

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **DIRECT TESTIMONY**

3 **OF JEFFREY S. SYLVESTER**

4 **ON BEHALF OF THE FLORIDA DIVISION OF**

5 **CHESAPEAKE UTILITIES CORPORATION**

6 **DOCKET NO. 090125-GU**

7 **JUNE 2009**

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

11 **A.** My name is Jeffrey S. Sylvester. I am the Assistant Regional Manager of the
12 Florida Division of Chesapeake Utilities Corporation (the "Company"). My
13 business address is 1015 6th Street N.W., Winter Haven, Florida 33882.

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

16 **A.** I attended Clemson University and graduated in 1992 with a Bachelor of
17 Science degree in Financial Management. I went on to complete my Masters
18 of Business Administration at Clemson University in 1994. I spent the first ten
19 years of my career in various finance roles at Plantronics, GTE Data
20 Services, and ThruPoint (a start-up IT consulting company). I have been
21 employed by Chesapeake Utilities Corporation since 2004, first as the
22 corporate Director of Business Analysis and then Director of Information
23 Technology. I joined the Florida Division in 2007 as General Manager of

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1 Peninsula Energy Services Company, Inc., Chesapeake's unregulated gas
2 marketing affiliate. I was appointed Assistant Florida Regional Manager in
3 January 2009 and have responsibility for all Customer Service as well as
4 Sales and Marketing operations in the State of Florida.

5 **Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.**

6 A. As Assistant Florida Regional Manager, I am responsible for establishing
7 goals and objectives for Customer Service and Sales and Marketing. My
8 duties also include strategic planning, budget preparation, sales and
9 marketing, customer service, regulatory activities and intrastate pipeline
10 activities.

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

12 A. My testimony describes and supports the methodology used to derive the
13 number of Consumers and therm consumption projections by rate class that
14 form the principal basis for the Company's Projected Test Year revenue
15 forecast. I will also present projected Consumer, therm consumption and
16 revenue by class for the respective Historic Base Year + 1 and the Projected
17 Test Year used in the Company's cost of service study. In addition to
18 revenues generated by Consumers, my forecast includes revenues produced
19 from the Company's Shipper rate classes. My testimony also outlines several
20 activities that have either been recently implemented, or are planned for
21 implementation, that continue the Company's efforts to enhance services to
22 Consumers and Shippers. Finally, I will describe in detail the Company's
23 investment in Automated Meter Reading (AMR) equipment and the related

1 services and benefits for both Consumers and Shippers provided by that
2 technology.

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

4 A. Yes. Exhibit No. JSS-1 is a list of the MFR schedules I am sponsoring.

5 **Revenue Forecast**

6 **Q. DID YOU PREPARE A FORECAST OF REVENUES FOR THE BASE YEAR
7 + 1 AND PROJECTED TEST YEAR?**

8 A. Yes. I prepared, on the Company's behalf, a forecast of Consumer
9 transportation service revenue by rate class, for the Base Year +1 and the
10 Projected Test Year. The results of this forecast are displayed on MFR
11 Schedule G-2, pp. 6-9. I also prepared a forecast of revenue from tariff
12 services provided by the Company to Shippers (SAS and SABS rate
13 schedules) and the off-system Delivery Point Operator Service. The forecast
14 of Miscellaneous Service revenue was prepared by Jeff Householder and is
15 described in his testimony.

16 **Q. DOES THE COMPANY'S REVENUE FORECAST REFLECT FUEL
17 REVENUES?**

18 A. No. In 2002 the Commission authorized the Company (Order No. PSC-02-
19 1646-TRF-GU issued November 25, 2002) to exit the gas supply merchant
20 function. The Company does not purchase or sell gas to any Consumer. No
21 fuel costs or revenues are included in the Company's filing.

22 **Q. IS THE FORECAST INCLUDED IN THE COMPANY'S MFR SUBMITTAL
23 CONSISTENT WITH ITS INTERNAL BUDGET FORECAST?**

1 A. Yes. The Company prepares a revenue forecast as part of its customary
2 annual budgeting process. The budget is typically prepared in late fall for the
3 following calendar year. The budget revenue forecast is periodically updated
4 during the year to reflect known or anticipated changes in Consumers and
5 usage. In preparation for this proceeding, the Company updated its 2009
6 budget forecast to reflect actual numbers of Consumers and their usage
7 (transportation quantities) results for the first quarter and adjusted the
8 remainder of 2009 based on current market projections and discussions with
9 builders and large volume Consumers.

10 **Q. HAS THE BUSINESS AND ECONOMIC CLIMATE IN THE COMPANY'S**
11 **SERVICE AREAS CHANGED SINCE ITS LAST RATE CASE?**

12 A. Yes. The obvious difference is related to the highly-publicized global
13 economic recession. At the time of the Company's last rate case (2000)
14 Florida was experiencing a boom in residential and commercial development.
15 During the first half of the decade, the Company experienced record customer
16 growth both in its historic Polk County service areas and as part of its
17 expansion into Citrus County. The majority of the account additions were new
18 homes. In the Company's service areas the predominance of new
19 construction development was targeted toward retirees or rental vacation
20 homes along US 27 close to Disney World. Many of the vacation homes were
21 purchased as investments by foreign owners. The September 11, 2001
22 terrorist attacks resulted in a brief pause in the local housing markets,
23 however, those markets quickly rebounded. The residential real estate market

1 continued at a brisk pace, with closings and housing starts at record levels
2 until the hurricane seasons of 2004 and 2005. The Company began to see a
3 significant decline in permits and closings in 2006. By early-2007 it was clear
4 that the now well-documented sub-prime mortgage difficulties were
5 contributing to a general tightening of credit and a slowdown in construction.
6 According to the Fishkind and Associates, Inc., *Florida Econocast, April 2009*
7 forecast, actual Florida housing starts declined from a high of 262,685 in 2005
8 to 64,394 in 2008. Residential construction in the Company's service areas
9 followed a similar pattern. Housing starts in the Company's principal
10 residential service area, the Winter Haven-Lakeland MSA, declined from a
11 peak of well over 10,000 in 2005 to 2,905 starts in 2008. In Citrus County
12 housing starts peaked at 2,569 in 2006 and dropped to 930 in 2008. Given
13 that much of the Company's historical growth has been tied to new
14 construction, it is no surprise that residential new service activations
15 plummeted from 1,212 in 2006 to 653 in 2007, and continued the downward
16 spiral to 361 additions in 2008.

17 The commercial construction market has also been affected by the
18 economic slowdown. *Florida Econocast* indicates greater than a 50% drop in
19 statewide commercial construction activity from a high of almost 125,000,000
20 square feet in 2006 to 61,000,000 square feet in 2008. In the Winter Haven-
21 Lakeland MSA commercial construction dropped from over 3,500,000 square
22 feet in 2005 to under 1 million square feet in 2008. However, in spite of a
23 significant slowdown in new construction, the Company's commercial service

1 activations remained relatively constant through 2008. The Company's
2 commercial Consumer additions in 2006 totaled 52, with 54 additions in 2007,
3 and actually increased to 75 additions in 2008. The 2008 activations are
4 attributed to an aggressive effort to convert existing commercial propane
5 users to natural gas in Citrus County. These conversions were driven by the
6 substantial price difference between propane and natural gas during most of
7 2008. Virtually all of the available conversions have been completed. The
8 Company's forecast of commercial service activations for the remainder of
9 2009 assumes a return to more traditional levels.

