  
7 preliminary matter that they would like to address.

8 CHAIRMAN CARTER: You're recognized.

9 MR. WATSON: I have two. The first one may already  
10 have been taken care of by staff. But we filed revised  
11 versions of minimum filing requirement Schedules E1, E2, E5,  
12 H1 and H2 on February 23rd, 2009, and we would ask that the  
13 revised versions of those schedules be substituted for the  
14 schedules originally filed on August 11, 2008, which have been  
15 identified as hearing Exhibit Number 9.

16 CHAIRMAN CARTER: Was that presented to the parties?  
17 Mr. Rehwinkel, do you have that information?

18 MR. REHWINKEL: Yes, Mr. Chairman. On occasion and  
19 historically the Public Counsel's Office has had reservations  
20 and objections to the late entering of minimum filing  
21 requirements. But inasmuch as our position -- we take no  
22 position on the issues these effect because they deal with  
23 allocation among our, the customers that we represent. We have  
24 no position and we also do not believe they represent prejudice  
25 in this case. Thank you.

1 CHAIRMAN CARTER: Okay. Mr. McWhirter.

2 MR. McWHIRTER: We have no objection, Mr. Chairman.

3 CHAIRMAN CARTER: Okay. Show it done.

4 MR. WATSON: Mr. Chairman, the second matter is that  
5 for those Peoples witnesses who have prefiled both direct and  
6 rebuttal testimony, we would ask that they be permitted to  
7 present both their direct and rebuttal testimony at the same  
8 time with one exception, and that would be Dr. Murry. And I  
9 think and hope the Commission will agree that this could  
10 substantially reduce the time required for this hearing.

11 CHAIRMAN CARTER: Okay. Let's hear from the parties.  
12 Mr. Rehwinkel?

13 MR. REHWINKEL: We have no objection.

14 CHAIRMAN CARTER: Mr. McWhirter?

15 MR. McWHIRTER: No objection.

16 CHAIRMAN CARTER: Staff?

17 MS. KLANCKE: Staff has no objection.

18 CHAIRMAN CARTER: Commissioners, any objection?

19 Okay. Show it done. You may proceed. Anything  
20 further?

21 MR. WATSON: That's all my preliminary matters.

22 CHAIRMAN CARTER: Mr. McWhirter, any preliminary  
23 matters?

24 MR. McWHIRTER: No, sir.

25 CHAIRMAN CARTER: Mr. Rehwinkel, any preliminary

1 matters?

2 MR. REHWINKEL: Mr. Chairman, not officially. I just  
3 would like to advise the Chairman that our witness Dr.  
4 Woolridge is a professor at Penn State, is in transit down  
5 here. Due to some confusion mostly on my part about the status  
6 of stipulating witnesses, I gave him an indication that he  
7 wouldn't be required here, and so he's done some juggling. I  
8 think he's going to be here in time to be on the stand, if  
9 needed. I do not believe we'll get to him today. But he, he  
10 is scheduled to be in town late this afternoon.

11 CHAIRMAN CARTER: We'll work with you. We'll work  
12 with you.

13 MR. REHWINKEL: Thank you.

14 CHAIRMAN CARTER: Any preliminary matters,  
15 Mr. McWhirter?

16 MR. McWHIRTER: No, sir.

17 CHAIRMAN CARTER: Okay. Staff, any further  
18 preliminary matters?

19 MS. KLANCKE: Staff is not aware of any additional  
20 preliminary matters at this time.

21 CHAIRMAN CARTER: And before we go to opening  
22 statements, let me just say that the parties will be permitted  
23 ten minutes per side.

24 Are there witnesses that will be testifying today  
25 that are here? All the witnesses that are going to testify,

1 let me swear you in as a group. Would you please stand,  
2 please, all the witnesses? Okay.

3 (Witnesses collectively sworn.)

4 Thank you. You may be seated.

5 Okay. Anything further before we proceed with  
6 opening statements?

7 MS. KLANCKE: No, I'm not aware of anything further  
8 at this time.

9 CHAIRMAN CARTER: Anything from the bench?

10 Okay. You may proceed.

11 MR. WATSON: Mr. Chairman, Commissioners, this has  
12 been a long, grueling process, and I'm personally very happy to  
13 be here before you today. For one thing, it means our  
14 witnesses who have worked very hard for more than a year and  
15 others who have provided assistance to them will finally be  
16 able to present the results of their arduous efforts. For  
17 another, it means that the discovery process is finally over.

18 There is no good time for any public utility to file  
19 a rate case, and the current economy makes this a less good  
20 time than it would otherwise be. Having said that, the base  
21 rate relief Peoples is seeking is absolutely necessary for it  
22 to have the opportunity to earn a reasonable and compensatory  
23 return on its investment in property it has devoted to  
24 providing natural gas service to the public.

25 A utility is not just another business. Virtually

1 all public utilities are extremely capital intensive because of  
2 the infrastructure investments required to serve existing and  
3 future customers who rely on the utility to meet their various  
4 energy needs. Utilities must compete, however, with other  
5 businesses to attract and retain the services of managers,  
6 accountants, engineers, technicians and other employees needed  
7 to operate the business and provide safe and reliable natural  
8 gas service.

9           Natural gas distribution utilities such as Peoples  
10 also operate in an extremely competitive market. Peoples must  
11 compete with every other energy alternative available to its  
12 customers and potential customers. None of these customers  
13 must have natural gas service. They can use propane,  
14 electricity, various fuel oils and solar energy. The few  
15 customers that must have natural gas service can simply bypass  
16 Peoples' distribution system and connect directly to an  
17 interstate or intrastate natural gas pipeline. The fact is  
18 that Peoples' customers use natural gas as a matter of customer  
19 choice, not of necessity.

20           Most of the energy providers with which Peoples  
21 competes to sell its services can change their prices at will,  
22 subject only to the constraints of the market. Peoples is  
23 regulated in terms of its customer relationships. It can't  
24 change its rates for service, which must be based largely on  
25 its cost of providing that service, without coming to this

1 Commission and going through an ordeal such as the one that  
2 started many months ago before the petition in this case was  
3 filed last August.

4           Each of you that attended the customer service  
5 hearings in this case in six cities knows that not a single  
6 customer appeared to complain about Peoples' quality of  
7 service. In fact, with the exception of my colleague  
8 Mr. McWhirter and a non-Peoples customer who appeared in Tampa,  
9 every member of the public that actually appeared came to  
10 praise the company's service. In the past I can recall this  
11 Commission actually rewarding a utility with an increase in its  
12 return on equity under these circumstances.

13           I've always believed a regulated utility should be  
14 able to do what's right; that is, file a case supported by the  
15 facts and reasonable projections, have the Commission staff and  
16 any intervenors look at it thoroughly, as they've done in this  
17 case, and with only minor adjustments receive the rate relief  
18 requested in the petition. That, in my opinion, is what  
19 Chapter 366 of the statutes contemplates.

20           Of the seven base rate proceedings in which I have  
21 represented Peoples Gas, this one comes very, very close to  
22 achieving that goal. But as we all know, that's not what  
23 happens.

24           In this case the Office of Public Counsel has  
25 proposed adjustments to rate base and to operating and



1 maintenance expenses that in some cases defy reality and in  
2 other cases make absolutely no sense. Virtually none are based  
3 on any analysis or reason.

4           One example is a \$2.7 million reduction in O&M  
5 expense that would disallow all of Peoples' incentive  
6 compensation just because it's called incentive. The term  
7 "incentive" means only that a portion of the total compensation  
8 of every Peoples employee and officer is at risk; that is, he  
9 might not be paid if certain goals are not met.

10           Peoples believes its customer service and other  
11 incentive goals are reasonable. But beyond the issue of  
12 whether the goals are reasonable is the fact that the total  
13 compensation, including any incentive, of each Peoples officer  
14 and employee included in this case for ratemaking purposes is  
15 set based on the market average compensation for comparable  
16 positions.

17           Another example is an arbitrary \$2 million reduction  
18 to Peoples' sales and marketing expense. Without even  
19 considering OPC Witness Schultz's proposed \$2 million  
20 reduction, Peoples' sales and marketing expense included in  
21 this case is actually over 18 percent less than the level  
22 approved in the company's last base rate proceeding six or  
23 seven years ago. In fact, the level included is almost  
24 27 percent less than it was in 2001.

25           The most illogical adjustment proposed by

1 Mr. Schultz, however, is an approximately \$11 million reduction  
2 to Peoples' rate base for the year 2008. That adjustment has  
3 two fatal flaws. First, it ignores the method used by Peoples  
4 to project its capital expenditures. More importantly, it  
5 ignores the books and records of the company for 2008 which are  
6 now history. Mr. Schultz's proposed \$11 million reduction of  
7 the historic base year plus one 2008 is totally at odds with  
8 the fact that actual 2008 rate base is some \$6.4 million more  
9 than the projection we included when we did the projections for  
10 this case.

11 What's always unknown is what the Commission will  
12 authorize as the allowed ROE, and there's a wide disparity  
13 between the recommendations of Peoples' witness Dr. Murry and  
14 OPC's witness Dr. Woolridge.

15 This Commission has a long history of providing  
16 investor-owned utilities it regulates with ROEs that will  
17 enable them to attract capital and maintain their financial  
18 integrity so they will be able to ensure the ability to  
19 continue providing the service their customers expect and  
20 deserve.

21 Continued stability in this area is more important  
22 now than it has been in decades, especially considering the  
23 pressure in the capital markets and the impact of those  
24 pressures on Peoples' ability to access and attract essential  
25 capital at reasonable cost to continue meeting customers'

1 energy needs.

2 Peoples is also proposing two innovative riders or  
3 cost recovery mechanisms. The first would address the  
4 regulatory lag in the company's recovery of revenue  
5 requirements associated with government-mandated expenditures  
6 over which a company has no control. The second would assist  
7 Peoples in expanding the availability of clean burning natural  
8 gas to more Florida residents, thereby assisting achievement of  
9 the Governor's goals and those of the Florida Legislature in  
10 reducing the state's carbon footprint.

11 I and everyone at Peoples Gas want to thank the  
12 Commission staff and those with whom we've worked at the Office  
13 of Public Counsel for the professionalism, hard work and  
14 courtesy they've displayed in dealing with this case. Both the  
15 Commission and the OPC should be proud to have such capable and  
16 professional folks working to ensure that the ratepayers of  
17 Florida get the safe, reliable, high quality natural gas  
18 service they deserve while maintaining the financial integrity  
19 of the company serving them. Thank you for this opportunity.

20 CHAIRMAN CARTER: Thank you very much. Nine minutes.  
21 Very good.

22 Mr. McWhirter, you're on.

23 MR. McWHIRTER: Mr. Chairman, I'll try to beat that.

24 CHAIRMAN CARTER: This will be a first.

25 (Laughter.)

1           MR. McWHIRTER: I'd like to say that I agree with  
2 almost everything that Mr. Watson said. My clients have long  
3 been admirers of Peoples Gas since the days when it used to  
4 compete with Tampa Electric Company for customers.

5           My customers are -- some of my clients are somewhat  
6 unique. They don't buy gas, natural gas from Peoples. They  
7 use the Peoples system to transport gas over the Peoples  
8 pipeline. They pay Peoples, according to Peoples' cost of  
9 service study, between a 10 percent and 15 percent overall  
10 return on the investment dedicated to serve these people. This  
11 compares quite favorably -- or unfavorably in our view to the  
12 8.88 percent that it's seeking overall in this case, and that's  
13 the reason they haven't suggested a rate increase.

14           My clients can bypass the Peoples system, should they  
15 elect to do so. And they haven't done so because we've been  
16 able to reach a mutual accord on what, what our, what they pay  
17 to use the Peoples pipelines.

18           The remaining characteristic of my clients' service  
19 is that they are interruptible customers. If there's a time in  
20 which there's a shortage of gas brought on by weather-related  
21 things or storm-related things, they can, Peoples can take the  
22 gas that belongs to my clients and use it to reliably serve the  
23 rest of their load. We straighten it up at the end of the  
24 month every month, every year, every month. But those are the  
25 characteristics that set these clients apart.

1           We have no serious objection to the Peoples rate  
2 case. As I say, we've longed admired them. And although he  
3 says that I appeared at the service hearing in opposition to  
4 them, I was trying to be helpful.

5           We do, however, have some regulatory concerns. This  
6 is the first, or not the first but one of the first in a series  
7 of major rate cases that are going to come before you, and some  
8 of the precedents that you set in this case are going to be  
9 binding on other cases. And so in that regard, there are three  
10 regulatory, four regulatory characteristics of this case that  
11 we are very concerned about because of the precedent they would  
12 set in other areas.

13           The first is the return on equity that is sought by  
14 Peoples Gas Company. My clients have not presented a witness  
15 in this case, but we rely on the witness supplied by the Public  
16 Counsel and support the Public Counsel's position.

17           The other very serious aspect in my opinion about  
18 this case is what I call the creeping test year concept. This  
19 case, they sought a test year -- they requested the approval of  
20 a test year and notified the Commission that a rate case was  
21 about to be filed in June of 2008. They began to assemble  
22 information in June and July of 2008 for minimum filing  
23 requirements that were submitted in August. So the information  
24 that's in this case is based upon information that was gathered  
25 in 2008. But the utility uses a projected test year, and the

1 test year they're seeking to have approved in this case is a  
2 test year ending January -- December 31st, 2009. Heretofore  
3 there's, over the years there have been disputes about test  
4 years. The dispute revolves around the statutory requirement  
5 that the Commission must set rates based upon a utility plant  
6 that is actually in used and useful service at the time you  
7 consider the rate case.

8           The first case that came up was the Miami case, City  
9 of Miami case versus Earl Faircloth, who was then the Attorney  
10 General, and the Commission was using a year, year-end test  
11 year. In other words, it would take the historical year and  
12 what their plant was at the year end. And the court approved  
13 the Commission's use of a year-end historical year in that case  
14 based on the hypothesis that there was great growth in Florida.

15           Later on in 1974 in a Gulf case -- and to keep from  
16 going beyond the time, Mr. Chairman, this is very exciting and  
17 very interesting to you, but I'm going to deal with most of it  
18 in the brief.

19           Over a period of time we've gone into what's now  
20 known as a projected test year. It was first approved by the  
21 Supreme Court in a Florida Power & Light case, and they  
22 distinguished in that case the permanent rate case from the  
23 interim increase that was sought by Florida Power & Light. And  
24 they let -- in 1981 they let Florida Power & Light use a  
25 year-end 1981 test year because the Commission in the permanent

1 case could mandate a refund. But since that time when  
2 Commissioner Cresse came on the Commission, and he was a budget  
3 guy and everybody loved him, we went to this projected test  
4 year. And the most that's ever been granted before was the  
5 test year, the -- generally it's the year, end of the year in  
6 which a rate case is filed. This one is a year and a half  
7 away. The FP&L case that you have coming down the pike is  
8 seeking a test year ending December 31st, 2010. What that does  
9 is lets the utility develop a phantom rate base upon which  
10 rates are set, and that's a matter of great concern to me.

11 The other two items of concern are the carbon  
12 reduction rider and the relocate or replace, pay taxes, et  
13 cetera, cost recovery rider. That's what I describe it. He  
14 describes it the relocation rider. But what that does is when  
15 they add to the system -- and this is pipes, this is not a  
16 volatile thing like our ever-changing gas prices or something  
17 that might create a serious emergency because of regulatory  
18 lag. When their pipes wear out, under this rider they're able  
19 to replace the pipes and put that in the rate base and it goes  
20 in as a cost recovery item. There's no volatility to it. It's  
21 a standard type of thing that's covered in a base rate case.  
22 This is another area where regulatory law is swiftly changing  
23 to guaranteed cost recovery and away from the opportunity to  
24 make a return on the investment that's actually in the ground.

25 So with those statements we'll go forward with the

1 case, and I appreciate the opportunity to be here. Thank you  
2 very much.

