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May 29, 2024

BY E-FILING

Mr. Adam Teitzman, Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 20240046-GU - Petition for rate increase by St. Joe Natural Gas Company, Inc.

Dear Mr. Teitzman:

Attached, for electronic filing in the referenced docket, please find the Testimony and Exhibits of Witnesses Stuart Shoaf, Andy Shoaf, and Debbie Stitt.

Thank you for your assistance with this filing. As always, please don't hesitate to let me know if you have any questions whatsoever.

(Document 2 of 3)

Sincerely,

A handwritten signature in black ink, appearing to read 'Beth Keating', written over a horizontal line.

Beth Keating
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **DIRECT TESTIMONY**

3 **OF STUART L. SHOAF**

4 **ON BEHALF OF**

5 **ST. JOE NATURAL GAS COMPANY, INC**

6 **DOCKET NO. 20240046-GU**

7 **May 2024**

8

9 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

10 A. My name is Stuart L. Shoaf. My business address is St. Joe Natural Gas
11 Company, Inc., 301 Long Avenue, Port St. Joe, Florida 32456-0549.

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

13 A. I am the President of St. Joe Natural Gas Company, Inc. ("SJNG" or the
14 "Company").

15 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

16 A. I received a Bachelor of Science Degree in Business Administration from the
17 University of Tennessee in 1975.

18 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE PRIOR TO BECOMING**
19 **PRESIDENT OF SJNG.**

20 A. Upon graduation from the University of Tennessee, I was employed by MK
21 Ranches in Howard Creek in the position of cattle foreman. I was first
22 employed by SJNG in February 1979 as a construction foreman. I later worked
23 for the Company in various capacities prior to becoming President, including:

1 new construction, marketing, customer service, and operations and
2 maintenance.

3 **Q. WHAT ARE YOUR CURRENT DUTIES AS PRESIDENT OF SJNG?**

4 A. My duties as President include managing all facets of the Company's
5 regulated utility operations, including: strategic planning; financial
6 management; natural gas operations; engineering; sales and marketing;
7 customer service; accounting functions and regulatory activities.

8 **Q. ARE YOU RESPONSIBLE FOR THE SJNG UNREGULATED APPLIANCE
9 SALES AND PROPANE BUSINESS?**

10 A. The Company's unregulated appliance sales and propane sales businesses
11 operate as divisions of SJNG, not as separate corporate entities. As President
12 of SJNG, I have certain legal, administrative and control responsibilities
13 (execution of agreements, check signing, etc.). However, my day-to-day
14 involvement in the unregulated part of Company's business is minimal. My
15 brother, Stephen Shoaf, is General Manager of our unregulated appliance
16 sales business (marketed under the name "The Appliance Solution") and my
17 son, Jason Shoaf, is General Manager of our unregulated propane sales
18 business (marketed under the name "St Joe Gas"). Company witness Debbie
19 Stitt will address how the Company allocates costs between the regulated and
20 unregulated areas of the business.

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Purpose of Testimony and Organization of Case

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony will generally describe the Company, its operations, and its customer base. I will explain the need for immediate rate relief, both on an interim and permanent basis, which primarily arises from the impacts of inflation on the cost of insurance, materials and labor since the Company's last rate proceeding in 2008. I will also describe the Company's basis for selecting its proposed Projected Test Year. My testimony will also describe several actions taken by the Company to forestall the filing of this request for rate relief. I will also address a requested change to our rate design. Finally, I will address the proposed retention of the Company's current rate of return on common equity.

Q. IN ADDITION TO YOUR TESTIMONY, WHAT INFORMATION IS SJNG FILING IN SUPPORT OF ITS RATE REQUEST?

A. The Company is filing the Commission Form PSC/ECR 10-G, Investor Owned Natural Gas Utilities Minimum Filing Requirements ("MFRs") required by Commission Rule No. 25-7.039. The Company is also filing the testimony and exhibits of Debbie Stitt, the Company's accounting witness, as well as the testimony of Andy Shoaf, the Company's operations and market environment witness, who will also address our cost of service.

1 **Q. ARE YOU SPONSORING ANY OF THE MFR SCHEDULES?**

2 A. No, I am not directly sponsoring any of the Company's MFR schedules.
3 However, as President, all of the MFR schedules were prepared under my
4 direction, supervision and control.

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

6 A. Yes. Exhibit SLS-1 provides an historical overview of the Company's actual
7 customers, terms and margins by rate class for the period 2008-2023.

8

9

General Overview Of Company

10 **Q. PLEASE DESCRIBE SJNG'S LEGAL ORGANIZATION.**

11 A. SJNG is a Florida corporation that was incorporated on April 1, 1959. The
12 Company operates a natural gas distribution business that is subject to the
13 Commission's regulation under Chapter 366, Florida Statutes, and an
14 unregulated appliance sales and service business.

15 **Q. WHAT TERRITORY DOES SJNG SERVE?**

16 A. SJNG's regulated natural gas service territory includes the Florida cities of Port
17 St. Joe, Mexico Beach and Wewahitchka. The Company's service territory
18 also includes unincorporated areas of Gulf County, Florida.

19 **Q. PLEASE PROVIDE A BRIEF OVERVIEW OF THE SJNG REGULATED
20 DISTRIBUTION OPERATIONS.**

21 A. During the calendar year 2023, SJNG provided service to approximately 3,186
22 total customers, including one Company meter. At year's end, that had
23 increased to 3,259 customers on the system. On average during the year,

1 SJNG's customer base consisted of: approximately 2,989 residential
2 customers; 196 commercial customers; and 1 firm transportation customer (the
3 Gulf Correctional Institution ("GCI"). Referring to my Exhibit SLS-1, you can
4 compare that to our last rate case forecast for 2008, in which the Company's
5 total gas throughput was projected to equal 7,614,337 therms. Approximately
6 80% of the total throughput was scheduled for delivery to the Company's two
7 large volume transportation service customers: Gulf Correctional Institute and
8 Arizona Chemical. Residential customer usage was projected to contribute
9 approximately 9% of total throughput, with the Company's commercial
10 customers accounting for the remaining 11%.