10 The Company is also experiencing losses in its industrial Consumer
11 base. As more fully described in Tom Geoffroy's testimony, four (4) industrial
12 facilities have discontinued service. Many industrial gas users have also
13 significantly reduced consumption as result of decreased production tied to
14 the current market situation.

15 **Q. WHAT ARE THE PROSPECTS FOR A TURN AROUND IN THE MARKETS**
16 **SERVED BY THE COMPANY?**

17 A. Several economic forecasts project that both the national and Florida housing
18 slump will bottom-out in 2009 and begin to recover in late 2010. The *Florida*
19 *Econocast, April 2009* forecast projects statewide housing starts for 2009 will
20 total less than 52,000, the lowest level in decades. The hoped for recovery in
21 Florida will be slow, with only a modest forecast increase to 69,280 starts in
22 2010. Recovery in the Winter Haven-Lakeland MSA is again projected to
23 generally follow the overall state pattern, albeit at a somewhat slower pace.

1 Housing starts in the MSA are projected to fall from 2,905 in 2008 to 1,809 in
2 2009, and remain flat for 2010 at 1,897. Although moderate increases in
3 housing starts are projected for 2011 (2,217 starts) and 2012 (2,619 starts),
4 2012 is at a level that would represent only approximately 25% of the starts
5 recorded in the peak year of 2005 (over 10,000 starts). In the Company's
6 Citrus County service area a quicker recovery is forecast. Housing starts in
7 Citrus County are estimated to decrease from 930 in 2008 to 213 in 2009, but
8 increase to 518 in 2010 and significantly increase to 1,474 in 2011. The
9 *Econocast* forecast indicates a similar recovery timeframe in the commercial
10 construction market with the Winter Haven-Lakeland MSA lagging the overall
11 state recovery. Discussions with local mortgage bankers, builders and
12 developers have also indicated their expectation that 2010 will begin a slow
13 recovery that should see greater access to credit with increased building
14 activity in 2011 and 2012. It should be noted that no one seems to expect a
15 return to construction levels approaching the peak years.

16 The Company believes that there will be future population growth in its
17 service areas that will bring opportunities for growth. Over the next decade
18 Florida's population growth rate, while slowing, is still expected to increase
19 significantly. The retiring baby boomer generation is expected to dramatically
20 increase the number of people migrating to new locations within the U.S. over
21 the next twenty years. However, as has been widely reported in the press,
22 several other states, most notably South and North Carolina and Tennessee
23 have begun to actively, and successfully, compete with Florida for retirees.

1 The principal issues cited for the shift away from Florida retirement were
2 overcrowding, severe weather, insurance and property taxes. Many
3 economists (Hank Fishkind and Stan Smith, Director of the BEBR to name
4 two) project that Florida's total share of these individuals will drop from
5 approximately 10.5% recorded in 1995-2000 to 6%-8% in the 2020-2030 time
6 period. Although the percentage of retirees moving to Florida is expected to
7 decline, the sheer number of baby boomer migrants should keep Florida's
8 population growing.

9 Population growth, as forecast by the University of Florida, Bureau of
10 Economic and Business Research (BEBR) in its "Florida Statistical Abstract
11 2008", is projected to continue in the Company's service areas at slightly over
12 1% per year through 2030. It is important to note that the BEBR, and other
13 population studies, track permanent residents. It is likely that the Company's
14 service areas will continue to experience construction of a number of second
15 and vacation homes. The population growth statistics may under estimate the
16 potential for growth. The projected growth will provide opportunities for the
17 Company to serve residential development and the commercial businesses
18 that naturally follow as the economy improves in 2011 and beyond.

19 **Q. HOW IS THE COMPANY'S PROJECTED TEST YEAR REVEUNE**
20 **FORECAST AFFECTED BY THE CURRENT STATE OF THE ECONOMY?**

21 A. The billing determinant projections (number of bills and therm use) upon
22 which the revenues are forecast are dependent upon the number of
23 Consumers served and the average therm use per Consumer within a given

1 rate class. In developing the projected billing determinants, I considered
2 recent historic Consumer net growth and usage patterns, knowledge of the
3 local market developed by the Company over time and the economic
4 forecasts described above on the timing of the market recovery. My
5 residential forecast also considers the Company's redirected marketing and
6 sales efforts. A significant portion of the Company's promotion and sales
7 activities are focused to increase on-main residential saturation and
8 Consumer retention. The residential energy conservation program
9 enhancements approved by the Commission in 2007 (Order No. PSC-07-
10 0197-PAA-EG, issued March 5, 2007) are helping to encourage existing
11 residence conversions. The Company's 2009 and 2010 residential forecast
12 projects that these efforts will slow customer loss and contribute to new
13 Consumers with the result that new residential service activations will
14 marginally exceed losses.

15 **Q. DOES THE COMPANY'S REVENUE FORECAST ACCOUNT FOR**
16 **PROPOSED REVISIONS TO ITS EXISTING RATE CLASSIFICATIONS?**

17 A. Yes. As described in Jeff Householder's testimony, the Company is proposing
18 to further stratify its existing rate classes FTS-2 (>500 - 3,000 annual therms)
19 and FTS-3 (>3,000 - 10,000 annual therms) into four classes (FTS-2, FTS-
20 2.1, FTS-3 and FTS-3.1). The Company forecast billing determinants (number
21 of Consumers, transportation volumes) for each of the proposed new rate
22 classes. These billing determinants were used to calculate the Projected Test
23 Year revenues presented in the MFRs for each proposed rate class.

1 **Q. DOES THE CONSUMER FORECAST ACCOUNT FOR THE TYPICAL**
2 **ANNUAL RECLASSIFICATION OF CONSUMERS MIGRATING BETWEEN**
3 **THE VOLUMETRIC RATE CLASSES.**

4 A. Yes. The Company's approved tariff (Section F, 2, Original Sheet Number 30)
5 includes an annual rate reclassification provision. Each January the Company
6 reviews Consumer therm usage from the previous year. Any Consumer
7 whose annual therm consumption is outside the annual therm range of its
8 current rate schedule is re-assigned to the rate schedule that reflects the
9 Consumer's actual usage. My Historic Base Year +1 forecast (2009) utilizes
10 the Company's January 2009 reclassification to account for Consumers by
11 rate class. The Projected Test Year forecast (2010) assumes Consumers
12 remain in the respective rate class assigned in 2009. While it is virtually
13 certain that some reclassification will be warranted in 2010, the Company has
14 no way of reasonably predicting the outcome of the reclassification.
15 Therefore, I did not perform a 2010 specific reclassification.