3 CHAIRMAN CARTER: Thank you, Mr. McWhirter. For the  
4 record, that is a record for you. Outstanding. Seven minutes.  
5 Thank you.

6 Mr. Rehwinkel.

7 MR. REHWINKEL: Thank you, Mr. Chairman, and good  
8 morning, Commissioners. The Office of the Public Counsel views  
9 this case a little differently than Peoples Gas in many ways.  
10 Of course, there are obviously some things about their filing  
11 which we do not take issue. Several issues have been  
12 stipulated, witnesses have been stipulated. I do suspect the  
13 reason the case has not been settled is because there remain  
14 matters upon which we have honest yet fundamental differences  
15 of opinion about.

16 Peoples Gas has brought before you a case that at  
17 another time might have been analyzed and contested a little  
18 differently. Unfortunately perhaps for them at the time they  
19 put their case together the overall and Florida economies were  
20 softening but had not yet reached the dire conditions that  
21 exist today.

22 Our case acknowledges that a need for rate relief  
23 exists for the company. What we do not acknowledge is that the  
24 need exists at nearly the level that has been requested.

25 I ask you to listen to the testimony on several key



1 areas. The evidence in these areas must be viewed and weighed  
2 against the extraordinary and historic times in which we find  
3 ourselves today. You heard it in the Tampa Electric case a few  
4 weeks back, you have heard it in the news relative to rate  
5 increases of other large companies, Floridians are hurting,  
6 hundreds of thousands are out of work, others have had pay and  
7 benefits curtailed, businesses are closing and bankruptcies are  
8 up. The real estate market is stagnant, to put it kindly.  
9 These are matters of everyday common knowledge which need not  
10 be ignored by decision makers in the quasi-legislative arena  
11 that is PSC ratemaking. You have heard it from Mr. Watson.  
12 You have heard from Mr. Watson. You will hear the OPC's  
13 viewpoint as well in these opening statements. You must,  
14 however, wait to hear the evidence, and I know that you will.

15 Our case focuses on four major areas that must be  
16 viewed against the general economic climate. I would urge you  
17 to keep in mind that this case, as Mr. McWhirter has pointed  
18 out, is based upon a projected test year that was based upon a  
19 budget development process that was undertaken far earlier in  
20 the year than ordinarily done and at a time when the economic  
21 woes of 2009 were not known, and well before the credit crisis  
22 and the onset of deep recession in the fall of 2008.

23 Of these issues, first we question the requested  
24 return on equity increase from the currently authorized ROE of  
25 11.25 to 11.5 percent. We believe the evidence will show that

1 this is excessive. We believe the evidence will show that  
2 under the traditional rate of return on equity standards of the  
3 Commission the ROE should be no more than 9.25 percent. The  
4 evidence will also show that the company's request is 125 basis  
5 points above the ROEs that the company's very own list of  
6 comparable gas companies are currently receiving. The evidence  
7 will show that 100 basis points on ROE equals \$4.5 million in  
8 revenue requirements. That 125 basis point difference I just  
9 mentioned is about \$5.6 million in revenue requirements or cost  
10 to the customers.

11           Secondly, the company has made projections of the  
12 rate base growth that, based on evidence that you will hear, we  
13 question in light of the current economy and the realities of  
14 the real estate market which drive its revenue producing growth  
15 in plant. Please listen to the evidence and ask if these  
16 subjective projections are reasonable in today's economy.

17           Third, we believe that the evidence will show that  
18 compensation in the way of bonuses, stock options, restricted  
19 stock and other mechanisms of incentive compensation are  
20 excessive and inconsistent with their stated purposes. In  
21 these historic and extraordinary times we submit that it is not  
22 reasonable to expect customers to bear these types of costs at  
23 a time when the labor market may also not be as competitive as  
24 it has been in the past.

25           Fourth, the evidence will show, we believe, that

1 Peoples has entered into a contract with an affiliate to market  
2 its services to large developers at a time when customer growth  
3 and the real estate market are virtually stalled. We ask you  
4 to pay close attention to whether this transaction with a  
5 sister company is cost-effective both to the company and to its  
6 customers and if it is reasonable in light of the minimal  
7 benefits that the evidence will show. These issues are the  
8 essence of the revenue requirements aspect of this case.

9           On matters of policy, Peoples ask you to create two  
10 riders that would allow them to surcharge the customers for  
11 certain types of capital costs. These are unprecedented  
12 requests and we believe unwarranted. You will hear evidence as  
13 to the characteristics of the costs that Peoples asks to be  
14 included in the riders. We believe the evidence will not  
15 support the notion that these are the type of costs that are  
16 volatile and susceptible of scrutiny outside of a base rate  
17 case.

18           We also urge you to ask whether it is prudent for the  
19 Commission to create riders in this case when other types of  
20 capital cost recovery mechanisms have been created by the  
21 Legislature. We urge restraint and that you refrain from  
22 usurpation of the Legislative prerogative, especially when the  
23 Legislature has not had an opportunity to act in this area.

24           I'd like to conclude by commending the  
25 professionalism of the Peoples Gas Company and their

1 representatives. They have conducted themselves professionally  
2 and responsibly and honor the process before this Commission.  
3 Our disagreement is not a personal one, nor is it an attack on  
4 the way they have done and continue to do business.

5 I've said it before and it bears repeating, we find  
6 ourselves in remarkable and historic times. Customers are  
7 hurting in a real and substantive way. We ask that you  
8 scrutinize the evidence in light of the judgment that has to  
9 occur in projecting conditions. In ordinarily -- in ordinary  
10 times the exercise of that judgment is difficult. In today's  
11 worsening economy it is deserving of much more scrutiny and  
12 perhaps heightened skepticism. We ask you to remember that the  
13 burden of proof is on the company. They hold the cards, they  
14 have the information when they pick the test year. They make  
15 the subjective decisions about projections and the use of their  
16 budget process. They are asking you to accept that judgment.  
17 We ask you to take that task with somewhat of a skeptical eye  
18 that holds them to their burden of proof. We ask that with a  
19 sense of urgency that fits the economic situation of the day.  
20 Thank you very much.

21 CHAIRMAN CARTER: Thank you very kindly.

22 Just before we get into calling the witnesses, just a  
23 couple of comments. First of all, I want to give every party  
24 and every witness time that they need to do the job that they  
25 are here to do, but would ask for your cooperation. To that

1 end, I would like to ask the parties to make every effort to  
2 limit friendly cross. Also, I'd like to ask the parties not to  
3 conduct discovery during this proceeding. And, finally, I'd  
4 like to remind the attorneys that you're responsible for  
5 briefing your witnesses. They have five minutes to summarize  
6 their testimony before they proceed, so we're holding you to  
7 that. Obviously, I appreciate having the professionalism of  
8 the attorneys that come before us to respect the rules and  
9 procedures that we operate against here.

10 And with that, Commissioners, anything further before  
11 we allow to call the first witness? You're recognized. You  
12 may call your first witness.

13 MR. WATSON: We'd call William Cantrell.

14 Pardon me, Commissioners, if I crane my neck. It's  
15 very difficult to see the witness.

16 WILLIAM N. CANTRELL

17 was called as a witness on behalf of Peoples Gas System and,  
18 having been duly sworn, testified as follows:

19 DIRECT EXAMINATION

20 BY MR. WATSON:

21 Q Could you state for the record your name and business  
22 address.

23 A William N. Cantrell. My business address is  
24 702 North Franklin Street, Tampa, Florida 33602.

25 Q And by whom are you employed and in what capacity?

1           A     I'm the President of the Peoples Gas Division of TECO  
2 Energy.

3           Q     Did you prepare and cause to be prefiled in this  
4 proceeding direct testimony consisting of 24 pages?

5           A     Yes, I did.

6           Q     Do you have any corrections or changes to that  
7 testimony?

8           A     I do not.

9           Q     And attached to your direct testimony did you file  
10 three exhibits premarked as Exhibits WNC-1 through WNC-3 and  
11 identified as hearing Exhibits 10, 11 and 12?

12          A     Yes, I did.

13               MR. WATSON: Mr. Chairman, we'd ask that  
14 Mr. Cantrell's exhibits WNC-1, WNC-2 and WNC-3 be formally  
15 identified for the record as hearing Exhibits 10, 11 and 12  
16 respectively.

17               CHAIRMAN CARTER: For the record, show it done just  
18 for identification purposes.

19               (Exhibits 10, 11 and 12 marked for identification.)

20 BY MR. WATSON:

21          Q     Mr. Cantrell, do you have any changes to your  
22 exhibits?

23          A     No, I do not.

24          Q     If I were to ask you the questions in your prefiled  
25 direct testimony today, would your answers be the same?

1           A     Yes, they would.

2                   MR. WATSON:  Mr. Chairman, we'd ask that  
3 Mr. Cantrell's direct testimony be inserted into the record as  
4 though read.

5                   CHAIRMAN CARTER:  The prefiled testimony of the  
6 witness will be inserted into the record as though read.

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1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is William N. Cantrell and my business address is 702 N.  
3 Franklin Street, Tampa, Florida 33602.

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

5 A. I am the President of Peoples Gas System ("Peoples" or the "Company")  
6 and have served in that position since 1997.

7 Q. PLEASE PROVIDE A BRIEF OUTLINE OF YOUR  
8 EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

9 A. After growing up in Tampa, Florida and attending H.B. Plant High  
10 School, I attended the Georgia Institute of Technology, graduating in 1974  
11 with a Bachelor of Science degree in Electrical Engineering. In 2005, I  
12 was honored as a Distinguished Engineer Alumnus from Georgia Tech. I  
13 attended evening classes at the University of Tampa and graduated Magna  
14 Cum Laude in 1979 with a Masters Degree in Business Administration. I  
15 am a long time trustee of the University of Tampa. I began my  
16 professional career in June 1974 with Florida Power Corporation and  
17 began working for Tampa Electric in June 1975. I worked in various  
18 departments, including Power Plant Engineering, Environmental Planning,  
19 Generation Planning, Fuels and Production. In 1997, I became the  
20 President of Peoples Gas System. Currently, I am a board member of the  
21 Florida Natural Gas Association and the Southern Gas Association  
22 ("SGA") of which I will become chairman in 2009, and am a trustee of the  
23 American Gas Foundation ("AGF").

24 Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES?

25 A. As President, I am responsible for establishing the goals and objectives of



1 the Company. These include ensuring the safety, training, and overall  
2 welfare of our workforce, providing excellent service to our customers and  
3 the communities we serve, expanding our infrastructure to the tens of  
4 thousands of Floridians who desire natural gas for comfort, value and  
5 environmental responsibility, and delivering a reasonable return to  
6 shareholders who have invested in our company.

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

8 A. I will provide an overview of how Peoples operates its distribution system  
9 to provide high quality service to our customers. I will describe the  
10 important benefits that natural gas provides to Florida and how Peoples  
11 can support energy policy in the state. I will also explain why Peoples is  
12 seeking increases in its base rates at this time. In doing so, I will describe  
13 some of the more significant factors that have contributed to the  
14 Company's decision to seek rate relief, as well as some of the actions the  
15 Company has taken to avoid having to do so until the filing of this case. I  
16 will also identify the other witnesses who will provide direct testimony in  
17 support of the Company's case and will give a brief summary of the  
18 subject matter on which they will testify.

19 **Q. HAVE YOU PREPARED OR CAUSED TO BE PREPARED ANY**  
20 **EXHIBITS TO BE INTRODUCED IN THIS PROCEEDING?**

21 A. Yes. I am sponsoring, and prepared or caused to be prepared Exhibits  
22 \_\_\_\_ (WNC-1) through \_\_\_\_ (WNC-3), to which I will refer later in my  
23 testimony.

24 **Q. PLEASE PROVIDE SOME BACKGROUND INFORMATION ON**  
25 **PEOPLES, INCLUDING ITS ORGANIZATIONAL STRUCTURE,**

1           **AND THE TERRITORY AND CUSTOMERS IT SERVES.**

2    A.    Peoples Gas System is a subsidiary of TECO Energy, Inc. (“TECO  
3           Energy”), and currently operates the largest natural gas distribution system  
4           in the State of Florida. Peoples became part of TECO Energy in June  
5           1997. At that time, Peoples served about 200,000 customers in 19  
6           counties. As of the end of December 2007, the Company provided natural  
7           gas service to over 334,000 customers in 37 counties. Of this total,  
8           approximately 305,000 were classified as residential customers and 29,000  
9           were classified as commercial or industrial customers. During the year  
10          ended December 31, 2007, Peoples sold 70,086,000 therms to its  
11          residential customers, and transported or sold 1,332,458,000 therms to its  
12          commercial and industrial customers, for a total of 1,402,544,000 therms.  
13          A “therm” is a unit of heat equal to 100,000 British Thermal Units or  
14          BTUs.

15                 Peoples has been a leader in safety, winning awards from the  
16                 American Gas Association (“AGA”) for several years. As described later,  
17                 Peoples has strived for and been successful at continuously improving  
18                 customer service.

19                 The distribution systems through which Peoples delivers gas to its  
20                 customers are located in 14 separate geographical areas (divisions) within  
21                 Florida, and these areas are combined into three “regions” that serve well  
22                 over 100 franchised areas, as well as adjacent non-franchised areas. The  
23                 regions are currently structured as follows:

24                         the **South Region**, consisting of the Daytona Beach, Eustis,  
25                         Orlando, Palm Beach, Southwest Florida and Dade-Broward

1 divisions;  
2 the **West Region**, consisting of the Tampa, St. Petersburg,  
3 Lakeland, Avon Park and Sarasota divisions; and  
4 the **North Region**, consisting of the Jacksonville, Panama City and  
5 Ocala divisions.

6 Each region is administered by a General Manager who is  
7 responsible for all operations and maintenance within the region. These  
8 General Managers report to the Vice-President, Operations. Peoples'  
9 corporate headquarters, located in Tampa, includes corporate offices and  
10 staff, as well as support services for the regions. A map showing  
11 generally the areas within which Peoples currently distributes gas is  
12 attached to my testimony as Exhibit \_\_\_(WNC-1).

13 **Q. HOW DOES PEOPLES OBTAIN THE NATURAL GAS IT**  
14 **DELIVERS TO ITS CUSTOMERS?**

15 A. The natural gas Peoples delivers to customers through its distribution  
16 system is received directly through three interstate pipelines, each  
17 regulated by the Federal Energy Regulatory Commission, or "FERC."  
18 Natural gas is delivered through Florida Gas Transmission Company  
19 ("FGT"), through Southern Natural Gas Company ("Southern") in  
20 Peoples' Jacksonville division, and through Gulfstream Natural Gas  
21 System ("Gulfstream") in Peoples' Lakeland, Tampa, Sarasota, Avon Park  
22 and Orlando divisions. Receiving gas supply through multiple interstate  
23 pipelines gives Peoples valuable flexibility and reliability in providing and  
24 maintaining service to its customers. The map attached to my testimony  
25 as Exhibit \_\_\_(WNC-2) visually depicts the locations of the three

1 interstate pipelines.

2 **Q. IN GENERAL, HOW DOES PEOPLES DETERMINE ITS**  
3 **SOURCES OF NATURAL GAS SUPPLY?**

4 A. Peoples uses a competitive bidding process to obtain a portfolio of  
5 supplies from numerous third-party suppliers that reflects balance among  
6 cost, reliability and operational flexibility in order to meet its obligation as  
7 a public utility to provide safe, adequate and efficient service to the  
8 general public.

9 **Q. IS PEOPLES ABLE TO PURCHASE ALL ITS SUPPLIES FOR A**  
10 **LONG TERM AT A LOW FIXED PRICE TO STABILIZE THE**  
11 **COST OF GAS IT DELIVERS TO ITS SALES CUSTOMERS?**

12 A. It could, but it wouldn't be prudent to do so. Peoples' system supply  
13 requirements vary significantly not just from year to year, but month to  
14 month and day to day. Demand for gas often varies dramatically within a  
15 month. Even though Peoples, as required by the Commission's rules,  
16 made transportation service available to all non-residential customers in  
17 2000, customers continue to transfer from sales service to transportation  
18 service under the Company's Natural Choice program, and each transfer  
19 requires the Company to reassess its system supply requirements (*i.e.*, the  
20 requirements of the Company's sales customers).