11 The Company saw a marked difference in 2009, in which the total gas
12 throughput was only 4,532,474 therms, an over 3 million therm reduction in
13 throughput. Even then, our large volume transportation customers carried
14 77% of our total throughput.

15 Since then, circumstances have changed substantially for the Company, as I
16 will further explain. As such, during 2023, the Company's total gas throughput
17 was only 1,039,940 therms, which reflects the loss of Arizona Chemical and
18 reduced throughput to GCI. As reflected on my Exhibit SLS-1, our
19 transportation service throughput, which consists entirely of service to GCI, is
20 only 101,650 therms or 10% of our total throughput. Residential throughput
21 makes up a full 42% of the Company's total throughput and commercial
22 customers account for 48%.

23

1 **Q. HAS THE COMPANY MODIFIED ITS RATE CLASSES SINCE ITS 2008**
2 **BASE RATE PROCEEDING?**

3 A. No. However, Arizona permanently closed its operations in 2009.
4 Consequently, the Company lost its only FTS-5 customer, which resulted in an
5 annual revenue shortfall of just under \$300,000 below that authorized by the
6 Commission in its 2008 Rate Order, Order No. PSC-2008-0436-PAA-GU. On
7 February 12, 2016, the Company asked the Commission to approve a
8 restructuring of the Company's rates to allocate the revenue shortfall to the
9 remaining customer classes. We did not request any changes to our total
10 revenue requirement, operating expenses, rate base, or cost of capital as
11 approved by the prior 2008 Rate Order. The Commission approved St. Joe's
12 request and allowed the Company to reallocate a \$285,011 annual revenue
13 deficiency to the remaining customer classes according to the ratio that each
14 class's revenues had to total revenues authorized in the 2008 rate case,
15 excluding Arizona's revenue contribution effective August 7, 2016. Order No.
16 PSC-2016-0297-PAA-GU, issued July 27, 2016, in Docket No. 20160033-GU.

17 **Q. HAS THE COMPANY SOUGHT ADDITIONAL COST RECOVERY RELIEF IN**
18 **THE PERIOD SINCE ITS 2008 BASE RATE PROCEEDING?**

19 A. Yes. On October 10, 2018, the eye of Hurricane Michael targeted the heart of
20 St. Joe's service area, Mexico Beach and Port St. Joe, resulting in significant
21 damage to St. Joe's natural gas distribution system, along with the
22 catastrophic damage to the homes and businesses of the Company's
23 customers. Portions of our distribution system sustained significant damage.

1 On January 24, 2020, the Company filed a petition to recover \$381,512 in
2 incremental storm restoration costs associated with Hurricane Michael. In our
3 petition, we explained that the Company had incurred incremental costs of
4 \$312,012 and projected another \$60,500 in remaining costs to restore the gas
5 system to its pre-storm condition. Through a subsequent filing, we sought final
6 approval of recovery of a total of \$402,720 in storm restoration costs. Prior to
7 hearing, we reached a mutually-beneficial settlement with the Office of Public
8 Counsel, which was submitted to the Commission for approval. The Settlement
9 contemplated certain adjustments but also reflected the parties' agreement
10 that the Company should be allowed to recover \$330,115 in storm costs
11 through the surcharge that had already been approved on an interim basis by
12 Order No. PSC-2020-01117-PCO-GU. The storm surcharge was to extend
13 through December 2024 at which time the surcharge will cease. Any under or
14 over-recovery is to be handled through the Natural Gas Conservation Cost
15 Recovery Clause. The Parties also agreed that St. Joe should be allowed to
16 record \$77,761 associated with the remaining life value of lost capital assets in
17 a regulatory asset and recover said amount over a period of 10 years through
18 an increase to the Company's base rates. That increase would be
19 implemented after the storm surcharge terminates at the end of 2024. The
20 Commission approved the Settlement Agreement by Order No. PSC-2021-
21 0196-AS-GU, issued June 3, 2021, in Docket No. 20200039-GU.

22

1 **Q. DOES THE COMPANY SERVE CUSTOMERS IN EACH OF ITS APPROVED**
2 **RATE CLASSES?**

3 A. No. The Company currently does not serve any customers in the following
4 rate classes: GS-5, FTS-1, FTS-2, FTS-5. In addition, the Company is
5 proposing an adjustment to consolidate its RS-1 and RS-2 rate schedules due
6 to the similarities in usage between these classes and for purposes of
7 administrative efficiency for the Company. This change is discussed in greater
8 detail later in my testimony.

9 **Need For Rate Relief**

10 **Q. ARE THE COMPANY'S CURRENT RATES PRODUCING REVENUES**
11 **SUFFICIENT TO YIELD AN ADEQUATE RETURN ON THE COMPANY'S**
12 **INVESTMENT?**

13 A. No. The Company's current authorized mid-point rate of return is 5.44%. The
14 Company's actual earned rate of return at year end 2023 was -3.64% and -
15 8.68% on an adjusted basis. The most recent surveillance report for the
16 Company showing a positive earned rate of return was the report for June
17 2018 in which the earned rate of return on an adjusted basis was 5.25%. By
18 the end of the year 2018, following Hurricane Michael, the Company's earned
19 rate of return on an adjusted basis was -2.62%. Even with the storm cost
20 recovery approved in Docket NO. 20200039-GU, the Company's earned rate
21 of return has not been a positive number since June 2018.