16 **Q. WHAT METHODOLOGY DID YOU USE TO FORECAST EACH OF THE**
17 **COMPANY'S RATE CLASSES?**

18 A. The Company's forecast for all rate classes is generally dependent on a
19 review of historic Consumer and therm data produced from its Customer
20 Information System. In addition, projections of Consumer and therm additions
21 from the Company's marketing staff along with direct discussions with large
22 volume Consumers (rate classes \geq FTS-7) to determine their gas
23 consumption plans for 2009 and 2010 were incorporated into the forecast

1 process. To accommodate the Company's proposed new rate classes it was
2 necessary to re-class existing FTS-2 and FTS-3 Consumers into the
3 proposed classes. I developed a ratio for each new class based on actual
4 2008 re-classed therm usage. The ratios were used to separate the FTS-2
5 and FTS-3 five-year historic therm data into the new classes for forecast
6 purposes. The forecast methods are outlined in greater detail later in my
7 testimony.

8 **Q. PLEASE DESCRIBE THE HISTORIC CONSUMER AND THERM USAGE**
9 **DATA USED IN YOUR FORECAST.**

10 A. The Company has maintained monthly Consumer records for several years.
11 Data from the Company's Customer Information System is routinely
12 transferred to an electronic data warehouse. The Company utilizes data
13 analysis and reporting software to access and compile the data. The data is
14 available on an individual Consumer account basis over the period for which it
15 is stored. Individual Consumer data is generally available back through
16 calendar year 2004. Annual data by rate class is available for a much longer
17 historic period. It is of limited use for forecast purposes, however, since the
18 Company has modified its volumetric Consumer transportation service rate
19 classes on three occasions over the past ten years: (Order No. PSC-00-
20 2263-FOF-GU, issued on November 28, 2000; Order No. PSC-03-0890-TRF-
21 GU, issued on August 4, 2003 and Order No. PSC--05-0208-PAA-GU, issued
22 on February 22, 2005). Although the Company's current rate classes became
23 effective in March 2005, I was able to access individual Consumer records

1 and compile and sort actual data for the period 2004 through the 1st quarter of
2 2009 based on the Company's current and proposed rate classes.

3 **Q. THE COMPANY'S RATE SCHEDULES DO NOT DISTINGUISH BETWEEN**
4 **RESIDENTIAL AND NON-RESIDENTIAL CONSUMERS. WERE YOU ABLE**
5 **TO FORECAST CONSUMER AND THERM USAGE BY CONSUMER TYPE**
6 **WITHIN EACH RATE CLASS AND THEN CONSOLIDATE THE DATA FOR**
7 **REVENUE FORECAST PURPOSES?**

8 A. Yes. The historic data described above can be separately compiled for
9 residential and non-residential Consumer types. For those rate classes that
10 include both residential and non-residential Consumers (FTS-A, FTS-B, FTS-
11 1, FTS-2 and FTS-3) I produced discrete residential and non-residential
12 Consumer and therm usage data. For revenue forecasting purposes,
13 however, the data by rate class was consolidated without regard to Consumer
14 type.

15 **Q. HOW DID YOU DEVELOP THE NUMBER OF CONSUMERS IN EACH**
16 **CLASS FOR THE BASE YEAR + 1 AND THE PROJECTED TEST YEAR?**

17 A. The Consumer forecast for the Projected Test Year began by compiling the
18 actual number of Consumers by month for the 2008 Historic Base Year. For
19 rate classes FTS-A through FTS-1, I determined the actual number of
20 Consumers in 2008 and for the first three months of 2009. I used the actual
21 January, February and March 2009 consumers and the actual 2008
22 consumers for the remaining months as starting point to forecast the number
23 of Consumers for each month in 2009 and 2010. I adjusted the monthly

1 number of Consumers for the months of April through December 2009 based
2 on known and projected additions and losses in the FTS-A through FTS-13
3 rate classes, accounting for the variation in Consumers based on seasonal
4 migration. My Consumer forecast for 2010 adjusted the 2009 consumers for
5 each month following the same practice. These Consumer totals were used
6 for the FTS-A through FTS-1 Historic Base Year + 1 forecast. I reclassified
7 each Consumer assigned to the current FTS-2 and FTS-3 rate classes into
8 the proposed new rate classes (FTS-2, FTS-2.1, FTS-3 and FTS-3.1) based
9 on the actual 2008 annual therm consumption for each Consumer. For rate
10 classes FTS-4 through FTS-6, I extended the actual March 2009 Consumer
11 totals for each of the remaining months adjusting the number of Consumers
12 based on known and projected additions and losses in each rate class. These
13 Consumer totals were used for the FTS-4 through FTS-6 Historic Base Year +
14 1 forecast. The 2010 Projected Test Year Consumer forecast for FTS-A
15 through FTS-1, adjusts the 2009 monthly Consumer totals based on known
16 and projected additions and losses in each rate class, maintaining the
17 seasonal Consumer effects. The FTS-2 through FTS-6 rate classes extend
18 the December 2009 Consumer totals and adjust the number of Consumers
19 projected for 2010 based on known and projected additions and losses in
20 each rate class. The large volume (>FTS-7 classes) Consumer forecast was
21 began with the existing accounts as of March 2009 and added or subtracted
22 known plant additions or closings.

1 Q. HOW WAS THE COMPANY'S HISTORIC DATA DESCRIBED EARLIER
2 USED IN PROJECTING THE NUMBER OF NEW, LOST OR SEASONAL
3 CONSUMERS FOR 2009 AND 2010?

4 A. Given the current market uncertainty described above, it is difficult to rely on
5 long-term historic Consumer data to project future additions or losses. The
6 short-term data from 2008, given the *Econcast* forecast described above, is a
7 more reliable predictor of Consumer growth in 2009 and 2010 than would be
8 produced by using a longer term trend. The limited building activity in the
9 Company's service areas has significantly affected Consumer additions
10 compared to past experience. In the nine years since the Historic Base Year
11 of its last rate filing (1999-2008), the Company recorded over a 50% increase
12 in the total number of average Consumers (MFR Schedule C-37). During this
13 period, almost 5,000 new accounts were added, an average annual increase
14 of over 5%. Consumer growth in the boom years of 2005 and 2006 was in
15 excess of 7%. However, that growth fell to 4.6% in 2007 and plummeted to
16 1% in 2008. The annual average number of Consumers projected in my 2009
17 and 2010 forecast is generally flat compared to 2008. Even the modest
18 growth in the forecast (less than 1% average Consumer growth) may be
19 optimistic. It assumes that the economy does not get worse, causing further
20 reductions in the number of projected residential building starts and
21 conversions.

22 I reviewed the historic data to identify lost accounts trends. I was also
23 able to access more specific inactive account data from the 2007 and 2008

1 period. The data point to an increase in lost accounts, which appear to be
2 related to the current economic downturn. The estimate of lost accounts for
3 most rate classes is assumed to be close to the Consumer additions for the
4 class. Based on the more recent data, it would appear that the Company's
5 residential Consumer loss has exceeded its additions. My forecast assumes
6 that such a trend will not continue. The Company's historic Consumer data
7 were useful in identifying seasonal disconnects and reconnects for those
8 Consumers who spend only the winter months in Florida. These seasonal
9 Consumer numbers are reflected in my forecast for the rate classes FTS-A,
10 FTS-B and FTS-1.

11 The Company's historic data is of virtually no use in forecasting the
12 number of additions or losses in large volume industrial accounts. There has
13 been no discernable pattern in industrial consumer growth or loss.

