

**DIRECT SUPPLEMENTAL TESTIMONY
OF
DONALD E. KITNER
AND
DOREEN B. COX
IN**

**FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO 080366-GU**

**IN RE: PETITION OF
FLORIDA PUBLIC UTILITIES COMPANY
FOR A NATURAL GAS RATE INCREASE**

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1 **Q. Please state your names, affiliations, business addresses and summarize your**
2 **academic backgrounds and professional experiences.**

3 A. Donald E. Kitner – General Manager of Central Florida for Florida Public
4 Utilities Company (FPU). My business office is 450 S. Hwy 17-92, DeBary,
5 Florida 32713. In June of 1971 I began working with Equitable Gas Company in
6 Pittsburgh, Pennsylvania and left in February 1990 while in the position of
7 Supervisor of Construction and Maintenance. I was involved in budgeting,
8 construction operations and maintenance activities while at Equitable Gas
9 Company. I joined FPU in February 1990 as Installation & Maintenance
10 Superintendent in the West Palm Beach Division and received my Bachelor of
11 Human Resource Management in 1992 from Palm Beach Atlantic College. In
12 January 1997 I assumed the position of General Manager of FPU's Central
13 Florida Division. My work experience at FPU includes all aspects of budgeting,
14 customer service, engineering, construction, marketing, operations and
15 maintenance in the Central Florida Division. I filed testimony in Docket
16 No.040216-GU, the last rate case proceeding for the Company.

17 Doreen Cox - Financial Analyst with Florida Public Utilities Company. My
18 business address is 401 South Dixie Highway, West Palm Beach, Florida, 33401.
19 I received a Bachelor of Science Degree in Management from the University of
20 West Indies in 1979, with a concentration in Accounting. In 1990 I earned a
21 Master of Science Degree in Accounting, also from the University of West Indies.
22 I joined Florida Public Utilities Company in 1999, and I hold the position of
23 Financial Analyst, which reports to the Chief Financial Officer ("CFO"). In this

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1 position, I support the CFO, the Accounting and Finance Division of Florida
2 Public Utilities. In my current position, I cover a variety of operating and
3 planning responsibilities including project assessment, budget and financial
4 projections, and cash flow analysis. These responsibilities also include the
5 preparation of quarterly reports to our Board of Directors, and the monitoring of
6 compliance with respect to the Financial Covenants of Florida Public Utilities
7 Company's long- and short-term sources of external funds. I was a witness in the
8 Natural Gas and Electric rate relief proceedings before the FPSC: Docket
9 Numbers 040216-GU and 070304-EI filed in May 2004 and August 2007,
10 respectively.

11 **Q. What is the purpose of your testimony?**

12 A. To provide additional details to testimony originally filed relating to the Area
13 Expansion Program (AEP) and the potential issue of the transfer of the AEP
14 unrecoverable balance to rate base.

15 **Q. Provide a brief background to the issue of the AEP unrecoverable balances.**

16 A. Marc Seagrave in his testimony filed under this Docket outlined the existing AEP
17 program and proposed modifications. In the original filing FPU (the Company)
18 conducted an analysis of the 44 active AEP projects and determined that with a
19 \$0.50 per therm AEP surcharge the projected un-recovered excess construction
20 cost (ECC) balances would be approximately \$2.4 million. The estimated
21 unrecoverable ECC was included in rate base for the projected test year and was
22 approved by the FPSC as per Order No. PSC-09-0375-PAA-GU, dated May 27,
23 2009.

1 **Q. Are there any adjustments to the projected un-recovered amount originally**
2 **filed?**

3 A. In addition to updating the balances as at May 31, 2009 there were also some
4 computational errors. The updated and corrected unrecovered balance excess
5 construction balance to be included in rate base is approximately \$2.1 million.
6 See Exhibit DEK/DBC-1 which provides details of the related AEP unrecoverable
7 balances by project.

8 **Q. What were the factors that contributed to the ECC shortfall?**

9 A. The main contributing factor was the downturn in the housing market. The extent
10 of the crash and the impact on the new construction market was unpredictable and
11 devastating. New developments either never got off the ground, or the build-out
12 was dramatically slower than projected. In addition the slowdown in the
13 economy led to job-losses and massive increases in the number of foreclosures
14 resulting in an unusually high inventory of unoccupied houses for sale. Existing
15 customers were also forced to conserve on their energy usage to reduce expenses.

16 **Q. How has the economy impacted the country generally and the state of**
17 **Florida specifically?**

18 A. The US economy is experiencing the worst financial crisis in decades. Triggered
19 by the fall-out of the housing market the country has experienced significant
20 declines in home prices, new home construction and home purchases. Florida
21 currently ranks as number two in the nation for the number of foreclosures and
22 has been one of the states that has been most impacted by the real estate crash
23 with several analyst painting a bleak future for the market.