22 **Q. WHEN DID SJNG LAST IMPLEMENT AN INCREASE IN BASE RATES?**

23 A. The Company last petitioned the Commission for rate relief on December 21,

1 2007 in Docket No. 20070592-GU. The Commission authorized the Company
2 to collect increased revenues of \$543,868 in Order No. PSC-08-0436-PAA-
3 GU, issued July 8, 2008, (the "2008 Rate Order").

4 **Q. WHY IS IT NECESSARY FOR SJNG TO SEEK RATE RELIEF AT THIS**
5 **TIME?**

6 A. The forecast rate of return at present rates in the Projected Test Year
7 plummets to negative -17.06%. The earnings deficiency reflected in the
8 reduced returns has begun to create difficulties for the Company that could
9 ultimately impede its ability to provide quality service to existing customers and
10 extend service to new customers. There are four primary reasons the
11 Company's overall return is negative. First, the customer growth forecast in the
12 Company's 2008 rate proceeding has not materialized due, in substantial part
13 to both the loss of Arizona Chemical and the impact of Hurricane Michael.
14 Second, the average therm consumption per residential customer is declining.
15 Third, the Company's largest (both volume and margin) account, GCI, has
16 reduced annual usage substantially since Hurricane Michael in 2018 and is not
17 expected to return its operations to pre-hurricane levels at any point (from
18 347,322 in 2017 to approximately 101,650 in 2023). Fourth, the Company has
19 experienced a significant increase in expenses over the sixteen years since its
20 last base rate proceeding.

21

22 **Q. PLEASE COMPARE THE CUSTOMER AND THERM FORECAST IN THE**
23 **2008 RATE CASE WITH THE COMPANY'S ACTUAL RESULTS**

1 **FOLLOWING THE RATE CASE.**

2 A. Exhibit SLS-1 charts actual average annual customers and total delivered
3 therms by rate class for the period 2009-2023. The chart also provides the
4 projected customers and therms used to derive total target revenues in the
5 2008 Rate Order. I should note that, in 2011, the Company's request to
6 eliminate the FTS-3 and GS-3 rate classes was approved in Docket No.
7 20110241-GU. As such, a complete, class-by-class comparison of them
8 usage pre-2011 and post-2011 is not possible.

9 **Q. DID THE CUSTOMER FORECAST IN THE 2008 RATE PROCEEDING**
10 **MATERIALIZE?**

11 A. At first, yes, with the exception of the RS-1 and GS-1 rate classes. As
12 displayed in Exhibit SLS-1, the Company's 2008 Projected Test Year customer
13 forecast totaled 3,076 accounts. As of 2009, the Company was already down
14 118 accounts from those projections most of which was associated with the
15 RS-1 and GS-1 rate classes. The level of residential new construction
16 projected in the 2008 rate case did not materialize until well after the projected
17 test year. Some of this is attributable to the "housing bubble" and resulting,
18 extended housing market downturn when it burst.

19 As described in greater detail in Andy Shoaf's testimony, the building industry
20 slow-down did not begin to rebound until late 2014, which limited the
21 Company's ability to add new construction customers at the 2008 forecast
22 levels. Moreover, much of the residential development in the Company's
23 service areas continued to be multifamily condominiums that did not include

1 natural gas. In addition, the ongoing national media attention focused on the
2 elevated gas commodity prices at that time likely contributed to the difficulty in
3 achieving the expected number of customers in the residential rate classes.

4 **Q. PLEASE QUANTIFY THE COMPANY'S ACTUAL AS OPPOSED TO**
5 **FORECAST RESIDENTIAL CUSTOMER LOSS.**

6 A. The Company's 2008 Projected Test Year forecast (upon which the
7 Company's revenue requirement was determined) included just 1,982
8 residential accounts. By 2009, the average was down to 1,859. This
9 downward trend continued until 2012. Thereafter, the trend in the residential
10 rate classes was generally an increase, with some deviation, until 2018 when
11 Hurricane Michael hit. As a result, 2019 reflected a loss of 349 residential
12 customers. By comparison, the GS-1 small commercial rate class
13 demonstrated a consistent downward trend from 2008 through 2019. Starting
14 in 2020, however, there has been an upward trend in both residential and
15 commercial customer accounts as the region rebounds from Hurricane
16 Michael.

17 **Q. PLEASE DESCRIBE THE TREND IN TRANSPORTATION THERM**
18 **CONSUMPTION.**

19 A. The Company's general service commercial (GS-1, GS-2 rate classes) have
20 exhibited relatively stable performance compared to the 2008 rate case
21 forecast and in recent years has shown a gradual climb. The residential
22 classes have as well, although, as noted, all classes dropped in usage
23 following Hurricane Michael. The GS-4 large commercial class has been

1 somewhat more erratic, but has demonstrated an upward trend in the last
2 couple of years. The FTS-4 rate class serves one customer, our only large
3 transportation service customer, the Gulf Correctional Institution (GCI). This
4 rate class dropped by over 3 million therms from 2008 projections to 2009.
5 Usage dropped another 2 million therms from 2009 to 2010, a trend that
6 continued through 2012. From 2013 to 2016, there was a notable increase in
7 usage, followed by slight decreases the following two years. After Hurricane
8 Michael, there was the notable drop off following damage to the facility and
9 relocation of prisoners to other facilities. Usage ramped back up in 2020 and
10 2021, but began to decrease again in 2022, which is a trend that has
11 continued. The facility remains at reduced prisoner capacity and is not
12 expected to return to pre-Hurricane Michael levels. As such, the Company
13 does not anticipate that usage in this class will increase, unless another large
14 transportation customer locates in our service territory.