14 **Q. HOW DID YOU FORECAST CONSUMER ADDITIONS?**

15 A. As noted earlier, the Company's marketing and sales department prepares a
16 Consumer addition forecast by rate class for the annual budget process. The
17 Consumer addition forecast is periodically updated during the year. For
18 residential additions, the department tracks lot inventory and construction for
19 each of the primary residential development projects served by the
20 Company's distribution system. Ongoing conversations with builders, reviews
21 of local building permit data and various economic forecasts (BEBR, Fishkind,
22 et. al.) are used to update the projections of new residential additions. The
23 marketing and sales department also tracks commercial permit activity and

1 maintains numerous contacts engaged in commercial development
2 throughout the Company's service area. I used the marketing and sales
3 department's new residential and new and existing commercial Consumer
4 additions projections for each of the FTS-1 through FTS-6 rate classes (rate
5 classes FTS-A and FTS-B are closed to new premise additions by Order No.
6 PSC-05-0208-PAA-GU, issued on February 22, 2005). All new residential
7 Consumer additions were assigned to the FTS-1 rate class (0 to 500 annual
8 therm).

9 The 2009 and 2010 projections of existing residential conversions to
10 natural gas were based on the participation levels in the Company's
11 residential appliance replacement energy conservation program over the past
12 two years, reduced slightly to reflect current economic conditions. As noted
13 above, existing commercial Consumer conversions were based on the
14 marketing and sales forecast described earlier. My 2009 forecast includes
15 275 new residential and 42 new commercial account additions in 2009 and
16 325 residential additions and 51 commercial additions in 2010.

17 Industrial Consumers were forecast based on individual contacts with
18 each Consumer. The Company actively monitors and maintains close contact
19 with its large volume Consumers; routinely visiting such Consumers
20 throughout the year. The Company has added one (1) industrial account to
21 date in 2009, and anticipates adding two (2) more industrial accounts by the
22 end of 2009. One of these accounts is assigned to the FTS-7 rate class and
23 two are assigned to the FTS-9 rate class revenue forecast for 2010. One of

1 the industrial additions is tied to the proposed acquisition of the Florida Gas
2 Transmission Winter Haven lateral as described in Mr. Taylor's testimony.
3 The Company's revenue forecast also includes several industrial accounts
4 that have already, or are planning to, discontinue operations. Tom Geoffroy's
5 testimony provides greater detail on these Consumer losses. My revenue
6 forecast includes all of the actual industrial losses recorded to date and
7 accounts for the known plant closures that will affect the Projected Test Year.
8 I have removed from the forecast only those industrial Consumers where the
9 Company has received direct notice for the discontinuation of service or the
10 termination of the Consumer's operations has been publically disclosed. It
11 should be noted that the Company's large volume forecast includes
12 Consumers in tariff rate classes FTS-7 through FTS-13, and also includes
13 Special Contract Consumers.

14 **Q. WHAT ARE THE PROJECTED NUMBERS OF CONSUMERS IN THE**
15 **PROJECTED TEST YEAR?**

16 A. I am forecasting an average of 14,733 Consumers in the 2010 Projected Test
17 Year. The number of Consumers by rate class can be found on MFR
18 Schedules H-2, page 1, and G-2, page 10-12 (Consumer bills/12).

19 **Q. HOW WERE THE THERM CONSUMPTION PROJECTIONS DEVELOPED?**

20 A. *Historical monthly consumption data for each rate class over the years 2004 –*
21 *Q1 2009 were obtained from Company records. The historic data was used to*
22 *produce a five-year consumption average by month for each class up to FTS-*
23 *6. A three-year consumption average by month was also compiled for each*

1 individual Consumer in rate class FTS-7 and above (>100,000 annual
2 therms). A review of the average usage data was undertaken to discern linear
3 trends and other patterns related to consumption. The data was used to
4 evaluate seasonal differences in consumption and changes in consumption
5 month to month and year over year. Cold weather effects for classes FTS-6
6 and below were considered through the averaging of consumption over a five-
7 year period. I assessed the potential weather impacts, year over year, by
8 comparing actual Heating Degree Day (HDD) data for several historic periods
9 against the 2004-2008 five-year average used for forecasting purposes. For
10 example, I reviewed HDD data for Lakeland, Florida (mid-point between the
11 Company's Winter Haven and Plant City service areas). The Lakeland HDD
12 annual average in the five-year period 2004-2008 totaled 525 HDD. The
13 average HDD during the previous ten-year period 1999-2008 totaled 538
14 HDD; and for the previous fifteen-year period totaled 534. The thirty-year
15 annual average HDD reported for the 1971-2000 period by the National
16 Climatic Data Center totals 487 HDD. Given the marginal differences between
17 the previous fifteen-year, ten-year and five-year HDD averages, and the fact
18 that the five-year HDD total of 525 was considerably higher than the thirty-
19 year average, I was comfortable that using the 2004-2008 five-year average
20 therm usage totals would appropriately project usage for 2009 and 2010 for
21 rate classes up to FTS-6. As noted above, the large volume therm forecast
22 was based primarily on individual contacts with each Consumer and a
23 discussion of consumption projections for 2009 and 2010. We find little

1 correlation between cold weather and therm usage for these large volume
2 Consumers.

3 **Q. HOW DID YOU FORECAST THE NUMBER OF THERMS FOR THE**
4 **PROPOSED NEW RATE CLASSIFICATIONS (FTS-2, FTS-2.1, FTS-3 AND**
5 **FTS-3.1)?**

6 A. I first compiled the historic five (5) year monthly average consumption for the
7 current FTS-2 and FTS-3 classes, without the new FTS-2.1 and 3.1
8 classifications, consistent with the method described above. Then, accessing
9 the Company's historic CIS data, I sorted the 2008 actual monthly therm
10 usage data for the Consumers assigned to the current FTS-2 and FTS-3
11 classes into the new proposed classifications. Based on that data sort, I
12 developed a monthly ratio for the total therms assigned to each of the new
13 classes, for residential and commercial Consumers. These percentages were
14 applied to the 2004-2008 five-year monthly therm averages for the combined
15 FTS-2 and FTS-3 classes to derive monthly therms for the proposed classes.
16 This process was completed for both the residential and non-residential
17 therms included in the FTS-2 and FTS-3 rate classes.

18 **Q. HOW DOES THE AVERAGE ANNUAL THERM USAGE TOTAL FOR**
19 **RESIDENTIAL CONSUMERS IN YOUR PROJECTED TEST YEAR**
20 **FORECAST COMPARE TO THE RESIDENTIAL THERM USAGE USED TO**
21 **SET RATES IN THE COMPANY'S 2000 RATE CASE?**

22 A. The Company's 2000 rate case filing assumed 251 therms as the projected
23 average annual residential therm consumption for its Projected Test Year

1 forecast (Docket 000108-GU; MFR Schedule E-1, page 3 of 3). I was able to
2 access historic data for residential Consumers (combined for all rate classes)
3 for the period 2000 through 2008. The actual average annual therm use by
4 Consumer during that period totaled approximately 253 therms. In the
5 Company's current rate proceeding, I calculated the annual average
6 residential therm use for all accounts (combined for all rate classes) in the
7 2010 Projected Test Year. The 2010 forecast is based on an annual average
8 of 258 therms.