1 **Q. Is it justifiable to transfer the ECC shortfall to rate base?**

2 A. Yes, it is justifiable as the surcharge to the existing AEP customers was increased
3 to \$0.50 per therm for residential customers, \$0.33 for General Service and \$0.25
4 for Large Volume effective June 4, 2009. Based on the increased surcharge the
5 AEP customers would therefore be making more of a contribution to the ECC per
6 therm than originally estimated thereby lowering the unrecoverable balance. The
7 original AEP tariff precluded FPU from adjusting the AEP surcharge during the
8 10 year collection period to make up for any shortfalls thereby allowing greater
9 recovery from the AEP beneficiaries.

10 The expansion of natural gas to the areas facilitated through the AEP
11 program has far-reaching benefits. The addition of approximately 7,800 AEP
12 customers has resulted in a wider customer base to contribute to the company's
13 operational overheads which is beneficial to all customers. The AEP customers
14 represent approximately 15% of our natural gas customer base. Without the
15 investment in the AEP communities this expansion would not have been possible.

16 A cleaner and less expensive fuel source has also been made possible to a
17 wider cross-section of customers, positively impacting the environment and
18 economy. In addition the economy has benefitted as more commercial customers
19 having access to a less expensive form of energy.

20 The Area Expansion Program (AEP) allows the Company to extend its
21 natural gas facilities into areas not previously served and some of which were not
22 economically justified under the free limit of service guidelines of FPU's tariff.
23 The customers who connect to the main extension within the AEP project areas

1 are charged a surcharge to recover the excess construction costs rather than
2 paying the Company a contribution in aid of construction (CIAC) when there is a
3 four-year revenue shortfall. It has been the experience of the Company that the
4 AEP has enabled the Company to increase the number of projects and to expand
5 into areas that otherwise would not have been feasible without the program. The
6 increase in the Company's customer base benefits the general body of ratepayers
7 due to the added growth of which the result spreads O&M expenses across greater
8 and greater numbers of customers and the extension allows for future growth in
9 areas beyond the original AEP expansion area. It is also important to note that
10 with the majority of main extension plans, it is exceedingly difficult to obtain up-
11 front from prospective customers a CIAC to pay for excess construction costs.
12 Most customers are willing to pay for the excess costs via an AEP surcharge over
13 time through the monthly remittance of their bill. Without the AEP prospective
14 customers tend to first consider the use of other fuel sources such as electricity to
15 meet their energy needs. All of the Company's AEP projects have customers
16 connected within and beyond the expansion area and gas is being utilized by those
17 customers. The plant investment, including the non-recovered AEP excess
18 construction costs, is being used and continues to be useful to the customers
19 presently being served and those who in the future desire and have a need to
20 connect to these facilities already installed. The AEP projects meet the statutory
21 used and useful provisions as the expansions are serving many customers coupled
22 with the fact that the facilities are available to meet the future demands of those
23 who are interested in connecting to the Company's systems.