15 **Q. WHY IS THE COMPANY SEEKING TO COMBINE THE RS-1 RATE CLASS**
16 **WITH THE RS-2 RATE CLASS?**

17 A. The Company is proposing to restructure its existing Residential Service class
18 to reduce stratification within the class. The Company restructured its rate
19 classes in the prior rate case with the intent of grouping customers based on
20 common usage characteristics and investment requirements, as well as
21 operational costs and market considerations. With experience over time since
22 the last rate case, the Company has reached the conclusion that, in our limited
23 service area, the degree of stratification is ultimately not warranted nor is it

1 practical. It also adds to administrative inefficiencies associated with revising
2 similarly-situated customers' rate classes from year to year based upon
3 relatively marginal changes in usage.

4 Historically, many utility rate designs have resulted in larger-volume customer
5 classes subsidizing the costs of smaller volume classes. It is typical to find a
6 wide volumetric therm range within a company's single residential class, with
7 the class exhibiting significant subsidization within the class. That is, the class
8 does not homogeneously represent the customers it contains. In our case,
9 however, the number of customers in the RS-1 and RS-2 rate classes is
10 comparable and the therm usage break point is low- 150 therms. We find that
11 each year when we conduct our review of usage for purposes of confirming
12 customers are properly classified, we have to reassign a number of customers
13 back and forth between these two classes. Moreover, while the customer
14 charge for RS-2 is currently \$3.00 higher than RS-1, the per therm charge for
15 RS-2 is notably lower, which does not encourage conservation.

16 Of course, the overall pressure on rates created by competitive and economic
17 forces dictate that the Company continue its on-going efforts to implement
18 efficient practices and contain costs. It must also look for opportunities to grow
19 margins in an economically feasible manner as a means of recovering fixed
20 operating costs and minimizing the need for future base rate increases.

21 With that said, though, the Company last filed for rate relief in 2007 and
22 given the changes in the market over the period since then, the need for rate
23 relief was finally inevitable and necessary to ensure we are able to continue to

1 provide safe, reliable, and efficient natural gas service to our customers.

2 **Q. WILL COMBINING THE RS-1 RATE CLASS WITH THE RS-2 RATE CLASS**
3 **HAVE AN IMPACT ON COMPANY'S CURRENT ENERGY COST**
4 **RECOVERY ADJUSTMENT?**

5 A. Yes, but it can be easily addressed. The 2024 approved ECCR factor for RS-1
6 is 33.922 cents per therm. The RS-2 factor is 24.409 cents per therm, 9.513
7 cents per therm less than the RS-1 factor. Assuming proposed rates without
8 the RS-1 rate class become effective before the end of 2024, the RS-1 therm
9 sales from the effective date of new rates through December 2024 will result in
10 an under-recovery for the year. For instance, the projected therm sales for
11 RS-1 from September through December 2024 is about 48,022 therms, which
12 would collect \$4,568. Given the 2025 ECCR filing is due in August 2024, the
13 estimated \$4,568 under recovery would be applied to the actual/estimated
14 calculation and accounted for in that filing. While it is not yet clear when final
15 rates might be in effect, the Company anticipates that a schedule for this
16 proceeding will be know well in advance of the actual/estimated and projection
17 filing for gas conservation, Docket No. 20240004-GU. In that event, the
18 Company would propose to reflect two scenarios in its actual/estimated
19 schedules, one showing the year end calculation with RS-1 retained, and one
20 reflecting the calculations assuming RS-1 is collapsed for the period when final
21 rates in this case are anticipated through the end of the year. Any over/under
22 could then be address in the subsequent year Final True Up.

23

1 **Q. WHAT EFFECT WILL COMBINING THE RS-1 RATE CLASS WITH THE RS-**
2 **2 RATE CLASS HAVE ON COMPANY'S CURRENT STORM RECOVERY.**

3 A. Order No. PSC-2020-0117-PCO-GU (Storm Cost Recovery Order) allowed the
4 Company to collect a storm cost recovery surcharge in the amount of
5 \$330,115 beginning July 2021 extending through December 2024. The Storm
6 Cost Recovery Order did not address termination of the surcharge in the event
7 the amount was fully collected early, not did the underlying settlement
8 agreement approved by that Order. However, the Company has fully collected
9 the required amount, and given the length of time left in 2024, anticipates
10 making a separate filing to terminate the surcharge early. If approved, the
11 collapse of the rate classes will have no impact on the storm surcharge.
12 Moreover, even if the surcharge were not terminated, the collapse of the rate
13 classes would have minimal impact on the recovery contemplated by the storm
14 surcharge, and that would only be to lessen the over-recovery.

15 **Q. HAVE THE COMPANY'S EXPENSES INCREASED SINCE ITS 2008 RATE**
16 **PROCEEDING?**

17 A. Yes. In the 2008 rate proceeding, the Commission authorized rates designed
18 to recover \$898,433 in annual non-fuel Operating and Maintenance Expenses
19 from base rates and total cost of service of \$1,513,063. Actual non-fuel O&M
20 expenses for the 2024 Projected Test Year from the Company's cost of service
21 study total \$1,497,821, an increase of 67% from the 2008 Rate Order expense
22 levels. Even so, the Company makes a diligent effort to control operating
23 expenses. The above operating expense increase represents less than a 4.5%

1 increase per year since the 2008 rate proceeding. The national average for
2 inflation alone over that same period was 2.44%. Over the past sixteen years,
3 the Company has also experienced a steady rise in the costs of insurance,
4 gasoline, property taxes and other expenses required to deliver an appropriate
5 level of service to our customers.