9 **Q. WOULD YOU CONCLUDE FROM THE ABOVE DISCUSSION THAT THE**
10 **COMPANY IS NOT EXPERIENCING THE SAME DECLINE IN AVERAGE**
11 **USE PER RESIDENTIAL CONSUMER REPORTED BY OTHER GAS**
12 **UTILITIES ACROSS THE COUNTRY?**

13 A. Not necessarily. I believe there has been a continuing reduction in residential
14 consumption due to the increased efficiency of gas appliances, more efficient
15 home construction techniques and general Consumer conservation
16 associated with higher fuel prices. Several Florida gas utilities have reported
17 declining residential usage in recent filings before the Commission. The
18 American Gas Association conducted a recent study that found a decline in
19 the South Atlantic region of over 12% during the past six years. In Florida,
20 Commission approved energy conservation programs encourage the
21 installation of highly efficient gas appliances that also contribute to lower
22 consumption. The Company believes that its average residential usage has
23 remained consistent over the past ten years due primarily to a focused effort

1 to add premises, primarily from new construction, with multiple appliances.
2 Most of these new homes have included at least three basic appliances
3 (water heating, cooking and clothes drying). Many heat with gas. A large
4 percentage of the new residences, especially in the vacation home market,
5 have added gas appliances such as pool heaters, fire logs and outdoor
6 kitchens further elevating usage averages.

7 In 1999 (the Historic Base Year in the Company's last rate case) the
8 Company served approximately 8,745 residential Consumers. The 2010
9 Projected Test Year includes 13,574 residential Consumers, a 55% increase.
10 The great majority of these accounts are at usage levels that parallel or
11 exceed the historic overall average use per residence. The number of very
12 small volume Consumers is also declining. In 2004, the Company served
13 6,882 Consumers using below 250 therms per year (FTS-A and FTS-B rate
14 classes). The 2010 forecast includes less than 5,200 residential Consumers
15 at this volume level. It appears that the usage declines from efficiency and
16 conservation observed across the country have been offset on the
17 Company's system by the general displacement of low use residential
18 Consumers by higher use Consumers. To the extent that the Company is not
19 able to continue to add multiple appliance Consumers, it could begin to
20 experience a decline in average residential use.

21 **Q. PLEASE DESCRIBE THE COMPANY'S TARIFF SERVICES TO**
22 **SHIPPERS.**

1 A. The Company currently provides service to nine (9) Commercial/Industrial
2 (CI) Shippers and two (2) Transitional Transportation Service (TTS) Shippers.
3 The CI Shippers may enter into a contract, independent of the Company, to
4 provide gas supply service to any non-residential Consumer. The TTS
5 Shippers provide gas supply service to residential Consumers and those non-
6 residential Consumers who have not independently selected a
7 Commercial/Industrial Shipper (the TTS Pool). The TTS Shippers may also
8 execute a CI Shipper agreement and provide gas supply to non-TTS
9 Consumers. The Company provides various services to all shippers related to
10 the administration of the shipper's delivery of gas on interstate pipeline
11 systems to the Company's distribution system. Such services include the
12 management of interstate pipeline capacity relinquishments, the management
13 of Consumer movement between shippers, delivery imbalance resolutions,
14 etc. The Company also provides a Consumer billing and payment agent
15 service which is mandatory for TTS Shippers and optional for CI Shippers.
16 The Company provides these administrative services to shippers under two
17 rate schedules: SAS and SABS. All CI Shippers are assigned to the SAS rate
18 schedule unless they opt to receive the billing and payment agent service
19 provided by the Company in the SABS rate schedule. All TTS Shippers
20 receive service under the SABS rate schedule. The SAS rate schedule
21 includes a monthly Shipper Administrative Charge (currently \$172.50). The
22 SABS rate schedule includes both a monthly Shipper Administrative Charge
23 (\$100.00) and a monthly Consumer Charge of \$3.00 per Consumer for each

1 bill statement rendered by the Company for the shipper. The Company's tariff
2 (Original Sheet No. 95) provides that any CI Shipper electing SABS service is
3 not required to pay a SAS monthly Shipper Administrative Charge.

4 **Q. HOW DID YOU FORECAST REVENUE FOR THE SHIPPER**
5 **ADMINISTRATIVE SERVICE (SAS) RATE CLASS?**

6 A. The SAS revenue forecast is based on the number of CI Shippers currently
7 active on the Company's distribution system that have not elected service
8 under the SABS rate schedule. These CI Shippers have executed a CI
9 Shipper Agreement with the Company. Of the nine (9) currently active CI
10 Shippers, only one has elected SABS. My forecast assumes that eight (8) CI
11 Shippers will pay the SAS Shipper Administrative Service charge for the
12 remainder of 2009. I am forecasting no change in the number of SAS CI
13 Shippers in the Projected Test Year.

14 **Q. HOW DID YOU FORECAST REVENUE FOR THE SHIPPER**
15 **ADMINISTRATIVE AND BILLING SERVICE (SABS) RATE CLASS?**

16 A. As noted above, the SABS rate schedule is offered on an optional basis to all
17 CI Shippers and is mandatory for all TTS Shippers. The number of TTS
18 Shippers (2) paying the monthly SABS Shipper Administrative Charge will not
19 change in 2010. The primary billing determinant for the SABS rate schedule is
20 the number of bills provided by the Company to Consumers served by a TTS
21 Shipper or CI Shipper electing the SABS. Since all residential Consumers are
22 assigned to the TTS Pool, I used the total number of such accounts forecast
23 in the Projected Test Year. The number of non-residential Consumers served

1 in the TTS Pool varies slightly from month to month as Consumers select a CI
2 Shipper and exit the pool or fail to continue service with a CI Shipper and
3 default into the pool. In general, the number of non-residential TTS
4 Consumers is fairly constant. Virtually all new commercial Consumers select
5 a CI Shipper and do not enter the TTS Pool. I used the actual number of non-
6 residential TTS accounts for the twelve months ending March 2009 to
7 forecast the number of TTS Consumers in the Historic Base Year + 1 and the
8 Projected Test year billed by the Company under the SABS rate schedule.

9 In addition to the mandatory service provided to TTS Shippers, one (1)
10 CI Shipper has elected SABS. I compiled the number of actual bills prepared
11 by the Company for the CI Shipper in 2008 and for Q1 2009. I forecast an
12 increase in bills for this Shipper over the remainder of 2009 and 2010 based
13 on discussions with the Shipper. I added the projected number of TTS
14 Shipper bills to the CI Shipper bills and multiplied by the proposed SABS
15 Consumer Charge to forecast SABS revenues for the Projected Test year.

16 **Q. HOW DID THE COMPANY ESTIMATE REVENUES FOR THE BASE YEAR**
17 **+ 1 AND THE PROJECTED TEST YEAR?**

18 A. The Consumer transportation service forecast described above provided the
19 number of Consumers billed each month during the Base Year + 1 and the
20 Projected Test Year for the proposed rate classes. The Consumer usage
21 forecast provided the annual therm consumption for each rate class. An
22 annual average use per Consumer for each rate class was calculated by
23 dividing the annual forecast therm use by the number of Consumers.