21 Consumption of gas by Peoples' transportation customers varies  
22 significantly from day to day. Because Peoples receives significant  
23 portions of the total transportation volumes at a uniform daily delivery  
24 rate, Peoples must often increase or decrease quantities purchased for its  
25 system supply by significant increments to balance daily receipts and

1 deliveries of gas. Peoples must buy some of its total system requirements  
2 under “swing” contract arrangements, and uses swing gas, peaking gas,  
3 pipeline balancing volumes and pipeline no-notice service to meet extreme  
4 variations in delivered volumes.

5 **Q. DOES PEOPLES EARN A RETURN ON THE GAS IT SELLS TO**  
6 **ITS SALES CUSTOMERS?**

7 A. No. The costs of the gas commodity, and its transportation to the  
8 Company’s system, are recovered by the Company on a dollar-for-dollar  
9 basis through the purchased gas adjustment (“PGA”) clause, and are not  
10 the subject of this case. Peoples’ bill to a transportation customer includes  
11 no charges for the gas commodity since the customer has purchased it  
12 from an entity other than Peoples. The Company makes no profit on the  
13 gas, and is indifferent as to whether a customer eligible for transportation  
14 service selects that service or sales service. The base rate for service is the  
15 same in either case.

16 **Q. WHAT IS THE DIFFERENCE BETWEEN “SALES” CUSTOMERS**  
17 **AND “TRANSPORTATION” CUSTOMERS?**

18 A. Sales customers purchase natural gas from Peoples on a “delivered” basis;  
19 that is, Peoples buys the gas from a supplier, has it delivered to the  
20 Peoples system through an interstate pipeline on which Peoples has  
21 contracted for capacity, and delivers the gas through the Company’s  
22 distribution system to each customer’s meter. Sales customers receive a  
23 single bill each month from Peoples, which includes applicable base rate  
24 charges that are the subject of this case, a PGA charge to recover the cost  
25 of the gas and other charges (various taxes, energy conservation charges,

1 franchise fees, etc.). Sales customers consist primarily of residential and  
2 small commercial customers.

3 **Q. WHAT IS A “TRANSPORTATION” CUSTOMER?**

4 A. There are two types of transportation customers. The first type consists of  
5 customers -- generally larger volume users -- who buy their natural gas  
6 from a supplier or marketer other than Peoples. These customers arrange  
7 for their gas to be delivered to an interstate pipeline, and contract with the  
8 pipeline to transport the gas to the Peoples system. These customers also  
9 contract with Peoples to deliver the gas across Peoples' system to their gas  
10 consuming facilities.

11 The second type of transportation customer is one whose usage  
12 may not be large enough to justify the customer's contracting individually  
13 with a gas supplier for supply, and/or with an interstate pipeline for the  
14 capacity required to deliver the gas to the Peoples system. These  
15 customers are served under Peoples' Natural Choice Transportation  
16 Service program. They contract with a natural gas marketer that has been  
17 qualified by Peoples as a “pool manager,” and participate in a “pool” of  
18 customers. The pool manager buys gas for the entire customer pool it  
19 serves, and holds transportation capacity on an interstate pipeline to  
20 deliver the gas to the Peoples system. Peoples transports the gas it  
21 receives from the pipeline for the pool manager's account (which  
22 customers in the pool have purchased from the pool manager) to the  
23 customers' locations. These customers receive two bills each month -- one  
24 from the pool manager for the cost of the gas as delivered to the Peoples  
25 system, and one from Peoples for transporting the gas through its system

1 to the customers' locations.

2 **Q. HOW DOES PEOPLES RECEIVE DELIVERIES OF NATURAL**  
3 **GAS FROM THE INTERSTATE PIPELINES YOU'VE**  
4 **MENTIONED AND THAT ARE DEPICTED ON EXHIBIT**  
5 **\_\_(WNC-2)?**

6 A. As I stated earlier, Peoples receives its gas supplies through three  
7 separately owned transmission pipeline systems – FGT, Southern and  
8 Gulfstream -- each regulated by the FERC. FGT was the first pipeline to  
9 deliver natural gas in Florida in the late 1950s. FGT delivers natural gas  
10 to Peoples through interconnects or “city gates” at more than 59 locations  
11 from Panama City to Miami. Southern began delivering natural gas to  
12 Peoples in or about 1991 in the Jacksonville area at one city gate.  
13 Gulfstream began delivering natural gas in Florida in 2002 through a  
14 pipeline system that originates in Mobile, Alabama, proceeds along the sea  
15 bed of the Gulf of Mexico, and makes landfall in Manatee County,  
16 Florida. Peoples receives natural gas from Gulfstream at six different  
17 locations, primarily in central Florida. As I also mentioned earlier,  
18 receiving natural gas supply through multiple interstate pipelines gives  
19 Peoples valuable flexibility and reliability in providing and maintaining  
20 service to its customers.

21 **Q. HOW DO CUSTOMERS IN FLORIDA UTILIZE NATURAL GAS?**

22 A. Residential customers use gas for a variety of uses including water and  
23 space heating, cooking and clothes drying. Commercial natural gas  
24 customers use gas in many of the same ways and include hospitals and  
25 associated health care facilities, lodging, education, food service, grocery

1 stores, laundry, dry cleaning and recreation facilities. Industrial customers  
2 use gas in a variety of ways and include businesses such as construction  
3 (production of shingles, drywall, cement and asphalt), agriculture (fruit  
4 processing, freeze protection and aquaculture), manufacturing (aluminum  
5 extrusion, steam generation, paper and phosphate), and food processing  
6 (dairy, bakery and bottled water).

7 **Q. PLEASE PROVIDE AN OVERVIEW OF TRENDS IN**  
8 **RESIDENTIAL GAS USE.**

9 A. Compared to many areas of the United States where natural gas is nearly a  
10 necessity for home heating because of cold winters, average usage per  
11 residential customer in Florida is low. That already low usage per  
12 customer has been gradually declining due to a number of factors, not the  
13 least of which is Peoples' aggressive conservation programs. However,  
14 although usage per customer is declining, existing and new residents of  
15 Florida continue to want access to natural gas because of its beneficial  
16 characteristics. While our customer base and the costs to serve that  
17 growing base have continued to increase, because we have helped our  
18 customers use natural gas more efficiently our revenues have not increased  
19 proportionally.

20 **Q. WHAT ARE SOME OF THE BENEFITS OF NATURAL GAS?**

21 A. First, most of the natural gas Peoples distributes is domestically produced.  
22 Approximately 84% of natural gas consumed in the United States is  
23 produced in the United States and most of the remaining 16% is produced  
24 in Canada.

25 Next, natural gas is extremely reliable. Transmission capacity into



1 Florida has tripled in the last 10 to 12 years. As I have described, we now  
2 have multiple interstate transmission pipelines in multiple corridors  
3 bringing natural gas into Florida and the capacity on those pipelines is  
4 already planned to increase further. In addition, natural gas storage  
5 facilities and the import of liquefied natural gas ("LNG") augment the  
6 supply picture.

7 **Q. ARE THERE OTHER BENEFITS FROM UTILIZING NATURAL**  
8 **GAS?**

9 A. Yes. Natural gas is a very energy efficient fuel. It can be used directly in  
10 appliance and other applications without the energy loss associated with  
11 the conversion to electricity. When the full cycle of producing, processing  
12 and transporting is considered, natural gas, when delivered directly to a  
13 customer is about 90% efficient compared to about 30% if electricity is  
14 utilized. There are several benefits derived from this high energy  
15 efficiency. The first benefit is that if natural gas is employed in direct use  
16 applications, less total energy is used to provide the same or enhanced  
17 service to our customers. The second benefit is that if natural gas is  
18 employed in direct use applications, power plants do not have to operate  
19 as much. In fact in 2007, had Peoples residential customers and only 25  
20 percent of commercial customers used all electric appliances, the  
21 construction of an additional 600 megawatt power plant would have been  
22 required to generate over 3.5 million MWh of power.

23 Finally, natural gas is the cleanest of all fossil fuels. In addition to  
24 containing little or no sulfur, particulates or mercury, natural gas has 30  
25 percent less carbon than oil and 45 percent less carbon than coal. So,

1 when natural gas is combusted, there is less carbon dioxide (CO<sub>2</sub>) emitted.  
2 Combining the low carbon content of natural gas with the energy  
3 efficiency of its direct use results in opportunities to greatly reduce our  
4 carbon footprint. "Carbon footprint" is a measure of the impact human  
5 activities have on the environment in terms of the amount of CO<sub>2</sub>  
6 produced. Studies have shown that a consumer replacing an electric water  
7 heater with a natural gas tankless water heater can reduce his or her carbon  
8 footprint by about 3,000 pounds annually. Adding a dryer, range and  
9 furnace to the water heater can result in a total reduction of about 4,000  
10 pounds of carbon dioxide annually. Displacing the 3.5 million MWh of  
11 electricity I have just mentioned with natural gas applications would  
12 provide a reduction of over 1.5 million tons of carbon dioxide on an  
13 annual basis. Thus, direct use of natural gas should play a vital role as a  
14 solution to environmental challenges in the future.

15 Peoples has aggressively promoted the efficient use of natural gas  
16 in the past, through our conservation programs and appliance rebates and  
17 through expanding our distribution system to provide natural gas, and  
18 therefore carbon reduction, to customers in many areas around the state.  
19 Our company plans to continue these activities in the future.

20 **Q. DO YOU HAVE ANY EMPIRICAL OR OTHER EVIDENCE THAT**  
21 **DEMONSTRATES THE EFFICIENCY AND ENVIRONMENTAL**  
22 **BENEFITS YOU HAVE DESCRIBED?**

23 **A.** Yes. Earlier this year, Black and Veatch Corporation released a study  
24 titled "Direct Use of Natural Gas – Implications for Power Generation,  
25 Energy Efficiency, and Carbon Emissions." The study was prepared for

1 the AGF and its purpose was to examine the market impact of the  
2 increased direct use of natural gas for residential and commercial end uses.

3 **Q. WHAT MARKET IMPACTS WERE ADDRESSED?**

4 A. Black and Veatch focused on overall energy usage, total energy costs, and  
5 total CO<sub>2</sub> emissions for a wide range of scenarios encompassing high and  
6 low CO<sub>2</sub> restrictions, high and low technology and high and low gas  
7 supply cases.

8 **Q. WHAT WERE THE RESULTS OF THIS STUDY?**

9 A. In all scenarios the increased direct use of natural gas reduced overall  
10 energy consumption, reduced the total price of energy and lowered total  
11 carbon emissions. In addition, a significant amount of new power  
12 generation was avoided. The Executive Summary of the study is attached  
13 to my testimony as Exhibit \_\_\_(WNC-3). I want to point out that this  
14 study concluded that Florida is one of the areas in the United States that  
15 would most benefit from the increased direct use of natural gas.

16 **Q. WHAT IS THE SIGNIFICANCE OF THESE BENEFITS IN THIS**  
17 **CASE?**

18 A. The United States Congress continues to consider the passage of  
19 legislation that addresses climate change issues by mandating, in some  
20 fashion, reduction of carbon emissions. The Florida Legislature this year  
21 also passed legislation requiring various actions to reduce energy usage  
22 with the goal of reducing carbon emissions. It is clear from the AGF  
23 study that increasing the availability and direct use of natural gas is a very  
24 cost-effective way to help accomplish this goal.

25 However, despite the benefits of natural gas I have just described,

1 and the state and national pressure to lower carbon emissions, expanding  
2 our system to make natural gas available to more areas and customers in  
3 the state is a real challenge.

4 **Q. TO WHAT CHALLENGE DO YOU REFER?**

5 A. Most of our customer additions are new homes in new housing  
6 developments. Many of these developments are located some distance  
7 from interstate natural gas transmission pipelines or our existing gas mains  
8 and are built out over multiple years. Unless Peoples is able to commit to  
9 a developer that we will extend our gas mains to the project prior to the  
10 time construction of the development commences, the developer will not  
11 be willing to design the homes for gas use. So Peoples must spend  
12 significant capital dollars up front, even though revenues only grow  
13 gradually over multiple years as homes are completed and families move  
14 in. Without the ability to recover these up front costs in a timely manner,  
15 Peoples is not always able to make this commitment. Then, as additional  
16 development occurs in the same area, construction becomes more costly  
17 and thus even more challenging. As a result, customers lose the  
18 opportunity to have natural gas service and the state loses the opportunity  
19 for significant carbon reductions. Lewis Binswanger will describe this  
20 challenge in more detail and support the Company's proposal to address  
21 this.

22 **Q. IN GENERAL, WHAT RELIEF IS PEOPLES SEEKING IN THIS**  
23 **RATE PROCEEDING?**

24 A. Peoples is proposing an increase in its base rates to account for changes in  
25 its rate base and operating expenses since its last base rate proceeding.

1           The Company is also seeking approval for two new tariff-based cost  
2           recovery mechanisms. The new base rates and other mechanisms will  
3           provide Peoples a better opportunity to achieve its allowed rate of return  
4           and recover its cost of service, and allow the Company to better provide  
5           safe, reliable service in a manner that is environmentally responsible and  
6           consistent with federal and state policies.

7           **Q.   WHEN WAS PEOPLES LAST RATE PROCEEDING?**

8           A.   Peoples' last rate case (Docket No. 020384-GU) was filed in June 2002.  
9           The final order (Order No. PSC-03-0038-FOF-GU) was issued on January  
10          6, 2003, and a clarifying order (Order No. PSC-03-0415-FOF-GU) was  
11          issued on March 25, 2003. Through those orders, the Commission  
12          authorized the Company to revise its rates and charges so as to produce a  
13          return on common equity ("ROE") within the range of 10.25% to 12.25%,  
14          with a midpoint of 11.25%.

15          **Q.   IS PEOPLES CURRENTLY EARNING A REASONABLE RETURN**  
16          **ON COMMON EQUITY?**

17          A.   No. The Company's achieved ROE as of December 31, 2007 was 9.96%  
18          and, based on the Company's projections, is expected to drop further by  
19          the end of 2008. As Paul Higgins will testify, without rate relief, the  
20          adjusted ROE for 2009 is expected to drop further to 5.61%.

21          **Q.   WHAT ARE THE ADDITIONAL REVENUES FOR WHICH**  
22          **PEOPLES SEEKS APPROVAL IN THIS CASE?**

23          A.   Based on the 2009 projected test year, the Company requires a revenue  
24          increase of \$26,488,091 to earn a fair return on its investment.

25          **Q.   WHY IS IT NECESSARY FOR PEOPLES TO SEEK RATE**

1           **RELIEF AT THIS TIME?**

2       A.     In the more than five years since Peoples was last authorized to increase or  
3           adjust its rates, a number of factors have contributed to the necessity for  
4           the Company to seek this adjustment. The Consumer Price Index ("CPI")  
5           during the period 2002 through 2007 increased more than 17%, which has  
6           not only required that the Company pay more for the goods and services it  
7           purchases, but also contributed to a steady increase in the level of the  
8           Company's direct and indirect payroll costs. The core of Peoples'  
9           infrastructure investment consists of thousands of miles of steel and plastic  
10          pipe of varying diameters. The costs of these materials have increased by  
11          more than the average increase in the CPI since the Company's last rate  
12          case. The cost of steel pipe of the diameters generally used by Peoples has  
13          more than doubled, and corresponding costs of plastic pipe have increased  
14          more than 45%. Additionally, as Mr. Higgins will testify, the costs of  
15          insurance and health care have continued to escalate at rates significantly  
16          higher than that of general inflation. Since Peoples' last rate case,  
17          additional compliance costs, such as those associated with Pipeline  
18          Integrity Management requirements of the U.S. Department of  
19          Transportation's Pipeline and Hazardous Materials Safety Administration,  
20          have been imposed on the Company, and have contributed to the increase  
21          in the cost of providing service to customers. As a final example, Donna  
22          Hobkirk will testify that the depreciation rates ordered by the Commission  
23          as a result of the Company's last depreciation study (Docket No. 060496-  
24          GU) resulted in a substantial increase in depreciation expense.