6 **Q. WHAT EFFECT HAVE THE ABOVE ISSUES HAD ON THE COMPANY'S**
7 **ABILITY TO ACHIEVE THE TARGET REVENUE AND RETURN ON**
8 **INVESTMENT AUTHORIZED IN THE 2008 RATE PROCEEDING?**

9 A. In the 2008 Rate Order, the Commission approved an annual revenue
10 increase of \$543,868 for a total target revenue of \$1,616,809. Rates were
11 then calculated on delivered annual terms of 6,468,982. Total target revenues
12 including Other Operating Revenue were approved in 2008 at \$3,024,656.
13 The Company's actual total non-fuel revenue, including Other Operating
14 Revenue, at year end 2022 was \$2,411,554.

15 **Q. HAS THE COMPANY TAKEN STEPS TO AVOID A RATE INCREASE?**

16 A. Yes. The Company has made every reasonable effort to avoid seeking a rate
17 increase. SJNG has implemented extraordinary cost savings measures
18 including the following:

- 19 • Curtailing discretionary operating costs (travel, training, materials, etc.)
- 20 • Limiting the Company's contribution percentage in its health insurance
21 plan.
- 22 • Limiting or delaying staff salary increases.
- 23 • Deferring the replacement of staff or replacing retiring positions with lower

1 cost employees.

- 2 • Deferring replacement of worn office furniture and obsolete computers.
- 3 • Continuing the policy of not paying dividends to shareholders.
- 4 • Reducing the contribution levels to the Company's retirement plan.
- 5 • Negotiating the payment of CIAC for distribution system extensions.
- 6

7 **Requested Rate Relief**

8 **Q. WHAT IS THE AMOUNT OF THE PERMANENT RATE INCREASE SJNG**
9 **SEEKS IN THIS CASE?**

10 A. To restore a reasonable rate of return on its investment, the Company is
11 seeking a permanent annual rate increase of \$1,043,838, representing an
12 overall increase of 35% over the current approved revenue requirement on a
13 rate base that has grown by 12%.

14 **Q. ON WHAT PROJECTED TEST PERIOD IS SJNG BASING ITS REQUEST**
15 **FOR A PERMANENT CHANGE IN BASE RATES?**

16 A. The year ending December 31, 2024, will best reflect the Company's on-going
17 operations with respect to customer base, investment requirements,
18 throughput levels and overall cost of service at the time that the rates set in
19 this proceeding will be in effect. The use of a 2024 Projected Test Year would
20 enable the Company to account for investments in needed system
21 improvements and extensions of gas facilities to serve new customers.
22 Additionally, the 2024 Projected Test Year would provide an opportunity to
23 reasonably forecast sales volumes and margin revenues in a manner that

1 accounts for both load growth opportunities and the load attrition experienced
2 by the Company over the past several years. The Company's fiscal year
3 corresponds to the calendar year. The selection of calendar year 2024 as the
4 Projected Test Year allows the Company to use audited, readily available
5 financial and statistical data from its 2022 fiscal year to represent the Historic
6 Base Year.

7 **Q. IS SJNG ALSO SEEKING INTERIM RATE RELIEF?**

8 A. Yes. Using the Commission's methodology, the Company requests interim
9 rate relief in the amount of \$612,209 based on an historical base year plus one
10 ending December 31, 2023.

11

12 **Equipment No Longer in Service**

13 **Q. HAS THE COMPANY COMPLIED WITH COMMISSION ORDER PSC-08-**
14 **0436-PAA-GU WITH RESPECT TO EQUIPMENT NO LONGER IN**
15 **SERVICE?**

16 A. Yes. The Commission's 2008 Rate Order required the Company to make
17 corrections to certain salvage values and remaining lives of vehicles no longer
18 in service. The Company did so, as further explained by Witness Stitt,
19 reflecting the retirement of two pickup trucks in October 2007 and the salvage
20 of \$9,870 in January 2008 when the vehicles were sold. The Company also
21 revised its depreciation schedules showing the early retirement of the 2001
22 Silverado Chevrolet Truck with salvage value of \$16,822. Thereafter, the
23 reserve balance in Vehicles was \$59,932. After making the adjustment of

1 \$16,822 to vehicles, the balance would have been \$59,178. The difference of
2 (\$754) was recorded January 2008.

3

4

Rate of Return

5 **Q. HAS THE COMPANY RETAINED AN EXPERT COST OF CAPITAL**
6 **WITNESS FOR THIS RATE PROCEEDING?**

7 A. No. The Company has elected not to retain the services of a cost of capital
8 consultant. In the Company's view, the substantial expense of such retaining
9 an expert for this case is not warranted. The typical analytical evaluations
10 undertaken to establish a natural gas utility's overall capital costs, especially its
11 cost of common equity, are problematic for very small companies, such as
12 SJNG. The Company is not publicly traded. All of the Company's stock is
13 privately held by three members of the founding family. The Company has no
14 bond or debt rating from a nationally recognized rating organization. There is
15 no proxy group or similarly situated utility group represented in the Value Line
16 Investment Survey. The gas utilities represented in the S&P Public Utilities
17 Index bear little relation to the Company's operations. The Company would
18 generally have difficulty obtaining credit at interest rates represented by
19 national market forecasts, such as the Blue Chip Financial Forecast. The
20 earnings growth rate projections (earnings per share) from Value Line, Zacks,
21 IBES/First Call or Reuters/Market Guide, for example, are useless. Finally, the
22 standard quantitative measurements used to determine a reasonable equity
23 cost, (Discounted Cash Flow model, Risk Premium analysis, Comparable

1 Earnings approach, or Capital Asset Pricing Model) require data inputs that,
2 when applied to the Company, either do not exist or are of limited value.