1 Consumer revenue projections displayed on MFR Schedule G-2, pages 10-
2 12, were prepared by applying the forecasts of Consumers and therm usage
3 described above for the respective Historic Base Year + 1 and the Projected
4 Test Year using both the Company's present rates by class. The forecast of
5 revenues for the Special Contract was prepared in the same manner.

6 The Shipper SAS revenue forecast was based on the number of CI
7 Shippers (nine) multiplied by the present SAS Shipper Administrative Charge
8 rate each month, totaled for the year. The Shipper SABS revenue forecast
9 multiplied the monthly bill forecast described above by the present SABS
10 Consumer Charge rates, totaled for the year. In addition, the SABS revenue
11 included a monthly Shipper Administrative Charge for the participating TTS
12 Shippers and the one CI Shipper who has elected this service. The number of
13 SABS Shippers was multiplied by the present SABS Shipper Administrative
14 Charge rate each month, totaled for the year. I assumed the revenues
15 related to the Off-System DPO service would approximately equal revenues
16 for 2008 for the remaining customer. Miscellaneous Charge revenues were
17 forecast by Jeff Householder and are described in his testimony.

18 **Q. WHAT ARE THE PROJECTED TEST YEAR REVENUES?**

19 A. As detailed on page 8 of MFR Schedule G-2, Projected Test Year revenues
20 at current rates total \$11,773,624, including Other Revenue (Miscellaneous
21 Charges) at current rates of \$149,190. The revenue requirement deficiency
22 addressed in this case was established based on the above forecast results.
23

1 Customer Service Enhancements

2 Q. WHY IS IT IMPORTANT TO CONSIDER CUSTOMER SERVICE
3 INITIATIVES IN THE COMPANY'S RATE FILING?

4 A. The fundamental goal of any company should be to provide products and
5 services that meet the needs of its customers. In the Company's case, and in
6 accordance with its tariff, both end-use Consumers and third party shippers
7 are considered customers. While the service requirements of Consumers vary
8 significantly from Shippers, meeting the needs of each group is critical for the
9 Company to be successful in adding and retaining Consumers in a
10 competitive marketplace. Natural gas has always been an optional fuel
11 choice, particularly in Florida's warm climate. In today's economic
12 environment, and with limited new construction activity, competition to provide
13 a Consumer's energy services is intense. Consumers are being exposed to
14 multiple service options from a variety of energy providers. One only needs to
15 preview the potential incentive programs currently under development in the
16 Commission's electric Demand Side Management (DSM) docket (No.
17 080410) to gauge the potential for natural gas load loss to a competitive fuel.
18 In addition to electric utilities, interstate pipelines, fuel oil dealers and propane
19 retailers have all expanded and refocused their marketing efforts to compete
20 with natural gas distributors. Gas-on-gas competition at the individual
21 Consumer level has emerged as larger customers look for by-pass and price
22 reduction opportunities. Competition for Consumers from alternate fuel
23 providers continually places the Company's throughput and margins at risk.

1 The Company must proactively address market competition through the
2 frequent assessment and realignment of marketing programs, rates and the
3 services provided to customers. The rates proposed by the Company in this
4 proceeding would recover costs that enable the Company to continue to keep
5 pace with evolving customer needs in a competitive marketplace.

6 **Q. WHAT RECENT STEPS HAS THE COMPANY TAKEN TO ENHANCE OR**
7 **IMPROVE ITS SERVICE TO CUSTOMERS?**

8 A. The Company continually seeks to elevate the level of service provided to its
9 Consumers and Shippers. Several projects are underway which will help the
10 Company hold the line on future expenses and contribute to better overall
11 safety, reliability and responsiveness to customer needs. The Company's
12 investment in its Automated Meter Reading system will provide Consumer
13 and shipper benefits including improvements in the Company's administration
14 of its transportation service programs, as I describe herein. The Company's
15 Operations Department reorganization, and its Transitional Transportation
16 Service (TTS) Program Phase 2 Open Enrollment are additional examples of
17 substantive efforts by the Company to enhance services and manage costs.

18 **Q. PLEASE PROVIDE A BRIEF OVERVIEW OF AUTOMATED METER**
19 **READING (AMR) SYSTEMS.**

20 A. AMR technology uses an electronic device attached to a meter (gas, electric,
21 water, etc.) to periodically read the meter and communicate the reading
22 without an on-site physical inspection of the meter dial. There are several
23 modes of AMR communication. The most advanced systems communicate

1 meter data wirelessly (through cellular and/or radio signals) to a central
2 computer. Other systems communicate reads to a data collector that is
3 driven-by the meter location or to a hand held data collector when a wand is
4 touched to an electronic device at the meter.

5 **Q. PLEASE DESCRIBE THE AMR SYSTEM SELECTED BY THE COMPANY.**

6 A. In 2007 the Company began exploring the technical and economic feasibility
7 of installing Automatic Meter Reading (AMR) communications devices on all
8 of its non-telemetered accounts. The Company has historically maintained
9 electronic telemetry devices on all large volume (>100,000 annual therms)
10 Consumer accounts. The existing large volume telemetry devices would be
11 retained. The AMR system would expand electronic daily read capability to all
12 other Consumer meters. The Company reviewed several AMR technologies
13 and equipment manufactures. The Company engaged in several discussions
14 with utilities that had deployed AMR systems, including site visits for
15 demonstrations of active systems. Ultimately, the Company selected the
16 Aclara (formerly Hexagram) Star AMR System. The Star system requires the
17 installation of a pulse sensor Meter Transmitter Unit (MTU) on each meter.
18 The MTU contains a microprocessor, a wireless transmitter, an internal
19 antenna and a 20-year battery. For gas meters the MTU is mechanically
20 connected to the meter register. Twice each day (or more frequently if
21 desired) the MTU reads and transmits data to a Data Collection Unit (DCU).
22 The DCUs are installed throughout a utility's service territory on a ½ mile to
23 mile grid depending on geographic topography. The DCUs are solar/battery

1 powered and installed on rooftops or poles. Once a day, the DCUs connect to
2 a centrally located network server, (the Star Network Control Computer), via a
3 cellular phone connection and download the MTU meter data. The Star
4 system software provides utility personnel a number of measurement data
5 and operational reports and is linked to the utility's billing system.

6 **Q. DID THE COMPANY TEST THE STAR AMR SYSTEM PRIOR TO**
7 **COMMITTING TO A FULL SCALE INSTALLATION OF THE SYSTEM?**

8 A. Yes. In 2008, the Company conducted a pilot program to install and test Star
9 AMR equipment in its Citrus County service area. During the pilot program
10 the Company installed approximately 300 MTUs and 4 DCUs. Chesapeake
11 continued to obtain on-site visual meter reads to compare to the electronic
12 AMR reads in order to verify the accuracy of the AMR system. Over the test
13 period there were no unexplained differences between the physical and AMR
14 reads. The handful of installation problems and data errors identified in the
15 pilot were judged to be minor and were all satisfactorily corrected during the
16 test period. The Company's pilot program validated the operational feasibility,
17 cost projections and improved data collection capability of the AMR
18 technology. At the conclusion of the pilot in September 2008, the Company
19 initiated the installation of Star AMR devices on the remainder of its meters,
20 except for the large volume telemetered accounts noted above. The
21 Company estimates completion of the existing consumer MTU installations
22 and its DCU network by the end of October 2009.