1 Q. Does this conclude your testimony?

2 A. Yes.

AEP Comparison Report
 as of 5/31/09

Project Information										ESTIMATED AMOUNT TO BE PAID BY AEP CUSTOMERS	TOTAL AMOUNT TO BE CARRIED INTO RATE BASE
Project Name:	IR#	AEP #	Division	Revenue Start	Expenses Start	Maximum Collection Date	Min Months Remaining (to collect)	ECC Balance As of May-09			
1 Deltona Ph. I	919	20001	CF	09/1998	02/1998	09/2006	0	\$9,302.89		\$0.00	\$9,302.89
2 Stone Gable	20021	20092	CF	02/1999	08/1998	02/2009	0	\$1,932.49		\$0.00	\$1,932.49
3 Deltona Ph.2	20094	20093	CF	05/1999	01/1999	05/2009	0	\$391,842.89		\$0.00	\$391,842.89
4 DeBary Golf	20099	20098	CF	04/1999	01/1999	04/2009	0	\$20,161.50		\$0.00	\$20,161.50
5 Convert Deltona Ph III	20290	20289	CF	05/2000	12/1999	05/2010	12	\$351,496.11	\$60,974.43		\$290,521.68
6 Victoria Pk. Ph. I	20560	20561	CF	10/2001	03/2001	10/2011	29	\$234,587.39	\$234,587.39		\$0.00
7 Fawn Ridge Sub.	20590	20591	CF	11/2002	07/2001	11/2012	42	\$6,940.52	\$6,940.52		\$0.00
8 Lake Mary H.S.	20797	20798	CF	08/2002	04/2002	08/2012	39	\$15,736.35	\$15,736.35		\$0.00
9 Springview Unit 6	20880	20881	CF	10/2002	06/2002	10/2012	41	\$6,007.07	\$6,007.07		\$0.00
10 Winter Springs Town Ctr	21030	21031	CF	02/2003	01/2003	02/2013	45	\$155,077.31	\$42,165.97		\$112,911.34
11 Lakes of Deland	21150	21151	CF	06/2005	08/2003	06/2015	73	\$105,116.66	\$10,432.03		\$94,684.63
12 Riverside at DeBary	21159	21160	CF	06/2004	08/2003	06/2014	61	\$145,604.88	\$46,563.33		\$99,041.55
13 Arbor Ridge	21314	21315	CF	07/2004	04/2004	07/2014	62	\$151,285.95	\$137,719.30		\$13,566.65
14 Inlet Shore Estates	21327	21328	CF	11/2004	07/2004	11/2014	66	\$11,302.32	\$11,302.32		\$0.00
15 Deltona Woods	21695	21696	CF	06/2006	10/2005	06/2016	85	\$6,287.75	\$6,287.75		\$0.00
16 Bella Foresta	21742	21743	CF	01/2008	01/2006	01/2018	104	\$45,443.34	\$3,170.71		\$42,272.63
17 Wellington Woods	22075	22076	CF	05/2008	08/2007	05/2018	108	\$55,454.39	\$8,523.67		\$46,930.72
18 Florida Days	22080	22081	CF	03/2008	07/2007	03/2018	106	\$39,444.11	\$1,368.82		\$38,075.29
19 Summer Glen	22120	22121	CF	10/2007	09/2007	10/2017	101	\$248,069.09	\$248,069.09		\$0.00
20 Veramonte Subdivision	22132	22133	CF	Not Yet	10/2007		120	\$21,060.21	\$13,347.45		\$7,712.76
21 Sugar Mill Gardens	22233	22234	CF	05/2009	04/2008	05/2019	120	\$25,647.75	\$7,744.94		\$17,902.81
22 Baton Lake Estates	22236	22237	CF	09/2008	05/2008	09/2018	112	\$32,111.99	\$3,563.08		\$28,548.91
CF Total								\$2,079,912.96	\$864,604.21	\$1,215,408.75	
21 La Chalet	20497	20498	SF	06/2001	12/2000	06/2011	25	\$22,506.26	\$15,115.33		\$7,390.93
22 Thor/Versailles	20659	20660	SF	05/2002	09/2001	05/2012	36	\$580,190.12	\$233,830.61		\$346,359.51
23 Mizner Falls Subdiv.	20694	20695	SF	04/2002	12/2001	04/2012	35	\$152,645.35	\$34,073.46		\$118,571.89
24 Kenco Commun.	20733	20734	SF	03/2003	01/2002	03/2013	46	\$56,829.07	\$34,225.66		\$22,603.41
25 Equestrian Club	20848	20849	SF	10/2002	05/2002	10/2012	41	\$62,381.34	\$62,151.41		\$229.93
26 Juno Beach	20850	20851	SF	02/2003	06/2002	02/2013	45	\$148,895.27	\$105,432.19		\$43,463.08
27 Victoria Grove	20860	20861	SF	12/2002	05/2002	12/2012	43	\$231,468.89	\$147,138.19		\$84,330.70
28 Hamilton Bay	20864	20865	SF	11/2002	06/2002	11/2012	42	\$126,869.86	\$47,034.44		\$79,834.42
29 Deerfield Ph. II	20973	20974	SF	02/2003	10/2002	02/2013	45	\$29,276.21	\$29,276.21		\$0.00
30 Wyndsong Estates	20975	20976	SF	08/2003	11/2002	08/2013	51	\$30,151.88	\$30,151.88		\$0.00
31 Downtown Gas Lt. Dist.	20998	20999	SF	Not Yet	11/2002		120	\$25,210.78	\$0.00		\$25,210.78
32 S.E. 6th Ave.	21006	21007	SF	03/2003	12/2002	03/2013	46	\$13,639.96	\$13,639.96		\$0.00
33 SR 441-Palmetto Pk.	21021	21025	SF	10/2004	12/2002	10/2014	65	\$96,569.89	\$50,053.97		\$46,515.92
34 Cedar Creek Subdiv.	21194	21195	SF	01/2004	10/2003	01/2014	56	\$20,633.63	\$20,633.63		\$0.00
35 Equus Subdiv.	21211	21212	SF	01/2004	10/2003	01/2014	56	\$52,976.57	\$52,976.57		\$0.00
36 Casa Bella Subdiv.	21241	21242	SF	03/2006	03/2004	03/2016	82	\$64,460.75	\$64,460.75		\$0.00
37 Talavera Subdiv.	21343	21344	SF	05/2006	06/2004	05/2016	84	\$17,591.30	\$17,591.30		\$0.00
38 441 Belv to Okeechobee	21390	21391	SF	10/2005	08/2004	10/2015	77	\$34,468.96	\$34,468.96		\$0.00
39 Wellington Town Sq.	21435	21436	SF	03/2009	11/2004	03/2019	118	\$77,210.63	\$77,210.63		\$0.00
40 Canopy Creek	22129	22130	SF	09/2007	08/2007	09/2017	100	\$114,143.18	\$16,498.83		\$97,644.35
41 Boca Grove	22299	22300	SF	Not Yet	08/2006		120	\$9,457.70	\$9,457.70		\$0.00
SF Total								\$1,967,576.60	\$1,095,421.67	\$872,154.93	
Total								\$4,047,489.56	\$1,959,925.88	\$2,087,563.88	