3 **Q. IN THE ABSENCE OF A COST OF CAPITAL EXPERT WITNESS, WHAT**
4 **FACTORS SHOULD THE COMMISSION CONSIDER IN SETTING THE**
5 **COMPANY'S RATE OF RETURN.**

6 A. A regulated utility's overall cost of capital is determined by weighting the cost
7 of each source of capital (equity, short and long-term debt, deposits, etc) by
8 the proportion of each respective source of capital compared to total capital.
9 The overall cost of capital should set a rate of return that compensates the
10 Company for the use of its capital and enables the Company to attract
11 additional capital at reasonable terms. The Commission should set rates in this
12 proceeding that permit the Company to earn a return on its investment
13 consistent with the long- standing capital attraction and comparable risk
14 principles established by the U.S. Supreme Court. The Court in two landmark
15 decisions provided several standards to demonstrate fairness and
16 reasonableness when establishing a regulated company rate of return
17 (*Bluefield Water Works & Improvement Company v. Public Service*
18 *Commission of West Virginia, et.al, 262 U.S. 679 (1923)* and *Federal Power*
19 *Commission v. Hope Natural Gas Company, 320 U.S. 501 (1944)*). The tests
20 to satisfy the fair and reasonable standard in the Bluefield and Hope cases are
21 summarized as follows: i) the rate of return for a public utility should be similar
22 to the returns of other financially sound businesses with comparable risk
23 profiles, ii) the rate of return should be adequate to assure confidence in the

1 financial integrity of the utility, and iii) the rate of return should be sufficient to
2 support the credit requirements of the utility and enable it to attract the capital,
3 at reasonable costs, needed to provide adequate and reliable service to
4 consumers. As noted in the Commission's 2008 Rate Order (page 7), "We
5 believe that by approving an ROE of 11.00 percent with an equity ratio of no
6 greater than 60 percent as a percentage of investor capital, we are sending the
7 proper signal that the Company has the responsibility to minimize its overall
8 cost of capital. Allowing SJNG an equity ratio that is greater than the average
9 equity ratio maintained by other natural gas distribution companies offsets the
10 business risks facing a small, privately-held utility that is exposed to the
11 financial and business risks discussed above."

12 Establishing the Company's current and Projected Test Year debt costs and
13 other non-equity capital costs should be relatively straightforward. The
14 Company's MFR Schedule G-1, page 6, outlines its minimal current regulated
15 and non-regulated debt obligations. As described in Andy Shoaf's testimony,
16 the Company's 2024 capital budget includes system expansion projects and
17 various pieces of equipment required to add customers and maintain reliable
18 service. As noted in Witness Stitt's testimony and on MFR Schedule G-3,
19 page 2, the Company's expectation is that it will fund the majority of its
20 regulated capital program through long-term debt. The Company has projected
21 the cost of such debt based on conversations with local lending institutions and
22 the rate applied to a recent loan obtained from one of those institutions.

1 Establishing an appropriate Return on Equity (ROE) is less straight-forward.
2 As noted above, the usual quantitative models used to assess a company's
3 cost of common equity are of limited applicability to SJNG. As noted in the
4 Commission's 2001 Rate Order (page 8), "deciding the appropriate cost rate
5 for common equity is, ultimately, a subjective process." The Company would
6 propose to establish an ROE in this proceeding based on, i) a general
7 assessment of business risk, ii) comparability with other similarly situated
8 utilities and, iii) an assessment of financial risk as reflected by the debt/equity
9 ratios in the Company's capital structure. This would be consistent with the
10 Commission's assessment in the Company's 2008 Rate Order (page 6) that
11 the Company's business risks and opportunities are similar to those of other
12 smaller natural gas utilities.

13 **Q. IS SJNG SEEKING AN INCREASE IN ITS AUTHORIZED RETURN ON**
14 **EQUITY?**

15 A. No. The Company is requesting the retention of its currently authorized return
16 on common equity of 11.0% in this proceeding. In keeping with the
17 Commission's past practices, the recommended return of 11.0% would
18 establish the mid-point for an authorized range of plus or minus 100 basis
19 points and be reflected in the Company's proposed overall cost of capital of
20 6.05%. At this point in time, the other Florida gas utility most similar to us is
21 Sebring Gas System, which also has an approved ROE midpoint of 11.0%.

1 **Q. HOW DOES THE COMPANY'S PROPOSED ROE COMPARED TO THE**
2 **COMMISSION AUTHORIZED ROE'S FOR OTHER FLORIDA GAS**
3 **UTILITIES.**

4 A. In Florida, no regulated gas utility has an authorized ROE less than 9.5%. The
5 two largest gas utilities, Peoples Gas System and Florida City Gas, are set at
6 10.15% and 9.5%, respectively, as reflected in their respective rate case
7 orders, Order No. PSC-2023-0388-FOF-GU and Order No. PSC-2023-0177-
8 FOF-GU. Florida Public Utilities Company has an authorized ROE of 10.25%
9 set in Order No.PSC-2023-0103-FOF-GU. Sebring Gas System, which is
10 smaller, but is again the gas utility most similar to St. Joe Natural Gas, has an
11 ROE set at 11.00%, as set by Order No. PSC-2020-0047-PAA-GU.

12 **Q. PLEASE PROVIDE AN ASSESSMENT OF THE COMPANY'S BUSINESS**
13 **RISK.**

14 A. There are several key factors that help define the Company's business risk.

- 15 • SJNG is an extremely small company compared to the other regulated
16 natural gas utilities. In general, a smaller company is riskier than a larger
17 company, all other things being equal, since a change in revenue and/or
18 expenses has a proportionately greater impact on a small company.
- 19 • Natural gas is not a monopoly fuel. All natural gas customers have fuel
20 alternatives. In today's market, many large customers have viable access
21 to fuel oil, propane or, in some instances, coal. Smaller customers,
22 including residential customers, may elect propane service. All customers
23 have access to electric service. In many cases a regulated LDC has

1 difficulty meeting not only the alternate fuel price, but also the package of
2 additional services that accompany the fuel. For example, the propane
3 retailers often package a free equipment service offer in their price per
4 gallon. They may also provide free interior piping or free appliances. These
5 offers are difficult to counter in a regulated world, in which a LDC is limited
6 to the customer incentives approved by the Commission in its conservation
7 programs. The alternate fuel competition faced by the Company today is
8 primarily limited to propane and electricity.