1 **Q. PLEASE DESCRIBE THE COST OF THE INDIVIDUAL AMR SYSTEM**
2 **COMPONENTS.**

3 A. Each standard residential MTU costs \$92, with extended range residential
4 units (approximately 5% of total residential MTUs) priced at \$118. Residential
5 meter MTU installation is \$15 per unit. Commercial MTUs (for meters >750
6 cf/h) are priced at \$217 for the standard unit and \$270 for the extended range
7 MTUs (approximately 2% of commercial MTUs). Commercial meter MTU
8 installation is \$45 per unit. Industrial MTU's (and the appurtenant equipment)
9 for rotary meters are priced at approximately \$700. The cost for each DCU is
10 \$4,400. Average DCU installation is approximately \$4,600 for a total DCU
11 cost of \$9,000 per unit. Aclara conducted a topographical survey for the
12 Company to determine the optimum DCU locations. The Company plans to
13 acquire a boom truck (approximately \$18,000) to facilitate the installation and
14 on-going maintenance of the DCUs. The Company estimates its capital
15 investment to develop a web site that provide Shippers (and eventually
16 Consumers) access to AMR measurement data is approximately \$60,000.
17 The Star Network Control server was purchased for \$7,535. The Star system
18 software was purchased for \$10,118.

19 **Q. WHAT IS THE COMPANY'S CURRENT AND PLANNED INVESTMENT IN**
20 **ITS AMR SYSTEM?**

21 A. The Company has incurred actual AMR capital costs of \$1,710,498 through
22 the end of December 2008. The Company estimates that it will invest an
23 additional \$1,425,346 during the remainder of 2009 and 2010 to complete the

1 initial system installation described above. The Company estimates total AMR
2 system capital costs through 2010 at \$3,135,844.

3 **Q. HOW IS THE COMPANY RECORDING THE AMR EQUIPMENT FOR**
4 **DEPRECIATION PURPOSES?**

5 A. The Company proposes to establish a new communications equipment sub
6 account to record its investment in MTU and DCU AMR equipment for
7 depreciation purposes. The MTUs and DCUs are designed to communicate
8 data. They are essentially wireless radio transmitters. The Company's 2007
9 Deprecation Study (Order No. PSC-08-0364-PAA-GU, issued June 2, 2008)
10 includes Account 397 Communications Equipment. The Company proposes
11 to create sub account 397.1, AMR Communications Equipment. The
12 Company proposes that the depreciation life for the sub account be set at
13 twenty (20) years. Aclara literature indicates that the battery life of the MTUs
14 is twenty (20) years. The DCUs are also expected to be in service for
15 approximately the same period. The server, software and boom truck will be
16 recorded in the appropriate FERC capital accounts.

17 **Q. HOW IS THE COMPANY PROPOSING TO RECOVER ITS INVESTMENT IN**
18 **AMR TECHNOLOGY?**

19 A. The Company is proposing to recover its initial \$3,135,844 investment
20 (through 2010) in AMR technology, and certain related expenses, through an
21 increase in its tariff charges to Shippers. Mr. Householder's testimony
22 describes the revenue requirement allocation and rate design proposed to
23 recover these costs.

1 **Q. COMMISSION RULES 25-7.084(2) and 25-2.085(4) and (5), F.A.C.,**
2 **APPEAR TO REQUIRE MONTHLY ON-SITE METER READS. HOW HAS**
3 **THE COMPANY ADDRESSED THESE RULE REQUIREMENTS?**

4 A. In August 2008, the Company petitioned the Commission for permanent
5 waiver of these rules to the extent that they require an actual physical on-site
6 read of a meter's mechanical counter. By Order No. PSC-08-0730-PAA-GU,
7 issued November 3, 2008, the Commission approved the Company's rule
8 waiver. The Commission Order authorizes the company to discontinue
9 physical on-site meter reading as the AMR devices become operational. The
10 Commission did, however, require that the Company perform a physical on-
11 site read of its meters at least once a year.

12 **Q. WILL THE INSTALLATION OF AMR TECHNOLOGY PROVIDE TANGIBLE**
13 **BENEFITS TO CUSTOMERS?**

14 A. Yes. The AMR technology selected by the Company offers a number of
15 substantive benefits to end-use Consumers and Shippers scheduling gas
16 deliveries for Consumers. AMR will enable the Company to:

- 17 • Significantly reduce annual meter reading costs. In its MFR's the
18 Company has projected a reduction in meter reading costs for the
19 Projected Test Year of \$110,750. The cost savings is equal to an
20 elimination of on-site meter reads for eleven (11) months per year. As
21 noted above the Commission has ordered the Company to conduct
22 one on-site read of all meters per year.
- 23 • Virtually eliminate estimated bills.

- 1 ● Improve billing accuracy.
- 2 ● Detect leaks in a timely manner.
- 3 ● Provide a more immediate response to Consumer disputes and
- 4 inquiries.
- 5 ● Eliminate mis-reads and unscheduled meter reading expenses.
- 6 ● Reduce illegal meter activation and gas theft.
- 7 ● Allow regular access to hard to reach meters (behind locked gates) or
- 8 meters in located in potentially dangerous conditions (dogs).
- 9 ● Provide meter data to Consumers, Shippers and other authorized
- 10 users through a web interface or other means of communication.

11 **Q. DOES THE AMR TECHNOLOGY PROVIDE AN OPPORTUNITY TO**
12 **FURTHER ENHANCE THE COMPANY'S TRANSPORTATION SERVICE**
13 **PROGRAMS THROUGH IMPROVED ADMINISTRATIVE PROCESSES?**

14 **A.** One of the most significant factors driving the installation of AMR technology
15 is the Company's interest in utilizing the data produced by its AMR system to
16 the advantage of Consumers. The Company's ultimate intention is to provide
17 AMR consumption data via the internet to both Consumers and shippers.
18 Access to such data would enable Consumers to better manage their energy
19 use and provide information to aid in selecting a gas supply pricing option
20 from their selected shipper.

21 Providing daily meter read data to Shippers is another key element in
22 optimizing Consumer benefits under the Company's unbundled transportation
23 service program. Access to daily Consumer consumption data is important to

1 Shippers trying to keep scheduled gas deliveries in balance with Consumer
2 consumption. The potential savings to Consumers if deliveries are in balance
3 is significant. The majority of the Company's transportation accounts are
4 small volume residential and commercial Consumers whose meters are read
5 once a month. The monthly read dates for these Consumers are distributed
6 across the month in the Company's various meter read cycles. While the
7 meter read cycles are all generally 30 days, virtually all of the cycles begin in
8 one month and end in the following month. Not only are there no daily reads,
9 but the "monthly" consumption data is not aligned with the calendar month
10 timing of gas purchases and interstate pipeline imbalance resolution. Given
11 the lack of daily consumption data, it is difficult to delivery a quantity of gas for
12 a cycle read Consumer that closely matches the actual consumption of the
13 Consumer. To the extent an imbalance occurs there is a financial cost to
14 cash-out the imbalance. The cash-out costs are passed through to
15 Consumers. When fully implemented, AMR will enable the Company to
16 provide daily consumption data to all shippers which should result in
17 significant improvements in imbalance positions and real savings to
18 Consumers.