25                   Notwithstanding the added customers and the accompanying

1 increase in the size of the Company's distribution system, the Company  
2 has been experiencing a declining use per residential customer from the  
3 average usage levels on which our current rates were based. As Susan  
4 Richards will testify, this continues a pattern that gas distribution  
5 companies across the nation have experienced over the last couple of  
6 decades. This long-term pattern is partially due to increasing appliance  
7 efficiency and tighter building standards, but in addition, Peoples has  
8 embraced and aggressively promoted energy efficiency with technologies  
9 like tankless water heaters, which use fewer therms a year than tank water  
10 heaters. The decline in per-customer use has accelerated in recent years  
11 due to price elasticity associated with the rising cost of natural gas. Our  
12 residential customers now use approximately 11% less gas than they did in  
13 2002. That is more than one month's average usage. Our combined  
14 efforts have lowered customer's bills over the last six years and we are  
15 proud of the achievement. However, since the recovery of costs under  
16 Peoples' current rate design is largely based on customers' consumption of  
17 gas, the declining use per customer has, in effect, penalized Peoples for its  
18 conservation efforts, and adversely impacted Peoples' ability to recover its  
19 cost of service and earn a reasonable rate of return.

20 **Q. IS ENERGY EFFICIENCY IMPORTANT TO FLORIDA?**

21 **A.** Yes. This is one of the most important issues facing Peoples and its  
22 customers at this time. It is also fundamentally important for state energy  
23 policy. Peoples needs to be able to expand its system to offer the energy  
24 efficiency and carbon reduction benefits of the direct use of gas in lieu of  
25 electricity to more citizens of Florida. That will increase gas use in those

1 applications but decrease gas use overall through less need for gas-fired  
2 power generation. Peoples also needs to continue promoting conservation  
3 and energy efficiency to all of its customers by offering programs and  
4 incentives for efficient gas use. That also decreases overall gas use  
5 through efficiency but decreases Peoples' revenues and therefore its  
6 ability to earn its allowed return.

7 Over the last two years, I have monitored what other utilities are  
8 doing to address these opportunities, participated in numerous conferences  
9 and roundtable debates addressing the issues, worked with independent  
10 groups to refine and clarify calculations and conclusions, and led efforts to  
11 communicate the importance of these findings. In particular, I have met  
12 with hundreds of stakeholders in Florida, including customers, city and  
13 county officials, business leaders and elected officials. Although  
14 continuing dialogue will reveal even more opportunities, our proposals in  
15 this proceeding will provide immediate solutions to the challenge of  
16 meeting increasing needs of our population in an energy efficient, cost  
17 effective way.

18 **Q. WHAT CAPITAL INVESTMENTS HAS PEOPLES MADE SINCE**  
19 **ITS LAST RATE PROCEEDING?**

20 A. The Company has continued to expand its pipeline distribution system in  
21 order to make natural gas available as an energy-efficient, low-carbon  
22 energy choice to more customers in Florida. In addition, Peoples has  
23 invested capital to maintain facilities necessary to operate our system in a  
24 safe and reliable manner. Peoples also spends significant capital dollars to  
25 relocate its lines as required for municipal and other governmental



1 improvement projects. During the period 2004 through 2007, Peoples has  
2 made capital expenditures of over \$182 million to provide service to  
3 existing and new customers. As Bruce Narzissenfeld will testify, during  
4 2008 and the 2009 projected test year, we will spend an additional \$122  
5 million. Since new base rates were last set by the Commission, the  
6 estimated impact on Peoples' revenue requirements have been increased  
7 by more than \$25 million just by the expansions of the Company's  
8 distribution system to add approximately 100,000 new residential and  
9 commercial customers.

10 **Q. WHAT EFFORTS HAS PEOPLES MADE SINCE ITS LAST RATE**  
11 **CASE TO CONTROL OPERATING EXPENSE LEVELS?**

12 A. Peoples has made substantial efforts to control expense levels and avoid  
13 the need for rate relief. The Company has implemented organizational  
14 and operational enhancements through consolidation of facilities, and  
15 standardization of business practices and processes that have helped to  
16 control operating and maintenance expenses for the benefit of the general  
17 body of ratepayers. For example, we improved our operations by reducing  
18 our division offices from 15 to 14. We also combined our four regional  
19 areas into three, thereby reducing supervisory and administrative costs.  
20 Since its last case, Peoples has also combined its four separate call centers  
21 into a single virtual call center. This resulted in additional reductions of  
22 supervisory and administrative costs. Through these restructurings,  
23 Peoples was able to reduce its workforce by approximately 11% while  
24 improving service levels. As a result of these and other measures,  
25 Peoples' annual operating and maintenance expense has increased only

1 modestly since the last rate case at an average annual rate of 3.9%.

2 **Q. HAVE THERE BEEN SPECIFIC ACTIONS TAKEN BY PEOPLES**  
3 **TO IMPROVE THE LEVEL OF SERVICE PROVIDED TO**  
4 **CUSTOMERS?**

5 A. Yes. Peoples has invested heavily in improving service to customers since  
6 our last rate case. I mentioned previously that we had consolidated from  
7 four separate regional call centers into a single virtual call center. This  
8 consolidation allowed us to centralize leadership for the function and  
9 standardize procedures and service levels for all of our customers. Our  
10 call center agents are focused on meeting the needs of our customers and  
11 because of their constant contact with customers are often the first ones to  
12 identify areas where we can take action and improve service. One area  
13 they identified as an area of opportunity was meter reading. Customers  
14 are more security conscious than ever before, and as a result our meter  
15 readers are increasingly challenged by fences and locked gates that force  
16 us to estimate meter readings. But estimated reads frustrate customers and  
17 often lead to unexpected true-ups when actual reads can be taken. In  
18 response, we put in place a company-wide initiative to hold estimates to  
19 1% or less of all of our reads. Our team members have focused hard and  
20 have met this target through increased communication with customers and  
21 the use of automated meter reading on the most inaccessible meters.

22 Another challenge customers gave us was to provide next day  
23 service when they called us to have service restored or turned on. We felt  
24 strongly that our customers deserved this enhanced level of service and  
25 have accomplished it successfully for more than two years now.

1           We've also made investments in technology that have enhanced  
2           service levels for our customers. In just the last year, we have replaced the  
3           Interactive Voice Response ("IVR") system for our call center. The new  
4           IVR system is easier for customers to use and offers services that were not  
5           available in our previous system. Customers can now find a convenient  
6           location for automated bill payment, or obtain contact information for a  
7           licensed gas contractor 24 hours a day, seven days a week. With our old  
8           system, this information was only available when speaking with a  
9           customer service representative during normal business hours. We have  
10          seen the number of customers whose needs are met entirely without ever  
11          needing to talk with one of our agents increase about 40%. This has made  
12          our agents more accessible to those customers who actually need to speak  
13          with us.

14           We also brought our electronic bill website online earlier this year  
15          and customers have responded positively to the option of receiving their  
16          monthly bills online.

17       **Q.   HOW DO YOU MEASURE THE SUCCESS OF CUSTOMER**  
18       **SERVICE INITIATIVES SUCH AS THESE?**

19       A.   It is difficult to measure success with any real precision. However, one  
20          measure would be the level of customer complaint activity at the  
21          Commission. During 2007, a total of 74 complaints were made to the  
22          Commission by Peoples' more than 334,000 customers. Thirty-seven  
23          were related to service, and 37 to billing. While I would obviously prefer  
24          to have no complaints of any kind, that is probably unrealistic, but the 74  
25          complaints represent only about two one hundredths of one percent of

1 Peoples' total customer base. We hope the very small number of  
2 complaints suggests the Company's customer service efforts are well  
3 received.

4 **Q. WILL THE BASE RATES AUTHORIZED IN PEOPLES' LAST**  
5 **RATE CASE PRODUCE THE COMPANY'S CURRENTLY**  
6 **AUTHORIZED RATE OF RETURN?**

7 A. No. As Mr. Higgins will testify, absent the rate relief sought, projections  
8 for the 2009 projected test year show an overall rate of return of 6.02%,  
9 equating to an ROE of 5.61%. This ROE can be compared to the 11.25%  
10 ROE midpoint currently authorized by the Commission, and to the 11.50%  
11 ROE midpoint supported by Dr. Donald Murry, and is not adequate to  
12 maintain Peoples' financial integrity.

13 **Q. WHY WON'T THE BASE RATES AUTHORIZED IN THE LAST**  
14 **RATE CASE PRODUCE THE AUTHORIZED RATE OF RETURN?**

15 A. The Company's authorized rates are currently inadequate primarily  
16 because of the effects of inflation and the capital invested to respond to  
17 customer demands for natural gas. The service rates authorized in the  
18 Company's last rate proceeding were based on the costs the Company was  
19 projected to incur in its fiscal year ended December 31, 2003. Peoples is  
20 seeking approval in this proceeding for rates necessary to recover its cost  
21 of service for the 2009 projected test year. Although the Company has  
22 been successful in expanding its customer base, the effects of continuing  
23 inflation on the Company's operating and construction costs, declining  
24 base rate revenues from existing customers and the continued expansion  
25 and improvement of the Company's distribution system, have combined to

1 render the previously authorized rates inadequate for recovery by the  
2 Company of its cost of service. Those rates will not produce a fair rate of  
3 return on the property of the Company used and useful in providing public  
4 service in the projected test year.

5 **Q. WHAT OTHER WITNESSES WILL TESTIFY ON BEHALF OF**  
6 **PEOPLES IN THIS PROCEEDING, AND ON WHAT AREAS OR**  
7 **TOPICS WILL THEY TESTIFY?**

8 A. There are 11 other witnesses who will provide direct testimony on behalf  
9 of Peoples.

10 Gordon Gillette, the Chief Financial Officer of TECO Energy, will  
11 testify regarding the Company's capital structure, the Company's  
12 strategies with respect to credit ratings and access to capital markets, and  
13 why no debt should be imputed to Peoples through a parent company debt  
14 adjustment.

15 Dr. Donald Murry, of C. H. Guernsey & Company, will present  
16 testimony with respect to the appropriate ROE for Peoples.

17 Donna Hobkirk, Manager, Plant Accounting, will testify with  
18 respect to the Company's plant in service during the historic base year, the  
19 depreciation expense and reserves associated with that plant, and non-  
20 utility allocations of plant.

21 Bruce Narzissenfeld, Vice President of Operations, will describe  
22 the capital expenditures planned by the Company during 2008 and the  
23 2009 projected test year.

24 Alan Felsenthal, of Huron Consulting Group, will address several  
25 aspects of the income tax calculations submitted by Peoples in this

1 proceeding.

2 Richard Wall, General Manager, South Region, will present  
3 information used to develop the miscellaneous service charges in the  
4 Company's tariff.

5 Susan Richards, Manager, Budget and Finance, will testify  
6 regarding customer and throughput forecasts and the base revenue budget  
7 for the 2009 projected test year.

8 Paul Higgins, Assistant Controller, will testify with respect to the  
9 Company's budget process, the O&M benchmark calculation, and the  
10 calculation of and foundation for the revenue requirements in the 2009  
11 projected test year. He will also present the Company's proposals to  
12 establish a storm damage reserve, to change the method of recovering the  
13 portion of bad debt expense attributable to the cost of gas, and for the  
14 treatment of off system sales for purposes of this case.

15 Daniel Yardley, of Yardley and Associates, will testify regarding  
16 the cost of service study, billing determinants and appropriate rate design.

17 Lewis Binswanger, Director, Strategic Planning and Regulatory,  
18 will explain in more detail how we operate, and present testimony on the  
19 appropriateness of the Gas System Reliability Rider and the Carbon  
20 Reduction Rider for which the Company is seeking approval.

21 Finally, Kandi Floyd, Manager, State Regulatory, will present the  
22 new and revised tariff sheets reflecting the requested rate adjustments and  
23 other tariff changes for which Peoples seeks the Commission's approval  
24 and explain some of the non-rate tariff changes for which Peoples is  
25 seeking approval.

1 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

2 A. Peoples adjusted its base rates and customer charges in early 2003 as a  
3 result of the Commission's final orders in the Company's last rate case.  
4 Since then, Peoples has invested significant capital to provide clean,  
5 reliable, energy efficient natural gas to a growing customer base. Peoples  
6 continuing activities related to conservation, energy efficiency and system  
7 expansion are critical to state energy and environmental policy goals.  
8 Peoples has also worked hard to mitigate the impacts of rising costs in  
9 areas such as healthcare, materials and supplies, and depreciation expense,  
10 and to identify ways to address the impact of declining usage per  
11 customer.

12 Despite these efforts, the Company's earnings are now below the  
13 bottom of its authorized earnings range and are expected to decline  
14 further. These facts have made it necessary that Peoples request  
15 adjustments in its base rates and customer charges.

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

17 A. Yes, it does.

18

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25

1 BY MR. WATSON:

2 Q Please summarize your direct testimony.

3 A Good morning, Commissioners. Thank you for the  
4 opportunity to appear today and provide an overview of our  
5 case.

6 Peoples Gas delivers natural gas to over 334,000  
7 customers throughout Florida. This natural gas is used to heat  
8 buildings, cook food, dry laundry, heat water, generate  
9 electricity, melt raw materials, dry products, sterilize  
10 instruments, and for many other applications in homes,  
11 hospitals, hotels, restaurants, manufacturing and power plants.

12 Natural gas is a premiere fuel. It is extremely  
13 reliable, it is energy efficient, it's environmentally clean,  
14 and for the most part it's produced right here in North  
15 America. Peoples Gas has worked hard to expand its system to  
16 provide this product to an ever-increasing number of customers  
17 who want access to natural gas for comfort, value, lifestyle,  
18 and increasingly to reduce their carbon footprint.

19 Since our last rate proceeding in 2002, the company  
20 has added over 100,000 new customers and installed or replaced  
21 more than 1,500 miles of gas main in the more than  
22 200 communities that we serve. Unfortunately, the costs of  
23 providing this service have risen and the company has found it  
24 necessary to request an increase in rates that will allow us to  
25 continue to provide the high quality of service our customers



1 value and have come to expect.

2 We do not take this request lightly. We know that  
3 our customers have been impacted with the same types of cost  
4 increases that we have, and they have choices when it comes to  
5 their choice of energy fuel. This is a very competitive  
6 business. We have worked very hard and very successfully over  
7 the years in managing our costs; however, we are at the point  
8 where we need to make rate changes.

9 Our average residential customers use 11 percent less  
10 gas than they did at the time of our last proceeding. That's a  
11 very significant decrease. And our energy conservation  
12 programs are one of the main reasons for this lower usage,  
13 which represents more than one month's gas usage. Although we  
14 are requesting higher monthly customer charges, we're also  
15 requesting lower energy or usage charges. At gas commodity  
16 prices that we've seen over the last few years, that means that  
17 our average residential customer's total gas bill at today's  
18 usage levels will remain almost unchanged from those six years  
19 ago.

20 We recognize that natural gas plays an important role  
21 in key federal and state energy policy. Peoples Gas knows it  
22 has a key role in helping implement these policy changes.  
23 Continued expansion of natural gas service to more Florida  
24 residents will lower overall energy usage, lower overall energy  
25 costs, lower carbon emissions, and help defer the need for new

1 power plants. Expansion of natural gas usage in Florida will  
2 also help meet the Governor's energy and environmental goals.  
3 Through our recommended changes included in this filing Peoples  
4 Gas believes it will be well positioned to help transform these  
5 goals into reality. That concludes my summary.