9 • Notwithstanding the economic concerns addressed above, the Company
10 must grow its customer base to diversify revenues and more appropriately
11 spread fixed operating costs. Unfortunately, the very nature of expanding
12 the distribution system for a small company exposes it to significant risk.
13 Recovery of a system expansion investment can be significantly delayed if
14 an economic slowdown, or even an unusual weather event, delays home
15 construction.

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

17 **A. Yes.**

Exhibit SLS-1
 SJNG 2024 Rate Case Proceeding
 Comparison of 2008 Rate Case Forecast to Actual Results 2009-2023

		Average Annual Customers															Rate Case	2008 Rate Case
Current	2008																Forecast	vs.
Rate Clases	Rate Case	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2023 Actuals
RS-1	1,061	907	890	896	905	995	1,059	1,072	1,094	1,189	1,242	1,013	1,032	1,060	1,078	1,149		NA
RS-2	921	952	940	906	918	959	985	973	997	992	984	854	908	1,007	1,108	1,161	2,482	327
RS-3	838	867	858	873	875	745	677	708	694	608	558	477	573	624	666	679	722	(159)
GS-1	218	195	188	181	170	170	169	166	166	169	171	150	152	153	159	161	170	(57)
GS-2	36	36	37	36	36	35	34	37	39	36	37	25	27	30	32	34	36	(1)
GS-4	1	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0
FTS-4	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0
Total	3,076	2,958	2,915	2,895	2,905	2,905	2,926	2,958	2,992	2,996	2,995	2,522	2,694	2,877	3,045	3,186	3,412	110
Delta		-118	-44	-20	10	0	21	32	34	4	-1	-473	173	183	168	141	226	

		Annal Therms															Rate Case	2008 Rate Case
Current	2008																Forecast	vs.
Rate Clases	Rate Case	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2023 Actuals
RS-1	95,804	88,291	104,643	98,364	80,535	94,383	112,378	100,257	95,522	98,978	118,229	85,084	93,043	105,346	97,695	98,200	0	NA
RS-2	227,801	200,276	239,928	208,933	166,920	201,925	237,202	197,452	190,760	176,179	210,208	153,089	145,869	169,992	167,700	169,748	305,307	(153,857)
RS-3	389,661	337,767	409,312	353,254	275,056	298,758	312,491	262,319	241,733	196,028	214,963	138,055	151,888	179,668	180,237	168,591	183,127	(221,070)
GS-1	111,251	100,625	126,478	98,756	56,009	64,062	80,332	67,075	70,273	66,872	82,339	52,276	70,396	109,683	130,810	132,697	145,914	21,446
GS-2	211,087	214,833	240,723	228,841	209,509	203,127	223,446	215,846	215,172	212,847	229,188	162,270	151,944	185,106	189,259	209,923	232,728	(1,164)
GS-4	513,459	90,573	138,422	150,294	139,219	104,201	100,916	87,204	94,737	116,390	105,971	82,459	96,839	44,507	125,977	159,131	108,755	(354,328)
FTS-4	6,065,274	3,500,109	471,148	399,354	369,370	415,610	461,621	372,754	381,518	347,322	241,707	6,020	88,566	135,020	131,401	101,650	127,567	(5,963,624)
Total	7,614,337	4,532,474	1,730,654	1,537,796	1,296,618	1,382,066	1,528,386	1,302,907	1,289,715	1,214,616	1,202,605	679,253	798,545	929,322	1,023,079	1,039,940	1,103,398	(6,574,397)
Delta		-3,081,863	-2,801,820	-192,858	-241,178	85,448	146,320	-225,479	-13,192	-75,099	-12,011	-523,352	119,292	130,777	93,757	16,861	63,458	

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **DIRECT TESTIMONY**

3 **OF ANDY SHOAF**

4 **ON BEHALF OF**

5 **ST. JOE NATURAL GAS COMPANY, INC**

6 **DOCKET NO. 20240046-GU**

7 **May 2024**

8 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

9 A. My name is Andy Shoaf. My business address is St. Joe Natural Gas
10 Company, Inc., 301 Long Avenue, Port St. Joe, Florida 32456-0549.

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

12 A. I am employed by St. Joe Natural Gas Company, Inc. ("SJNG" or the
13 "Company") in the position of Manager Corporate Services.

14 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

15 A. I received a Bachelor of Science Degree in Information Studies from Florida
16 State University in 2006.

17 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.**

18 A. SJNG is a family-owned business. Before graduating college, I had an
19 opportunity, over several years, to begin learning the business by working
20 part-time in different capacities within the Company. During this period I
21 worked in operations, service, sales, office administration/customer service
22 and the Company's unregulated appliance business. I became a full-time
23 employee in May 2006. In my current position I am responsible for the

1 regulated business unit's customer service, rates and regulatory affairs,
2 marketing and sales, and gas supply functions. I am also responsible for
3 information technology services for both the regulated and non-regulated
4 business units.