19 Daily usage data is also needed to appropriately assign Operational
20 Control Order (Alert Days, Operational Flow Orders, et. al.) penalties to the
21 Shipper(s) whose Consumer pool(s) caused the penalty to be incurred. Under
22 the Company's current procedure, such penalties are first assigned to non-
23 complying Consumers with telemetry (approximately 100 Consumers with

1 annual usage >100,000 therms). Remaining penalties are recorded in the
2 Company's OBA and allocated pro rata to all Shippers based on the
3 respective Shipper's scheduled gas quantity on the day of the Operational
4 Order. In the absence of daily measurement data it is impossible to know with
5 certainty which non-telemetry Consumers failed to adhere to the Operational
6 Order quantity tolerances. Therefore, the OBA allocations are imprecise and
7 do not ensure that the Shipper pool(s) violating the Operational Order
8 receives the penalty. AMR daily reads will enable the Company to
9 appropriately assign Operational Order penalties. The Operational Control
10 Order and TTS pool imbalance resolution tariff modifications proposed in Mr.
11 Householder's testimony provide a more detailed discussion of the need for
12 daily read data.

13 **Q. DOES THE COMPANY NEED TO COMMIT ADDITIONAL**
14 **TRANSPORTATION SERVICE ADMINISTRATIVE RESOURCES TO**
15 **OPTIMIZE THE CONSUMER BENEFITS RELATED TO AMR?**

16 **A.** Yes. As the Company's transportation service initiative has evolved,
17 especially with the additional opportunities presented by the installation of
18 AMR technology, it has become evident that additional administrative
19 resources are required to maximize program benefits. The Company is
20 working to establish a Transportation Service Administration (TSA) section to
21 consolidate the various operational, gas control, billing and Consumer
22 account administration functions related to transportation. The Company's
23 MFRs include two proposed new TSA positions. The new positions would join

1 with up to two existing positions to form the TSA section. This group would be
2 responsible for administering the Company's obligations as Delivery Point
3 Operator with interstate pipelines, managing pipeline capacity
4 relinquishments to Shippers, resolving delivery imbalances, resolving
5 operator order penalties, administering the TTS open enrollment process,
6 validating AMR reads, MUT DCU error, and myriad other activities required to
7 administer transportation service. At present these functions are split between
8 the Company's customer service, billing and operations groups.

9 **Q. ARE THERE OTHER EXAMPLES OF SERVICE IMPROVEMENTS THAT**
10 **BENEFIT CONSUMERS?**

11 A. Yes. The Company's recent Operations Department reorganization,
12 described in Tom Geoffroy's testimony, will provide significant benefits to
13 Consumers. The reorganization was intended to achieve the following three
14 primary objectives: i) provide safe, reliable and responsive service to
15 Consumers throughout the Company's expanding service territory, ii) manage
16 expense growth (and the need for future rate increases) related to expansion
17 and, iii) manage expenses related to fluctuations in work load. The Company
18 has shifted many job functions typically performed by internal personnel to
19 outside contractors. The use of the contractors assures that each of the
20 Company's service areas is appropriately covered for both regular and
21 emergency service requests. The most significant benefit to Consumers is the
22 management of costs resulting from the Company's operations approach.
23 The Company has avoided significant expense increases through its use of

1 contractors to meet the service demands of an expanding system. It has also
2 been able to reduce overall costs during the current construction market
3 slowdown. In many instances, traditional fixed operations costs have been
4 turned into variable costs through the use of outside contractors. The
5 Company's third party agreements purchase a variety of services on a unit
6 cost basis. If no work is required the Company incurs no cost.

7 **Q. CAN YOU PROVIDE AN EXAMPLE OF THE OPERATIONAL**
8 **REORGANIZATION COST SAVINGS?**

9 A. Yes. The Company has been able to hold the line on employee growth in its
10 Operations Department. As a result of the reorganization, the Company's
11 operations staff was been reduced from 37 to 33 positions in 2009. There are
12 no operations employee additions for 2010 included in this rate proceeding.
13 On a somewhat larger scale, the Company's overall expenses, of which
14 operations is a significant portion, are significantly below the Commission's
15 benchmark expense increase (MFR Schedule C-34) since the Company's last
16 rate filing (2000). These savings contribute to lower rates for Consumers.

17 **Q. HOW HAS THE TTS PROGRAM OPEN ENROLLMENT PROCESS**
18 **ENHANCED SERVICE TO CONSUMERS?**

19 A. The Company's TTS Program Phase 1 was originally approved by the
20 Commission in 2002 (Order No, PSC-02-1646-TRF-GU, issued on November
21 25, 2002). The TTS Program was conceived to reduce projected Consumer
22 fuel costs and ultimately give small volume Consumers an opportunity to
23 choose fuel providers and pricing options similar to that offered to larger

1 volume Consumers. The program provided third party gas supply service
2 from one (1) approved TTS Shipper, under contract with the Company, for all
3 residential Consumers and those commercial Consumers who are not served
4 by a CI Shipper. Consumers were periodically offered a choice between a
5 Standard Price (monthly price tied to the NYMEX index) and a fixed price
6 during a Company administered Open Enrollment Period. Phase 1 was well
7 received by Consumers. Virtually no complaints were received, and
8 Consumer surveys and focus groups recorded very favorable responses. In
9 addition, the Company on several occasions has demonstrated considerable
10 fuel cost savings to Consumers as a result of the program.

11 In 2007, the Commission approved Phase 2 of the TTS Program
12 (Order No. PSC- 07-0427-TRF-GU, issued on May 15, 2007). Under Phase 2,
13 Consumers have the opportunity to select between two (2) approved TTS
14 Shippers and further select from a variety of supply pricing options offered by
15 each shipper. The Company has administered two Phase 2 Open Enrollment
16 Periods, the latest concluding in April 2009. During the latest Open
17 Enrollment Period the TTS Shippers offered Consumers a selection of nine
18 (9) total pricing options, four from one TTS Shipper and five from the other.
19 The options ranged from senior citizen discounts to various fixed prices to
20 volume and seasonal pricing packages. Over 21% of eligible Consumers
21 made a definitive selection of a shipper or elected one of the price options
22 offered by the shippers. The remaining Consumers continued to receive
23 service from their current TTS Shipper at the Standard Price Option included

1 in the Company's agreement with the TTS Shippers. It should be noted that
2 the Standard Price Option is an attractive price for the low use, poor load
3 factor, primarily residential Consumers in the TTS Pool.

4 The Company's TTS Program offers its small volume Consumers fuel
5 supply options provided by no other Florida LDC. Residential Consumers gain
6 access through the program to the open gas commodity market in a manner
7 similar to larger volume non-residential Consumers. TTS participants have
8 the ability to choose suppliers and pricing options that match their individual
9 circumstances and requirements.

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

11 **A. Yes.**

**MFR SCHEDULES SPONSORED BY
JEFFREY S. SYLVESTER**

MFR Schedule No. (page)	Schedule Title
E-1 (1-3)	COST OF SERVICE - THERMS SALES AND REVENUES
G-2 (6-9)	CALCULATION OF THE HISTORIC BASE YEAR + 1 - REVENUES
G-2 (10-13)	CALCULATION OF THE PROJECTED TEST YEAR - REVENUES