6 MR. WATSON: Mr. Cantrell is tendered for  
7 cross-examination.

8 CHAIRMAN CARTER: Mr. McWhirter.

9 MR. McWHIRTER: I have no questions for Mr. Cantrell.

10 CHAIRMAN CARTER: Mr. Rehwinkel.

11 MR. REHWINKEL: Thank you, Mr. Chairman.

12 CROSS EXAMINATION

13 BY MR. REHWINKEL:

14 Q And good morning, Mr. Cantrell.

15 A Good morning.

16 Q You became President of Peoples Gas at the time of  
17 acquisition by Tampa Electric; is that right?

18 A That's correct.

19 Q And that was in 1997.

20 A That's correct.

21 Q And you have been the only President of the company  
22 since acquisition by Tampa Electric; is that correct?

23 A That is correct.

24 Q Mr. Cantrell, you filed your test letter on  
25 June 12th, 2008, and your petition on August 11th, 2008; is

1 that right?

2 A I believe that's right.

3 Q Now you, and I don't necessarily mean you personally,  
4 but you, Peoples Gas, made the decision to request the 2009  
5 test year; is that right?

6 A That's right.

7 Q Do you have a copy of the test year letter that you  
8 filed?

9 A I believe I do.

10 MR. REHWINKEL: Mr. Chairman, I'm going to ask him a  
11 couple of questions about the letter. I have copies to pass  
12 out, if you would like to see it.

13 CHAIRMAN CARTER: You may proceed.

14 MR. REHWINKEL: I'm also going to, while we're  
15 logistically doing this, pass out several other exhibits that I  
16 may ask him questions about just in the interest of time.

17 CHAIRMAN CARTER: Just using them for  
18 cross-examination purposes?

19 MR. REHWINKEL: Yes.

20 CHAIRMAN CARTER: Okay. Thank you.

21 MR. REHWINKEL: I don't know if it needs to be  
22 identified to be admitted because I believe it is already going  
23 to be part of the record as is.

24 CHAIRMAN CARTER: Okay. Staff, is that correct?  
25 Okay. So we won't worry about that. You may, you may proceed.

1 BY MR. REHWINKEL:

2 Q Okay. Mr. Cantrell, could you read aloud the last  
3 sentence in the second full paragraph on Page 1 of the letter?

4 A "The proposed 2009 test year will most accurately  
5 reflect the economic conditions during the first 12 months the  
6 new rates will be in effect."

7 Q That sentence was written nearly nine months ago; is  
8 that right?

9 A That's correct.

10 Q Okay. Do you still believe that sentence to be the  
11 case?

12 A It was the case when we wrote the letter and it was  
13 our best projection at the time. Certainly there are things  
14 that have changed.

15 Q So the answer would be, no, it's probably not still  
16 the case?

17 A If we filed our case today, there would be several  
18 things that have changed.

19 Q On the second page of the letter on, I think, I guess  
20 it is the third full paragraph, can you read the second  
21 sentence that begins, "Since Peoples' last historic"? Do you  
22 see that?

23 A Yes, sir. "Since Peoples' last historic base year,  
24 the Consumer Price Index, CPI, has increased more than  
25 17 percent, not only requiring the company to pay more for the

1 goods and services it purchases, but also contributing to a  
2 steady increase in the level of the Company's direct and  
3 indirect payroll costs."

4 Q Is the Consumer Price Index still increasing as you  
5 saw it to be in June of 2008?

6 A I want to answer yes or no to be responsive, but I  
7 think it's yes for 2008, probably not for 2009. But we're only  
8 a couple of months into 2009.

9 Q In fact, CPI or Consumer Price Index-U has dropped  
10 dramatically in recent months, has it not?

11 A I haven't seen a report on exactly what it's been the  
12 last couple of months, so I can't answer that.

13 Q Okay. Are you aware that the CPI is below zero for  
14 the first time since 1955?

15 A I believe someone showed me a number that was below  
16 zero this morning, but I did not know that beforehand.

17 Q Okay. Okay. You state on Page 17 of your testimony  
18 that you have met with hundreds of stakeholders in Florida,  
19 including customers, city and county officials, business  
20 leaders and elected officials; is that right?

21 A That's correct.

22 Q Now you state that in the context of, the concept of  
23 or the subject of conservation; is that right?

24 A That's correct.

25 Q Okay.

1           A     Conservation and energy and environmental policy.

2           Q     Okay.  But wouldn't it be fair to say that the  
3 contact with these stakeholders, many of whom are your  
4 customers, has revealed a very serious economic concern on  
5 their part?

6           A     Could you repeat that?

7           Q     Okay.  Wouldn't it be fair to say that your contact  
8 with these stakeholders and your conversations with them, many  
9 of whom are your customers, has revealed to you a very serious  
10 economic concern on their part?  Concern about the economy.

11          A     No.  No.

12          Q     No?

13          A     None of these meetings that I've referenced that I've  
14 had around the state with stakeholders, some of whom are our  
15 customers, the discussion was totally about energy and  
16 environmental policy and what natural gas could do to benefit  
17 those.

18          Q     So do you have conversations with your customers that  
19 indicate to you that they are hurting and that they're having  
20 trouble economically with their business?

21          A     In the current time frame?

22          Q     Yes.

23          A     Absolutely.

24          Q     Okay.  These customers, business and residential and  
25 governmental alike, are facing job loss and economic hardships

1 the likes of which have not been seen in decades. Would you  
2 agree with that?

3 A I would agree with that.

4 Q Okay. Exhibit WNC-1 to your testimony shows the  
5 areas in the state where you serve; is that right?

6 A Yes, it does.

7 Q Is there any part of that shaded area that you can  
8 point me to that has been immune to the impacts of the current  
9 economic crisis?

10 A No.

11 MR. REHWINKEL: Okay. Do you have before you -- I've  
12 passed out, Mr. Chairman, and I believe the parties and  
13 Mr. Cantrell have it, a press release from the Agency for  
14 Workforce Innovation, a State of Florida agency, dated  
15 January 23rd, 2009. Do you have that document?

16 CHAIRMAN CARTER: That's the second that you just  
17 passed out --

18 MR. REHWINKEL: Yes, Mr. Chairman.

19 THE WITNESS: Would you describe that again?

20 BY MR. REHWINKEL:

21 Q It says, "AWI Press Release Dated January 23rd,  
22 2009." It's 17 pages, so it's a relatively thick document. I  
23 hope I --

24 CHAIRMAN CARTER: Yeah. It's the second document in  
25 the stack you passed out.

1           MR. REHWINKEL: I may not have -- I intended to give  
2 this to you when I gave it to Mr. Watson.

3           THE WITNESS: I don't believe I have that one, unless  
4 it's stuck to something and I'm not finding it here.

5           MR. REHWINKEL: I'd like to hand this to him.  
6 Mr. Watson, is this one I gave to you before the hearing? I  
7 intended to. I -- yes.

8           MR. WATSON: Charles, I don't believe I saw it  
9 actually.

10          MR. REHWINKEL: Okay. Well, I apologize. My intent  
11 was, as I communicated to you, to show you what I was going to  
12 ask Mr. Cantrell about.

13 BY MR. REHWINKEL:

14          Q     I would just like to ask you a couple of questions  
15 about this, if you don't mind, Mr. Cantrell.

16                 On the first page under the cover sheet, do you see  
17 where it says that the Florida seasonally adjusted unemployment  
18 rate for December 2008 is 8.1 percent at the very top of the  
19 page?

20          A     Yes, I see that.

21          Q     That doesn't surprise you, does it?

22          A     No, it does not.

23          Q     Okay. As President of Peoples Gas, you're generally  
24 aware of the economic conditions in the state.

25          A     I am.



1 Q Do you see in the beginning, in the top line  
2 of the second paragraph, actually the third paragraph, that  
3 in the last year, from December 2007 to December 2008,  
4 255,200 Floridians have lost jobs?

5 A I see that.

6 Q Okay. Does that surprise you?

7 A No.

8 Q Okay. Can I ask you to turn to Page 15 of that press  
9 release. At the top of the page do you see that this is the  
10 listing of standard, or metropolitan statistical areas within  
11 the State of Florida and their December 2008 preliminary  
12 unemployment rate?

13 A I'm on that page and I see that list.

14 Q Okay. Can you tell me among the metropolitan  
15 statistical areas above the state average of 8.1 percent that  
16 we saw on the first page, which of those -- can you read out to  
17 me which of those are in, contain parts of your service  
18 territory?

19 A Palm Coast, Ocala, Cape Coral, Fort Myers, Punta  
20 Gorda. I'm not sure about Port St. Lucie. There are several  
21 gas utilities that serve in and around that area.

22 Q Okay.

23 A Sebastian and Vero Beach is not in our service  
24 territory. Panama City is, Lakeland is, but Winter Haven is  
25 not. That's in Central Florida's territory. Daytona Beach is.

1 Melbourne and Titusville is not. Bradenton, Sarasota, Venice  
2 is. Tampa and St. Petersburg are in our service territory.  
3 Clearwater is not. And then Naples is, but I don't think any  
4 natural gas utility serves Marco at this point.

5 Q Okay. Thank you. As President of Peoples Gas, is it  
6 important for you to understand the major drivers of growth in  
7 your business?

8 A Yes, it is.

9 Q And you must know your customers; is that right? I  
10 mean, you must know who your customers are. I don't mean by  
11 name, but you must understand the nature of their business.

12 A Yes. What's driving their decisions?

13 Q Yes.

14 A Yes. Absolutely.

15 Q You must also know the real estate market; is that  
16 right?

17 A We need to have a pretty good understanding of what's  
18 happening in the real estate market. That's right.

19 Q And you also must be aware of other major sectors  
20 like manufacturing and tourism; is that right?

21 A That's correct.

22 Q You would agree, would you not, that the real estate  
23 market in Florida and in your territory is, is faring poorly at  
24 this time?

25 A I agree with that.

1 Q Okay. Would you agree with Dr. Murry that it is in a  
2 meltdown?

3 A I don't know how you define meltdown, but it's  
4 probably a decent term to describe what's going on.

5 Q Okay. What about manufacturing? Is that, to the  
6 extent that's in your territory, hurting?

7 A Usage for many manufacturing facilities is down. If  
8 I could elaborate though.

9 Q Yes.

10 A In many cases we're getting new requests. For  
11 example, we've got opportunity right now to extend lines to  
12 serve six or seven asphalt plants around our service territory.  
13 There's a steel plant that's coming online south of Ocala. So  
14 although usage per customer is being affected in many of those  
15 segments, in the commercial sector at least we're seeing no  
16 drop-off at all in the number of new customers that want  
17 natural gas service for us -- from us.

18 Q What about gypsum plants or drywall manufacturers?

19 A I know that one of the two national gypsum plants  
20 that we serve has, has either shut a, a part of its plant down  
21 or all. I am not familiar what U.S. Gypsum has done up in the  
22 Jacksonville area at this point.

23 Q Do you have with you -- I don't know if I passed this  
24 out -- the July 2008 Variance Report that is, starts at Bate  
25 stamp 5386 and is part of Public Counsel POD Number 3?

1 A Is that something you handed me earlier?

2 Q I'm not sure if I did or not. It's one I advised  
3 Mr. Watson ahead of time that I was going to ask you about.  
4 Yes. I can pass this out.

5 Mr. Chairman, I'd like to pass out an exhibit for  
6 cross-examination purposes.

7 CHAIRMAN CARTER: You may proceed.

8 BY MR. REHWINKEL:

9 Q And this is OPC POD Number 3 response, Bate stamp  
10 page 5386 to 5404. Do you have that with you now?

11 A I do have that in front of me now.

12 MR. REHWINKEL: Okay. Mr. Watson, do you want to  
13 wait to get it before I start asking him?

14 MR. WATSON: I have it, Charles.

15 BY MR. REHWINKEL:

16 Q Okay. This is a variance report that, the type of  
17 which you receive regularly; is that correct?

18 A That's correct.

19 Q Okay. And on Bate stamp page 5396, which looks to be  
20 Page 10 of the variance report --

21 A I'm there now.

22 Q -- this shows a large customer variance report year  
23 to date for the period ending July 31, 2008. Do you see that?

24 A Yes. I'm on that page now.

25 Q Okay. In the far right column under the heading

1 Variance, kind of a little more than halfway down the page you  
2 see some large negative variances; is that right?

3 A A little bit more than halfway down the page?

4 Q Yes.

5 A Are you talking about --

6 Q Under the column that starts Ameristeel. But I'm  
7 looking -- halfway in that section there there's a line,  
8 there's an ID number 265772 BPB America D/B/A BPB Celotex.

9 A I see that one. Yes.

10 Q Okay. Is that a drywall manufacturer?

11 A I do not know.

12 Q Okay. What about National Gypsum Company?

13 A National Gypsum definitely is a drywall, wallboard  
14 manufacturer.

15 Q Okay. What is their variance for year to date in  
16 July dollar, from a dollar --

17 A You're asking me to read from the next to the last  
18 column on the right?

19 Q That's correct. Yes. Under the word "Variance".

20 A 1.88 million.

21 Q Okay. What about United States Gypsum at the very  
22 bottom of that section, is that a drywall manufacturer?

23 A Yes, it is.

24 Q Okay. What is their variance?

25 A 3,245,000.

1 Q Okay. So these are obviously manufacturers who are  
2 not using as much gas as you had expected them to when you set  
3 your budget; is that right?

4 A That's correct. I might point out that there's an  
5 awful lot that are using more on this.

6 Q Yes.

7 A And I'd refer back to my other comment that we have a  
8 lot of new customers asking for natural gas, which is what  
9 really drives a lot of our construction cost.

10 Q But the drywall manufacturers certainly are  
11 indicative of the housing industry in Florida and the nation;  
12 is that right?

13 A Absolutely. That's going to move with housing  
14 starts.

15 Q Okay. On page -- what about tourism and related  
16 industries like restaurants? Is that sector doing, faring  
17 relatively poorly?

18 A Which of the two sectors? Tourism you mentioned.

19 Q Tourism and related service industries like  
20 restaurants.

21 A I haven't looked at the load we have with SeaWorld  
22 and Busch Gardens and some of those lately. I would, I  
23 would -- I shouldn't estimate. I would assume that they'd be  
24 off a little bit. Actually since gasoline prices came down  
25 again we actually had a step up in that. I do know that

1 restaurants are off some, although we added more than a  
2 thousand new restaurants last year to our system.

3 So, again, usage for a lot of our customers is down  
4 on existing customers, but we're also getting a significant  
5 number of new requests for natural gas service.

6 Q On Page 3 of that variance report, could you turn to  
7 that? This is your variance explanations section.

8 A Yes.

9 Q You're familiar with this, are you not?

10 A Yes, I am.

11 Q Up in the top half of the page there's an indication  
12 that you had undertaken to look at review of, make a review of  
13 commercial classes to see kind of why things were changing. Is  
14 that fair?

15 A Well, I believe it is. But where are you reading  
16 from so I can follow with you?

17 Q I'm looking in the second full paragraph that begins,  
18 "The Commercial classes."

19 A The sentence that starts, "Upon continued review of  
20 the commercial classes"?

21 Q Yes. Correct.

22 A Yes. Yes, we do. We look at that carefully.

23 Q Okay. And in your, the second, the sentence that  
24 follows that that starts, "This would further indicate."

25 A Are you asking me to read that?

1 Q I'm just referring you to that sentence.

2 A Okay.

3 Q Therein you also are identifying there a variance  
4 based on a negative economic impact; is that correct?

5 A That's correct.

6 Q And that there was a decline in the per therm bill  
7 for eating and drinking places, and you note that a number of  
8 Bennigans closed and had an impact on your net revenue; is that  
9 right?

10 A That's correct.

11 CHAIRMAN CARTER: Okay. Would you yield for a  
12 moment, Mr. Rehwinkel?

13 MR. REHWINKEL: Yes.

14 CHAIRMAN CARTER: Commissioner Skop.

15 COMMISSIONER SKOP: Thank you, Mr. Chairman.

16 Just a question to Mr. Rehwinkel. I'm trying to  
17 follow along here and I'm trying to gain a better appreciation  
18 in terms of the line of, the extensive line of questioning in  
19 relation to the direct testimony, and if you could help me  
20 better understand the point. I know that we've, we've looked  
21 at the economy of Florida extensively, but I'm trying to figure  
22 out, having read the prefiled testimony, what specific part of  
23 that the line of questioning correlates to.

24 MR. REHWINKEL: Yes, Chairman -- I mean, Commissioner  
25 Skop. I apologize.



1           Mr. Cantrell is the president of the company and his  
2 testimony is -- he's offered in the prehearing statement as a  
3 witness on quality of service, but his testimony is overarching  
4 and summarizes the company's case. And he's also responsible  
5 for, as, as his letter indicates, the company and their  
6 selection of the test year.

7           The purpose of my, my cross-examination is to explore  
8 the economic climate that the company faces itself in today,  
9 finds itself in today and the impact that that would have on,  
10 on customers with respect to how, with respect to how rates  
11 will be set based on the cost that the company is requesting.  
12 My questions to Mr. Cantrell are because he is the president of  
13 the company.

14           COMMISSIONER SKOP: Okay. I appreciate the  
15 explanation. I guess what I was looking for is a lot of the  
16 line of questioning seems to be in relation to growth rates and  
17 I'm wondering whether there might be a better witness. But  
18 I'll leave it to the Chair to give latitude.

19           CHAIRMAN CARTER: Thank you, Commissioner.

20           You may proceed.

21           MR. REHWINKEL: Thank you.

22 BY MR. REHWINKEL:

23           Q     Mr. Cantrell, moving on from the, the variance report  
24 there, you would agree, would you not, that the current  
25 business environment is the worst that it has been since your

1 tenure as President of Peoples Gas, would you not?

2 A Yes.

3 Q Okay. The real estate market has a large impact on  
4 your customer growth and, as a consequence, a significant  
5 portion of your capital expenditures are impacted by it; is  
6 that correct?

7 A Not necessarily.

8 Q So you're saying the real estate market does not  
9 impact your capital expenditure?

10 A It does impact our capital expenditure. But I  
11 believe the way you phrased it, it was -- it came across to me  
12 as a more important part of our capital or maybe the only thing  
13 that drove it, and that's not correct.

14 Q I used the word "significant."

15 A Okay. I was reacting to that word.

16 Q Okay. Okay. In the 11 plus years you've been  
17 President, you've never seen your customer growth approach zero  
18 or perhaps approach a negative growth rate, have you?

19 A That's correct.

20 Q Now ordinarily your planning horizon looks beyond the  
21 dips of the business cycles and to the future; isn't that  
22 correct?

23 A Yes.

24 Q Okay. And the same goes with upward spikes in the  
25 economy; you don't try to rely too much on high growth either.

1 A No. That's correct.

2 Q Now do you have confidence that the improvement in  
3 current conditions is going to be similar -- let me strike that  
4 and ask this again. You don't have confidence, do you, that  
5 the improvement in current conditions is going to be similar to  
6 recent dips in the business cycle, do you?

7 A I'm sorry. You're going to have to ask that one  
8 again. I lost you there.

9 Q Okay. Let me, let me just move on to another  
10 question.

11 As President of Peoples Gas, you stay current on  
12 economic forecasts and trend projections of Florida and the  
13 regions of the state impacting your service area; is that  
14 right?

15 A Yes.

16 Q Do you believe that it is true that the Florida  
17 economy lags behind the rest of the nation in joining  
18 recessions and then lags behind in recovering?

19 A I'm not expert enough to know about lagging and  
20 leading. I mean, I keep track of what's going on in Florida,  
21 but I'm not going to comment on whether we are leading or  
22 lagging the rest of the country.

23 Q Okay. Are you familiar with Dr. David Denslow at the  
24 University of Florida's Bureau of Economic -- Bureau of  
25 Economic and Business Research?

1           A     I have met him and heard him.

2           Q     Okay. Do you have any reason to disagree with  
3 Dr. Denslow's assessment given to a Florida House Committee  
4 on February 4th of this year that "This is going to be  
5 really, really bad. We're not talking about the Great  
6 Depression. We're talking about something reasonably close  
7 to it. We've got to be ready for it"? Did you hear those  
8 comments?

9           A     I did not hear those comments.

10          Q     Did you read about them?

11          A     I read them this morning in something I was given.

12                   Really, really bad or whatever those words were,  
13 that's fairly subjective. I believe that the downturn is  
14 serious and I believe it's going to last for a while.

15          Q     Okay. Thank you. At the time you conceived and  
16 approved the filing, you had no idea that the country and the  
17 state and your service territory would be in an economic crisis  
18 of this magnitude, did you?

19          A     We saw signs of significant slowdown in housing and  
20 commercial usage and were very aware of the trends that were  
21 already happening in residential usages around the country.  
22 Obviously in June or August when we actually filed the MFRs we  
23 didn't know how significantly it would turn down, no.

24          Q     Okay. Do you have a copy of your 2008 business plan  
25 before you?

1 MR. REHWINKEL: Mr. Chairman, I have passed out --  
2 actually, if it would please the Commission, I would like to  
3 ask that the prior exhibit that I asked Mr. Cantrell some  
4 questions about be marked, be given a number for  
5 identification.

6 CHAIRMAN CARTER: Which one?

7 MR. REHWINKEL: This would be response to OPC POD  
8 Number 3, BSP Number 5386-5404.

9 CHAIRMAN CARTER: Hang on a sec. Okay. That'll  
10 be -- let me flip my page here. I think that's going to be  
11 90 -- 89.

12 MR. REHWINKEL: Okay. Thank you.

13 CHAIRMAN CARTER: Wait a minute. Is that -- okay.  
14 That will be Exhibit Number 89.

15 (Exhibit 89 marked for identification.)

16 MR. REHWINKEL: Mr. Chairman, I would like to ask  
17 that the Peoples Gas 2008 Business Plan be given a number for  
18 identification purposes. It's a 52-page document that I passed  
19 out. It's entitled PGS 2008 Business Plan.

20 CHAIRMAN CARTER: Okay. Hang on a sec. Okay. That  
21 will be Exhibit 90.

22 (Exhibit 90 marked for identification.)

23 BY MR. REHWINKEL:

24 Q Mr. Cantrell, do you have the document that's been  
25 identified as Exhibit 90 in front of you?

1 A I do.

2 Q Is this a document that you are familiar with?

3 A Yes. But I would point out that there's a lot more  
4 in this 52 pages than is actually our 2008 business plan.

5 Q Okay. Could you tell me where the business plan  
6 stops and the rest of it ends?

7 A Well, unless I --

8 Q Well --

9 A Bate stamp page 2985 is, it looks like something from  
10 December 2003.

11 Q Okay.

12 A That's not part of our 2008 business plan.

13 Q Is this material that was supplemental to the  
14 business plan at the time it was prepared?

15 A I don't believe that it was.

16 Q Okay. I'm not going to ask you about those  
17 questions. I included them for completeness because I thought  
18 they were part of a business plan package.

19 Could I ask you to turn to Bate stamp page 2969,  
20 please?

21 A Okay.

22 Q Now before I ask you about this, this, this is a  
23 document that was prepared in November of 2007 and it  
24 constituted your final 2008 business plan; is that right?

25 A I wouldn't characterize it quite that way. It was

1 the business plan presentation that we made. That's not  
2 necessarily the final budget numbers. Other things are still  
3 being rolled up, different costs and so forth. And obviously  
4 the balance sheet couldn't be final at that time because you  
5 hadn't finished the year.

6 Q I understand.

7 A So there -- this is a business plan presentation  
8 generally setting forth our expectations.

9 Q Okay. And is this presentation made to the, to the  
10 board of the parent company?

11 A It is not. It's made to senior officers within the  
12 company.

13 Q Okay. On Page 2969 there is a, this is a slide  
14 dealing with your strategic plan and growth, and therein you  
15 identify challenges and responses to challenges. Is that a  
16 fair statement?

17 A That's fair.

18 Q With respect to growth.

19 A With respect to growth. Yes, it is.

20 Q Okay. And therein you list four challenges: Limited  
21 expansion capital, increasing construction and maintenance  
22 costs, margin compression and inability to position mains for  
23 future growth. Is that right?

24 A I see those. Yes. That's correct.

25 Q Now with respect to inability to position mains for

1 future growth, what does that refer to?

2 A It reflects that we were entering a time period where  
3 a lot of the growth that we wanted to serve in the future was  
4 not positioned right on our mains or right next to interstate  
5 pipelines, and we would have to extend mains some, some, you  
6 know, it might be a half mile, it might be ten miles to reach  
7 that new customer.

8 Q So you basically had to go get the customers if you  
9 wanted to grow.

10 A Well, I wouldn't say it that way. I would say it  
11 wasn't going out and getting the customers. It would be  
12 responding to customer requests for gas. Yes, I mean, we, we  
13 seek out the areas that are growing, but it's a mutual thing.

14 Q Okay. And underneath that challenge section there's  
15 a section entitled Response. And I assume that as part of your  
16 business plan you're talking to senior officers about -- you're  
17 laying out how you plan to address these challenges; is that  
18 fair?

19 A That's fair.

20 Q Okay. Now you refer to several -- there's four items  
21 there. One is, is the term "best practices." Does, does the  
22 best practices statement there refer to some of the discussion  
23 on the prior page, Bate stamp page 2968?

24 A I don't believe it does. I believe on the previous  
25 page the best practices were in terms of the trips we make and



1 visit with other utilities to find out how best they're  
2 managing O&M and try to identify and copy those practices if we  
3 can. Best practices on Page 2969, Bate stamp page 2969, is  
4 more best practices relating to construction and management  
5 practices.

6 Q Okay.

7 A How can we best lower cost to serve new customers?

8 Q Okay. And does that also include lowering the cost  
9 of acquiring additional customers on a per customer basis?

10 A That's what I mean when I say --

11 Q Okay.

12 A -- best practices in terms of construction; how we  
13 bid jobs and manage the cost of materials and so forth.

14 Q Okay. Let me ask you to turn to Page 2981, Bate  
15 stamp page 2981. And I'll ask -- any time I ask you a  
16 question, if it's not part of the business plan, I would like  
17 to know. But this appears to be part of your 2008 business  
18 plan; is that right?

19 A Yes, it is.

20 Q Okay. Now this document, this page here demonstrates  
21 growth in your revenue producing -- well, let me -- changes.  
22 Let me strike that and ask it this way.

23 This document, this page demonstrates changes in your  
24 revenue producing capital expenditures for two actual, two  
25 actual periods, a projected period and a budget period; is that

1 correct?

2 A That's correct.

3 Q Okay. So your two actual periods are 2005 and 2006;  
4 correct?

5 A That's correct.

6 Q Your revenue -- your capital expenditure budget, just  
7 for information purposes, is generally divided into two  
8 categories: Revenue producing and maintenance. Is that fair?

9 A That's fair.

10 Q Okay. And revenue producing are, budget dollars are  
11 those that involve installation of facilities that will  
12 facilitate new revenue or revenue on your system; is that  
13 right?

14 A That's correct.

15 Q Okay. Now this document here shows, does it not,  
16 that -- you have a section at the bottom of this chart that  
17 shows the revenue producing dollars per customer, and we'll  
18 ignore the Bayside example right now. Let's just look at the,  
19 the without Bayside -- I mean, the with Bayside example. In  
20 2005 your dollars per customer were \$1,263; is that right?

21 A That's correct.

22 Q In 2006 it increased to \$1,696 per customer; correct?

23 A That's correct.

24 Q In 2007, at least at this point you were at when you  
25 produced this report, it was \$2,444 per customer; right?

1 A That's correct.

2 Q And for your budget in 2008 you projected it to  
3 increase to \$3,580 per customer; correct?

4 A That's correct.

5 Q But that was assuming that you would spend  
6 \$38,805,000 in revenue producing capital dollars; correct?

7 A I'm sorry. Where, where are you there?

8 Q I'm looking at the black line that says revenue  
9 producing, about the middle of the chart.

10 A Oh, I see that. Yes.

11 Q Okay. For 2008 you had, you had budgeted  
12 \$38,805,000 at that time to spend.

13 A At this time. That's correct.

14 Q And you also assumed you would be getting gross  
15 customer additions of 10,839; is that right?

16 A That's correct.

17 Q Okay. And that yielded your 3,580 number; correct?

18 A I believe that's a direct calculation. It's a ratio.  
19 That's correct.

20 Q So but your actual budget, as we'll hear later in the  
21 case, was about \$44 million on the revenue producing category;  
22 is that correct? Would you accept that, subject to check?

23 A Yes.

24 Q Okay. And your actual gross customer additions was  
25 in the neighborhood of 9,000, 9,300 or so; is that fair?

1 A I'll accept that, subject to check.

2 Q So the, based on your actual expenditures in 2008 and  
3 your actual customer numbers, the revenue, the capital revenue  
4 producing dollar per customer is probably more in the neighbor,  
5 in the order of \$4,700 a customer; is that fair?

6 A I'll accept your math without redoing it.

7 Q So what is happening is that you are spending more  
8 money on revenue producing capital expenditures today and  
9 getting less customers; is that fair?

10 A Less number of customers.

11 Q Less number.

12 A Not necessarily less revenue. Because what this  
13 reflects -- I mean, part of it is probably an increasing cost  
14 of steel and so forth, but part of it reflects the types of  
15 customer we're adding. We're not adding near as many total  
16 customers, we're not adding near as many residential customers.  
17 We are adding more commercial customers. Commercial customers  
18 cost more to add. Commercial customers bring more revenue.

19 Q Okay.

20 A So if you're referring back to best practices and how  
21 we're doing, that is not a reflection on how well we do our  
22 jobs.

23 Q Okay. Thank you. Do you believe -- returning back  
24 to 29 --

25 CHAIRMAN CARTER: Mr. Rehwinkel, are you headed down

1 another line?

2 MR. REHWINKEL: Not at this -- I have a few more  
3 questions here.

4 CHAIRMAN CARTER: Well, what I was going to do is  
5 that we change court reporters at 11:00.

6 MR. REHWINKEL: Okay.

7 CHAIRMAN CARTER: And we're snug up on it now. You  
8 look like you're getting ready to get your second wind there.  
9 So before we -- why don't we do this, Commissioners. Let's  
10 look at -- let's give ten minutes for the court reporter to  
11 change out. We're in recess.

12 MR. REHWINKEL: It'll allow me the opportunity to  
13 scale down my questioning as well.

14 CHAIRMAN CARTER: Okay.

15 (Recess taken.)

16 We are back on the record. Mr. Rehwinkel, you may  
17 proceed.

18 BY MR. REHWINKEL:

19 Q Okay. Just one last line of questions real quickly  
20 on this Exhibit 90.

21 A Is that the, is that the one with the business plan?

22 Q Yes.

23 A Okay.

24 Q If I could ask you to turn to page, Bate stamp page  
25 2971, please.

1 A Yes.

2 Q Okay. And I understand your case stands as you filed  
3 it, it's not dependent on stuff you said in the past, but I  
4 would like to ask you a couple of questions about this. This  
5 was at the time well before you filed, you were are looking at  
6 options for rate relief, and a full rate proceeding was one of  
7 the options you considered; is that right?

8 A That's correct.

9 Q And at the time you were looking at your numbers, it  
10 looks like you were considering a revenue requirement increase  
11 of \$15 to \$20 million; is that right?

12 A That's correct. At that time we were, you know,  
13 making some very, very rough estimates, and we thought that  
14 that would probably be about the amount we would ask for.

15 Q Okay. And you've -- you were looking at an  
16 11.25 percent return on equity, which was your existing one;  
17 correct?

18 A For ease of estimates, we just used what we already  
19 had, the same cap structure and the same ROE. That's correct.

20 Q Okay. And you ended up asking for a revenue  
21 requirement award of about \$26 million in this case; is that  
22 right?

23 A About 26.5. That's correct.

24 Q And was that based, the increase in your estimate in  
25 November of 2007 to your filing, was there any factor that

1 drove that number to go up?

2 A Primarily the discussion that we've just had over the  
3 last 30 minutes or so. You know what's happened, you pointed  
4 out what's happened. In the housing market and usage per  
5 customer and so forth our revenue forecast decreased. And, in  
6 fact, if we were going to file a case today, it would probably  
7 be higher than 26.5 because of those factors.

8 Q I understand.

9 Okay. That's all I have on this exhibit.

10 Let me ask you -- let me switch gears real quickly  
11 and ask you about the Gulfstream Pipeline lateral. Are you  
12 familiar with, with that issue?

13 A I'm familiar with the pipeline.

14 Q Okay.

15 A I'm not sure if it's an issue.

16 Q I guess I wouldn't -- I don't want to characterize it  
17 as an issue. That's fair. Fair.

18 In January of 2008, Tampa Electric Company  
19 transferred the ownership and the investment for this lateral  
20 from their books to your books; is that correct?

21 A I'm not sure of the exact date, but, yes, about that  
22 time frame we did.

23 Q Okay. Now was that lateral intended to provide gas  
24 to the Bayside Power Station that was being repowered by Tampa  
25 Electric Company?

1           A     That was one of the primary reasons, yes.

2           Q     Okay.  So the pipeline was, the cost for the pipeline  
3 was initially incurred for the benefit of Tampa Electric  
4 Company; is that right?

5           A     I'm not sure if I would characterize -- and I'd like  
6 to use yes or no, but I don't think I could characterize it  
7 that way.

8                     The whole reason it was on Tampa Electric's books  
9 briefly was because Tampa Electric negotiated with Gulfstream  
10 to provide most of the funding required to build that section  
11 of pipeline to connect that power plant that had been repowered  
12 from coal to natural gas to the Bayside, to the Gulfstream  
13 Interstate Pipeline Company.  It was always contemplated that  
14 Peoples Gas would build and operate the pipeline because we are  
15 the gas company.

16                     But the funding from Gulfstream came to Tampa  
17 Electric first because that's who the, the contract was with  
18 because Tampa Electric had most of the capacity on that  
19 pipeline.  And at some point it was just the appropriate point  
20 to go ahead and transfer it to Peoples Gas because Peoples Gas  
21 would own, operate and serve other customers off that line.

22           Q     Did the construction of the pipeline facilitate your  
23 ability to make off-system sales?

24           A     I'm sorry.  I was --

25           Q     That's quite all right.



1 A Would you ask that again? I'm sorry.

2 Q Did the construction of the Gulfstream lateral  
3 facilitate Peoples Gas' ability to make off-system sales?

4 A We would hope that it would enhance our ability to,  
5 yes.

6 Q Okay. And the -- I was going to ask you about the  
7 investment in there, but I'll save that for one of your numbers  
8 people.

9 A Okay.

10 MR. REHWINKEL: On the issue of off-system sales, I  
11 have passed out, Mr. Chairman, a document that is six pages,  
12 and it says "Board of Directors Meeting Slides." And it is the  
13 company's response to OPC POD Number 3, and it has a list of  
14 Bate stamp pages starting with 6098. And I would ask that this  
15 be given a number for identification.

16 COMMISSIONER EDGAR: And I'm sorry, Mr. Rehwinkel,  
17 but I'm having a hard time finding that. Maybe it's here. Oh,  
18 I'm sorry. Board of Directors Meeting Slides?

19 MR. REHWINKEL: Yes.

20 COMMISSIONER EDGAR: Okay.

21 BY MR. REHWINKEL:

22 Q Do you have that document in front of you,  
23 Mr. Cantrell?

24 A I do.

25 Q Okay. Are you familiar with these slides or have you

1 been familiar with them in the past?

2 A Yes, I am.

3 Q Okay. Are these slides that were part of a Peoples  
4 Gas officer presentation to the Tampa Electric, the TECO Energy  
5 Board of Directors?

6 A Typically the head of the business unit makes a  
7 presentation on what the business plan forecast looks like.  
8 Yes.

9 Q Okay. Now with respect to your off-system sales,  
10 that is -- your net off-system sales is something that you  
11 budget for; is that correct?

12 A We do budget for, for off-system sales. Yes.

13 Q Okay. And you budget based on experience and also  
14 some level of subjectivity with respect to your expectations  
15 about making off-system sales.

16 A The level of subjectivity is, is based on a lot of  
17 knowledge of the marketplace.

18 Q Okay. Now these board of directors slides, and I  
19 have just included various years in here, but each of the  
20 slides that I have included and I want to ask you about contain  
21 a mention of off-system sales. So I'd like to ask you to turn  
22 to the last page, which is Page 6113.

23 A I'm there.

24 Q Okay. And you disclose to the board that your  
25 off-system sales are strong; is that fair?

1 A Yes.

2 MR. REHWINKEL: Okay. And just for the record, this  
3 says "Confidential and Proprietary," Mr. Watson. It's -- that,  
4 that was not requested with respect to these documents;  
5 correct?

6 MR. WATSON: It was not.

7 MR. REHWINKEL: Okay. I sound like I'm  
8 cross-examining you there with that "correct," but I just  
9 wanted to make sure there was no confusion about that.  
10 BY MR. REHWINKEL:

11 Q On the next page forward, 6110, this is for 2006  
12 first quarter results. You again mention that off-system  
13 sales, or mention them and say they're above plan and above  
14 prior year; is that right?

15 A That's correct.

16 Q The same with 6109 in the third quarter, you mention  
17 that they're \$1.9 million above the plan.

18 A 2006 third quarter results, 6109?

19 Q Yes.

20 A Yes. Yes.

21 Q Okay. And 6107 again mentions, mentioned to the  
22 board that they're above plan for the fourth quarter of 2006?

23 A That's correct. I believe 2006 was our peak year for  
24 off-system sales.

25 Q Okay. And 2007, you also mention off-system sales on

1 6100?

2 A Yes. But I would point out that starting in 2007  
3 that reference is to better than plan, not better than previous  
4 year.

5 Q I understand. And in 2008 off-system sales are  
6 listed under the risks and opportunities heading?

7 A I see that. Yes.

8 Q So my point that I wanted to ask you about is this is  
9 an important issue for you. It's an item you highlight to the  
10 TECO Energy board; is that right?

11 A Yes, it is.

12 Q And it is something that you track and budget.

13 A That's correct.

14 MR. REHWINKEL: Okay. Mr. Cantrell, those are all  
15 the questions that I have for you. And I really appreciate  
16 your being a good sport and sitting in for my cross. Thank  
17 you.

18 THE WITNESS: Thank you.

19 COMMISSIONER EDGAR: Mr. Rehwinkel -- excuse me.  
20 Mr. Rehwinkel, did you ask to have this marked, the Board of  
21 Directors Meeting Slides that you just asked some questions on?

22 MR. REHWINKEL: That's what I -- I asked for that to  
23 be marked.

24 COMMISSIONER EDGAR: Okay. Well, let's go ahead and  
25 do that. I couldn't find it at that point.

1 MR. REHWINKEL: Oh, I'm sorry.

2 COMMISSIONER EDGAR: So this will be 91.

3 MR. REHWINKEL: Yes.

4 COMMISSIONER EDGAR: Thank you. Board of Directors  
5 Meeting Slides.

6 (Exhibit 91 marked for identification.)

7 Are there questions from staff for this witness?

8 MS. KLANCKE: Staff has no questions for this witness  
9 at this time.

10 COMMISSIONER EDGAR: Commissioners, any questions?

11 No?

12 Redirect?

13 MR. WATSON: Two questions.

14 COMMISSIONER EDGAR: Okay.

15 REDIRECT EXAMINATION

16 BY MR. WATSON:

17 Q Mr. Cantrell, if you'll turn to Exhibit 89, which was  
18 the July 2008 variance analysis, and it's on Bates page 5396,  
19 which was your Large Customer Variance Report.

20 A I'm finally there. Sorry. Which Bates stamp page?

21 Q 5396, the Large Customer Variance Report.

22 A Yes, sir.

23 Q Mr. Rehwinkel used in his questions regarding this  
24 page and you agreed in your answers that there were certain  
25 dollar variances. Would you accept, subject to check, that,

1 for example, the variance for United States Gypsum Company  
2 that's shown here as a negative roughly 3.2 million number is  
3 therms and not dollars?

4 A That is therms. That's correct.

5 Q And that their rate of about a little over 3.5 cents  
6 per therm, again, subject to check, would you agree that that  
7 variance in dollars would be roughly \$116,000?

8 A Yes, I'd accept that.

9 Q Okay. Mr. Rehwinkel also asked you about the changes  
10 in the Consumer Price Index. Has the CPI, while the rate of  
11 growth in that indicator may now be less, decreased enough to  
12 eliminate the roughly 17 percent increase that's referenced in  
13 the test year letter?

14 A I don't believe it has.

15 MR. WATSON: Thank you. That's all I have.

16 COMMISSIONER EDGAR: Thank you. Let's go ahead and  
17 take up the exhibits, which I have prefiled Exhibits 10, 11 and  
18 12. Any objections? Seeing none, we'll go ahead and enter  
19 Exhibits 10, 11 and 12 into the record.

20 (Exhibits 10, 11 and 12 admitted into the record.)

21 And, Mr. Rehwinkel, that brings us to you.

22 MR. REHWINKEL: Madam Chairman, I would move Exhibit  
23 89 and 91 at this time. I intend to move 90 after asking other  
24 witnesses about them.

25 COMMISSIONER EDGAR: Okay. Thank you. 89 and 91.

1 Mr. Watson?

2 MR. WATSON: No objection.

3 COMMISSIONER EDGAR: No objection. Okay. For the  
4 record, 89 and 91 will be entered.

5 (Exhibits 89 and 91 admitted into the record.)

6 Thank you. You may be excused.

7 And question for staff. Exhibit 9, do we need --  
8 did -- was that entered? Do we need to or is that something to  
9 wait on?

10 MS. KLANCKE: Exhibit 9 contains the MFR schedules,  
11 and at this time, if it pleases the Commission, we can move it  
12 in.

13 COMMISSIONER EDGAR: Okay. Let's go ahead and take  
14 care of that so it's not hanging out there. So seeing no  
15 objection, we will enter Exhibit 9 into the record as well.

16 (Exhibit 9 marked for identification and admitted  
17 into the record.)

18 And you may call your next witness.

19 MR. BEASLEY: We call Mr. Gillette.

20 GORDON L. GILLETTE

21 was called as a witness on behalf of Peoples Gas System and,  
22 having been duly sworn, testified as follows:

23 DIRECT EXAMINATION

24 BY MR. BEASLEY:

25 Q Sir, would you please state your name, your business

1 address, your occupation and your employer.

2 A Yes. My name is Gordon Gillette. My business  
3 address is 702 North Franklin Street, Tampa, Florida 33602.  
4 I'm the Senior Vice President and Chief Financial Officer for  
5 Peoples Gas System and the Executive Vice President and CFO for  
6 TECO Energy. And what was your last question?

7 Q I think you've covered it.

8 A Okay.

9 Q Thank you. Mr. Gillette, you were in the room  
10 earlier this morning when the witnesses were sworn; right?

11 A I was.

12 Q You were sworn in.

13 Did you prepare and cause to be submitted in this  
14 proceeding a document entitled Prepared Direct Testimony of  
15 Gordon L. Gillette consisting of seven pages?

16 A I did.

17 Q Do you have any corrections or changes to make to  
18 that testimony?

19 A I do not.

20 Q If I were to ask you the questions contained in that  
21 prepared testimony, would your answers be the same?

22 A They would.

23 MR. BEASLEY: I would ask that Mr. Gillette's  
24 prepared direct testimony be inserted.

25 COMMISSIONER EDGAR: The prefiled direct testimony



1 will be inserted into the record as though read.

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

3 A. My name is Gordon L. Gillette. My business address is 702 N. Franklin  
4 Street, Tampa, Florida 33602. I am Senior Vice President and Chief  
5 Financial Officer of Peoples Gas System ("Peoples" or "Company"), a  
6 division of Tampa Electric Company ("Tampa Electric") and Executive  
7 Vice President and Chief Financial Officer of TECO Energy, Inc. ("TECO  
8 Energy").

9 **Q. PLEASE PROVIDE A BRIEF OUTLINE OF YOUR**  
10 **EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.**

11 A. I received a Bachelor of Science in Mechanical Engineering in 1981 and a  
12 Master of Science in Engineering Management in 1985 from the  
13 University of South Florida. In 2007, I completed the Advanced  
14 Management Program at Harvard Business School. I am a registered  
15 professional engineer in the state of Florida.

16 I joined Tampa Electric in 1981 as an engineer and worked in the  
17 production and planning areas. I was promoted to Manager of Generation  
18 Planning in May 1986 and later served as Manager of Bulk Power and  
19 Generation Planning. I then became Director of Project Services for  
20 TECO Power Services ("TPS"), responsible for fuel procurement,  
21 environmental permitting and compliance, and power sales contract  
22 administration.

23 In November 1994, I was promoted to Vice President of  
24 Regulatory Affairs for Tampa Electric, and in November 1995, was named  
25 Vice President of Regulatory and Business Strategy for Tampa Electric.

1 In March 1998, I was appointed Vice President of Finance and Chief  
2 Financial Officer of TECO Energy and Tampa Electric. In 2001, I was  
3 appointed Senior Vice President and Chief Financial Officer for TECO  
4 Energy.

5 I was promoted to my current position of Executive Vice President  
6 and Chief Financial Officer of TECO Energy in July 2004. I also serve as  
7 the Senior Vice President and Chief Financial Officer of Tampa Electric.  
8 As Chief Financial Officer, I am responsible for financial planning and  
9 reporting, financing strategies and activities, and contact with the financial  
10 community, including investors and rating agencies.

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

12 A. The purpose of my direct testimony is to describe how Peoples' need for  
13 capital for system expansion will impact the need for external capital. I  
14 explain the Company's capital structure and financial targets along with  
15 why a parent company debt adjustment is unwarranted.

16 **Q. ARE YOU SPONSORING OR CO-SPONSORING ANY MINIMUM  
17 FILING REQUIREMENTS?**

18 A. Yes, I am sponsoring Schedules C-26 (Parent(s) Debt Information) and  
19 D-12 (Applicant's Market Data) of the Minimum Filing Requirements,  
20 each of which was prepared under my supervision.

21 **Q. WHAT ARE SOME OF THE SIGNIFICANT BUSINESS DRIVERS  
22 THAT HAVE IMPACTED PEOPLES SINCE ITS LAST RATE?**

23 A. Since the Company's last rate case filing in 2002, there have been  
24 numerous challenges to the gas industry and to Peoples specifically. They  
25 include a decline in per customer gas usage, increasing costs for materials,

1 labor, and operations and maintenance, and enhanced reliability and safety  
2 regulations. At the same time, there is a growing need to expand the  
3 natural gas infrastructure within Florida to help reduce greenhouse gas  
4 emissions and improve consumers' carbon footprints. These trends are  
5 described in more detail in the direct testimony of Bill Cantrell.

6 **Q. WHY IS PEOPLES REQUESTING A BASE RATE INCREASE?**

7 A. Since the Company's last base rate proceeding, Peoples has added  
8 approximately 100,000 new customers. To serve this demand, the  
9 Company has installed or replaced more than 1,500 miles of gas main in  
10 the more than 200 communities it serves. The Company has also faced  
11 increased requirements for maintenance capital expenditures, including  
12 significant amounts for relocation of facilities due to rapid expansion of  
13 highways and roads throughout the State.

14 Despite the initiatives and efforts the Company has undertaken to  
15 manage costs, these actions are no longer sufficient to cover expenditures  
16 to provide safe and reliable service. For 2008, the Company filed a  
17 forecasted Surveillance Report with the Commission with an expected  
18 return on equity ("ROE") of 9.30 percent. For 2009, without the revenue  
19 requirements being sought, the Company's ROE is expected to be 5.61  
20 percent. These returns are well below the bottom of Peoples' allowed  
21 ROE range and are unsustainable. Peoples needs to be able to earn a fair  
22 return on invested capital to be able to continue to access the capital  
23 markets so that existing and new customers can continue to be served  
24 reliably.

25 **Q. WHAT IS THE COMPANY'S REQUESTED REVENUE**

1           **REQUIREMENT INCREASE, AND WHAT ARE THE KEY**  
2           **COMPONENTS OF THE INCREASE?**

3    A.    The Company is requesting an increase of \$26,488,091 in base revenues.  
4           The requested increase represents the amount necessary to raise the  
5           Company's projected 2009 net operating income ("NOI") level to the  
6           required amount of \$50,060,255. The required NOI is based on the  
7           Company's projected 2009 13-month average jurisdictional adjusted rate  
8           base of \$563.6 million and a weighted average cost of capital of 8.88  
9           percent. The weighted cost of capital assumes a jurisdictional adjusted 13-  
10          month average capital structure consisting of 54.7 percent equity. It also  
11          includes a ROE of 11.50 percent, a long-term debt rate of 7.2 percent, and  
12          a short-term debt rate of 4.5 percent. Dr. Donald Murry provides the  
13          support for the Company's requested ROE, and Paul Higgins' direct  
14          testimony explains the details of the Company's revenue requirement  
15          based on the 2009 test year as well as the budget process used to develop  
16          sound and reliable projected test year financial statements.

17   **Q.    WHAT IS THE COMPANY'S FINANCIAL OBJECTIVE?**

18    A.    Peoples' principal objective is to maintain its financial integrity at a level  
19          sufficient to be able to raise debt capital, and to maintain fair returns on  
20          equity to be able to attract equity capital.

21   **Q.    WHAT CREDIT RATING IS PEOPLES TARGETING IN THE**  
22          **FUTURE AND WHY?**

23    A.    Peoples is targeting ratings in the single "A" range. This rating is required  
24          since Peoples is facing higher capital spending requirements combined  
25          with significant economic challenges such as declining customer usage,

1 lower customer growth due to the distressed housing market, and higher  
2 materials and labor costs to serve customers, all of which add additional  
3 risk for the company. Debt ratings in the single "A" range would ensure  
4 that Peoples has adequate credit quality to raise the capital necessary to  
5 meet these challenges and fund the necessary capital requirements. We  
6 believe that maintaining the equity ratio at this level should produce credit  
7 ratings parameters for the Company that are in the single "A" range.

8 **Q. PLEASE DESCRIBE THE EARNINGS BEFORE INTEREST AND**  
9 **TAXES TO INTEREST (EBIT/INTEREST) COVERAGE RATIOS**  
10 **AS REPORTED IN MFR SCHEDULES G-3, PAGE 9, AND D-11.**

11 A. Peoples' coverage ratio for EBIT/Interest has been declining and is  
12 projected to be 2.3 times in 2009. This same coverage ratio averaged  
13 approximately 4.0 times in 2004 through 2006 before starting to decline in  
14 2007. The 2.3 times represents an unacceptable level and is expected to  
15 continue to decline without rate relief. The Company believes that a more  
16 appropriate coverage ratio for 2009 is in the range of 4 times, which can  
17 be achieved by a grant of the Company's requested rate relief.

18 **Q. HOW DOES THE COMPANY'S PROPOSED 54.7 PERCENT**  
19 **EQUITY RATIO COMPARE WITH THE ALLOWED CAPITAL**  
20 **STRUCTURE IN PEOPLES' PREVIOUS BASE RATE FILING?**

21 A. The proposed 54.7 percent equity ratio is very reasonable when compared  
22 with the Commission's decision in the 2002 base rate proceeding  
23 approving an equity ratio of 57.4 percent.

24 **Q. GIVEN THE COMPANY'S PROPOSED CAPITAL STRUCTURE**  
25 **OF 54.7 PERCENT EQUITY, WHAT ARE THE EQUITY**

1           **INFUSIONS FROM TECO ENERGY FOR 2008 AND 2009 THAT**  
2           **ARE NECESSARY TO ACHIEVE THIS CAPITAL STRUCTURE?**

3    A.    No equity infusions are deemed necessary in 2008, and the 2009 planned  
4           equity infusion from TECO Energy to Peoples is \$25 million.

5    **Q.    DID PEOPLES MAKE A PARENT COMPANY DEBT**  
6           **ADJUSTMENT IN ACCORDANCE WITH FLORIDA**  
7           **ADMINISTRATIVE CODE RULE 25-14.004?**

8    A.    No. Although the TECO Energy parent company currently has \$400  
9           million of long-term debt, this debt is related to TECO Energy's  
10          investments in its failed TPS merchant power projects. TECO Energy  
11          did not raise debt to invest in Peoples, nor did it invest the proceeds of  
12          the debt it did raise as equity in Peoples. Therefore, a parent company  
13          debt adjustment is not appropriate.

14   **Q.    PLEASE SUMMARIZE YOUR TESTIMONY.**

15   A.    Since its last base rate case, Peoples has had numerous challenges  
16          including declining per-customer gas usage, increasing costs, and  
17          enhanced reliability and safety regulations. While managing these  
18          challenges, Peoples recognizes that there is a need to grow the natural gas  
19          infrastructure within Florida to help reduce greenhouse gas emissions and  
20          reduce consumers' carbon footprints. The Company has added  
21          approximately 100,000 new customers and installed or replaced more than  
22          1,500 miles of gas main to serve these customers. Maintenance capital  
23          expenditures have increased as well partially as a result of the relocation  
24          of facilities due to rapid expansion of highways and roads throughout the  
25          State.

1 Peoples is requesting a base revenue increase of \$26,488,091. The  
2 financial basis for this revenue requirement is a weighted cost of capital of  
3 8.88 percent, which includes an 11.50 percent ROE and a financial equity  
4 ratio of 54.7 percent. The requested ROE and equity ratio are important  
5 for the Company to maintain and enhance its financial position to target  
6 debt ratings in the single "A" range to ensure uninterrupted access to  
7 reasonably priced debt capital. Finally, a parent company debt adjustment  
8 is inappropriate since the \$400 million of existing parent debt was raised  
9 on behalf of TPS and was not used to fund any equity infusions to  
10 Peoples.

11 **Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?**

12 **A. Yes.**

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1 BY MR. BEASLEY:

2 Q Would you please summarize your direct testimony,  
3 sir?

4 A Good morning, Commissioners.

5 Peoples Gas is requesting a \$26.5 million rate  
6 increase. The financial basis for this is a weighted average  
7 cost of capital of 8.88 percent, which includes an 11.5 percent  
8 return on equity and a financial equity ratio of 54.7 percent.

9 My direct testimony states that both the requested  
10 return on equity and equity ratio are important for the company  
11 to maintain its financial integrity and for the company to  
12 reach its target credit parameters and achieve debt ratings in  
13 the single A range.

14 Another area I address relates to parent company debt  
15 and Rule 25-14.004. An adjustment for parent company debt is  
16 not appropriate for Peoples Gas. Under the rule, a company has  
17 the opportunity to rebut the presumption that any debt at the  
18 parent company was raised to support equity infusions for the  
19 utility. Since all of the debt that currently exists at the  
20 TECO Energy parent level was raised on behalf of unregulated --  
21 the unregulated companies, no amount of the debt was used to  
22 invest as equity infusions in Peoples Gas. Therefore, a parent  
23 company debt adjustment is not required or warranted.

24 Commissioners, your decisions in this proceeding are  
25 critical to the financial integrity of Peoples Gas. Granting

1 our requests in the area of capital structure and cost of  
2 capital is especially important given the challenging times  
3 we're facing in the financial markets. This concludes my  
4 summary.

5 MR. BEASLEY: We tender Mr. Gillette for  
6 cross-examination.

7 MR. McWHIRTER: I have no questions.

8 COMMISSIONER EDGAR: Mr. Rehwinkel?

9 MR. REHWINKEL: Yes. Very briefly, Madam Chairman.

10 CROSS EXAMINATION

11 BY MR. REHWINKEL:

12 Q Good morning, Mr. Gillette.

13 A Good morning.

14 Q Your, part of your testimony, you seek to have the  
15 Commission adopt a capital structure that the company has  
16 filed?

17 A Correct.

18 Q Is a component of that capital structure your  
19 deferred tax balances?

20 A It is.

21 Q Okay. Are you familiar with an adjustment that  
22 Mr. Felsenthal is proposing to support the company's position  
23 on income tax normalization?

24 A Generally, yes.

25 Q Okay. Are you familiar with -- and you're the Chief

1 Financial Officer of the parent company TECO Energy; correct?

2 A That's correct.

3 Q And does Jeff Chronister report to you?

4 A He reports to the Controller, Phil Barringer, who in  
5 turn reports to me.

6 Q Okay. Are you -- is there a financial accounting  
7 standard that requires a company to identify and footnote any  
8 possible tax positions that are uncertain?

9 A Yes, there is.

10 Q Okay. Did your company's 2007 footnotes to your FERC  
11 Form 1 identify the possible tax uncertainty identified by  
12 Mr. Felsenthal in his testimony?

13 A I'm not familiar with our FERC Form 1 filing. But in  
14 our 10K we report on that standard that you mentioned, which is  
15 FIN 48, on a regular basis. And we've been doing that for the  
16 last couple of years since it's been required.

17 Q Did you report a tax uncertainty as it relates to  
18 this tax normalization issue?

19 A Not that I recall.

20 Q Okay. Would it also be correct that your auditors  
21 did not view the tax adjustment proposed by Mr. Felsenthal as a  
22 tax uncertainty for which a disclosure would be required?

23 A I don't believe they do.

24 MR. REHWINKEL: Thank you. That's all I have.

25 THE WITNESS: Thank you.

1 COMMISSIONER EDGAR: Are there questions from staff?

2 MS. FLEMING: Yes. Thank you.

3 CROSS EXAMINATION

4 BY MS. FLEMING:

5 Q Good morning, Mr. Gillette.

6 A Good morning.

7 Q You stated earlier that you are the Chief Financial  
8 Officer for Peoples Gas System; is that correct?

9 A That's correct.

10 Q And Peoples Gas System is a division of Tampa  
11 Electric Company; is that correct?

12 A That's correct.

13 Q And Peoples Gas does not issue its own debt  
14 securities; is that correct?

15 A That's correct. Tampa Electric has an electric  
16 division and a gas division. And the debt that's issued is  
17 issued in Tampa Electric's name, and then the, the debt issues  
18 are allocated to Peoples Gas and Tampa Electric, the electric  
19 division, on an as-needed basis.

20 Q So Peoples Gas then obtains its debt financing  
21 through Tampa Electric.

22 A That's correct.

23 Q Okay. Thank you.

24 And you also stated in response to questioning of  
25 Mr. Rehwinkel that you are also the Chief Financial Officer of

1 Tampa Electric Company; is that correct?

2 A That's correct.

3 Q In your capacity as Chief Financial Officer of Tampa  
4 Electric Company, did you provide testimony in the Tampa  
5 Electric rate case in Docket 080317?

6 A Yes, I did.

7 Q Okay. In that rate case proceeding you stated that  
8 Tampa Electric renewed a credit facility in late December of  
9 2008; is that correct?

10 A Yes.

11 Q And according to your testimony in the Tampa Electric  
12 rate case, the current rate for Tampa Electric's line of credit  
13 is the three-month LIBOR rate plus 175 basis points; is that  
14 correct?

15 A I think I testified previously that the costs for  
16 that are approximately what you just said. The facility is a  
17 little more complicated than that in that the actual underlying  
18 cost of debt that's used is commercial, high-grade commercial  
19 paper. But one-month and three-month LIBOR are a good proxy  
20 when you want to look at roughly what that, what that facility  
21 will cost, plus the 160 -- 175 basis points.

22 Q Do you know what the current three-month LIBOR rate  
23 is?

24 A One moment. Yesterday LIBOR was 1.27 percent for the  
25 three-month.

1 Q So based on your previous testimony, if you had to  
2 draw against a credit facility today, what would be the rate  
3 that Tampa Electric would be paying?

4 A Speaking of the accounts receivable facility, which  
5 is the facility that we use the most, it would be the  
6 1.27 percent plus the 175 basis points or 1.75 percent.

7 The only clarification I would make is part of that  
8 we, we effectively consider a, a fixed cost, 125 basis points  
9 of that, and then 50 basis points of that we consider to be a  
10 cost upon drawing.

11 Q Okay. So today then it is your testimony that the  
12 rate would be about 3.02 percent; is that correct?

13 A Let me get my calculator.

14 (Pause.)

15 That's correct.

16 Q And then according to your testimony in the Tampa  
17 Electric rate case, one year ago Tampa Electric was paying  
18 approximately 5.34 percent for this credit facility; is that  
19 correct?

20 A That's correct.

21 Q Okay.

22 A And the reason for that is that LIBOR was much higher  
23 at that time. And, in fact, LIBOR has averaged about 4.5  
24 percent over the last three years.

25 MS. FLEMING: Okay. Thank you. We have no further

1 questions.

2 COMMISSIONER EDGAR: Thank you.

3 Commissioners, any questions?

4 Commissioner Argenziano.

5 COMMISSIONER ARGENZIANO: Thank you.

6 What, what -- could you explain to me the reasons for  
7 increasing the equity ratio to 54 percent?

8 THE WITNESS: In the case of Peoples Gas, their,  
9 their equity ratio has actually over the, over the recent years  
10 been more than 54.7 percent, and it's actually decreased fairly  
11 recently to 54.7 percent. And the reason is that we did a debt  
12 issue in May of 2008 of \$150 million for the combined companies  
13 of Tampa Electric, and \$50 million of that was allocated to  
14 Peoples Gas.

15 COMMISSIONER ARGENZIANO: How much of the rate  
16 increase is due to the equity ratio increase?

17 THE WITNESS: Again, Commissioner, the --

18 COMMISSIONER ARGENZIANO: I mean, to the 54 percent.

19 THE WITNESS: Yeah. The equity ratio is not, is not  
20 increasing. It's, it's actually come down. And the 54 percent  
21 is a, is a component of the overall capital structure and is  
22 costed as such.

23 We filed an MFR, as you know, in this docket that  
24 takes and calculates based on the proportion of equity that  
25 we've proposed for this case and actually exists at Peoples Gas

1 at this time and multiplied it times our proposed 11.5 percent  
2 return on equity along -- and we did the same with the other  
3 components of cost of capital.

4 COMMISSIONER ARGENZIANO: So what you're saying is  
5 that the rate increase has nothing to do with the ratio, the  
6 equity ratio?

7 THE WITNESS: It's -- yes, that's what I'm saying.

8 COMMISSIONER ARGENZIANO: Okay.

9 COMMISSIONER EDGAR: Redirect?

10 MR. BEASLEY: No redirect. We ask Mr. Gillette be  
11 excused.

12 COMMISSIONER EDGAR: The witness may be excused.  
13 Thank you.

14 THE WITNESS: Thank you.

15 MR. BEASLEY: And we call Dr. Murry.

16 MS. HELTON: Did Mr. Gillette have any exhibits?

17 MR. BEASLEY: He did not.

18 COMMISSIONER EDGAR: No, ma'am.

19 MS. HELTON: Oh, okay.

20 MR. WATSON: Madam Chairman Pro Tem, I neglected to  
21 ask, while we're changing witnesses here, if Mr. Cantrell could  
22 be excused.

23 COMMISSIONER EDGAR: Mr. Cantrell was excused. Was  
24 and is.

25 (Transcript continues in Volume 2.)



1 STATE OF FLORIDA )  
 : CERTIFICATE OF REPORTER  
 2 COUNTY OF LEON )

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I, LINDA BOLES, RPR, CRR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 5<sup>th</sup> day of March, 2009.

Linda Boles  
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