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

6 A. I will provide an overview of the current market environment in which the
7 Company competes for business. I will describe the opportunities to expand
8 the Company's distribution system to serve new customers, as well as a
9 system improvement project required to support both existing customers and
10 potential new accounts. I will outline the Company's 2024 capital and
11 expense budgets and provide information on several specific budget items.
12 In addition, I will address the slow-down in construction in our service area,
13 which predated Hurricane Michael, as well as the trend post-Hurricane
14 Michael. In that context, I will also provide testimony on how we made our
15 customer and them usage projections, the results of our cost of service
16 study and the rates developed based on that study.

17

18

Market Environment

19 **Q. PLEASE GENERALLY CHARACTERIZE THE SERVICE AREAS IN WHICH**
20 **THE COMPANY COMPETES FOR BUSINESS.**

21 A. The Company's customers are generally located in three distinct service
22 areas: the small town of Port St. Joe, the inland community of Wewahitchka
23 in Gulf County and the beach resort community of Mexico Beach, in eastern

1 Bay County. The majority of the Company's approximately 3,200 customers
2 are residential services. Over 55% of the customer base is located in Port St.
3 Joe where the Company's original distribution system was established in
4 1959. Approximately 41% of total customers are located in the beach
5 communities of Mexico Beach, S. Joe Beach, and Beacon Hill. The
6 population of Gulf County in 2020 was 14,192 with approximately 67% of the
7 residents living in areas designated as rural. Mexico Beach's population was
8 916 and Wewahitchka's 2,074, according to 2020 Census data.

9 **Q. HAVE THE BUSINESS AND ECONOMIC CLIMATES IN THE COMPANY'S**
10 **SERVICE AREAS CHANGED SINCE ITS LAST RATE CASE?**

11 A. Yes. As I noted in our last rate case, the market changed in late 2004 with
12 a housing slow down and credit crunch. At the time, according to the
13 Fishkind and Associates, Inc., the forecast indicated that the residential
14 market in Florida would hit bottom in 2007 and gradually improve through
15 2010. We have found that residential construction in Gulf and eastern Bay
16 (Mexico Beach) counties tends to follow a similar pattern as the state overall.
17 Other economic forecasts projected that both the national and Florida
18 housing slump would bottom-out in 2008 and begin to recover in 2009. Our
19 own discussions with our customers at the time, such as the St. Joe
20 Company and other area developers, also indicated their expectation that
21 2009 would begin the recovery.
22 However, the market in our area did not really begin to rebound until later
23 than expected. We saw the housing market begin to slowly pick up around

1 2014 with building permits for single family residential homes increasing
2 nearly 30% from 2015 to 2016. Home values also rose, and we enjoyed
3 several years of steady customer growth.

4 Then, in October 2018, Hurricane Michael made a direct hit on Mexico Beach
5 as a category 5 storm resulting in the loss of over 500 customers or roughly
6 16% of our customer base. Most of the houses within 2 blocks of the water
7 were destroyed leaving nothing but the slab footprint behind. Those houses
8 were also built years ago when building codes were not able to withstand the
9 forces required of them today.

10 In the months following Hurricane Michael, many homes were rebuilt and
11 with more efficient appliances, and in some cases all electric appliances,
12 than the prior construction. Before the storm, about 90% of the homes had
13 multiple gas appliances and given the age of the appliances, they were less
14 efficient. The average home, pre-Michael, had gas appliances such as a tank
15 water heater, stove, dryer, fireplace, and a central furnace or multiple space
16 heaters. The annual therm usage for a typical gas home was between 175-
17 300 therms, which would classify as a RS-2 or RS-3 customer. By
18 comparison, most new houses constructed after Michael only have a natural
19 gas tankless water heater with usage of approximately 100 therms annually,
20 which qualifies as an RS-1 customer. While a number of new homes have
21 installed gas recently, it is hard to compare pre and post-Michael gas usage
22 directly by customer count alone since the newly constructed homes have
23 around half the annual therm usage.

1 **Q. DO THESE MARKETS PROVIDE OPPORTUNITIES TO COMPETE FOR**
2 **NEW BUSINESS?**

3 A. Yes. The Company recognizes that its traditional markets are changing. The
4 large industrial customers that have historically been the cornerstone of the
5 Company's sales are either gone or have substantially reduced their gas use.
6 It is not clear whether the remaining industrial customer will continue its Port
7 St. Joe operation in the future. Ultimately, the key to the Company's long-
8 term success will be its ability to profitably grow its customer base. As noted
9 above, the Company believes that population growth will continue in its
10 service areas. The question is whether the Company can position itself to
11 take advantage of the opportunities that growth in the area will bring.

12 **Q. WHAT ARE THE PROSPECTS FOR GROWTH IN THE NON-**
13 **RESIDENTIAL MARKET?**

14 A. The Company expects that commercial growth will be slow, at best, in the
15 coming years. The City of Port St. Joe has proposed development plans for
16 the marina area and the old Florida Coast mill site that would include
17 significant commercial properties, many of which would be likely gas users.
18 The Company's expectations are that these plans will materialize slowly over
19 the next several years, but also recognizes some of these plans have been in
20 the proposal stage since the last rate case in 2008. As such, the Company
21 does not anticipate significant commercial growth through 2026. Given the
22 apparent intent by local government and developers to proceed with a long-
23 term plan to promote the Port St. Joe area as an upscale beach and

1 retirement community, it is unlikely that significant industrial development will
2 occur.

3 **Q. IN YOUR OPINION IS THERE A FUTURE OPPORTUNITY TO ADD**
4 **CUSTOMERS IN THE SJNG SERVICE AREA?**

5 A. Yes. The Company has continued to add customers over the past several
6 years. The Company believes it can increase its residential customer
7 additions and that there will be continued population growth in its service
8 areas. It appears that over the next decade Florida's population growth rate
9 will not be slowing down to any notable degree.

10 **Q. WHAT MUST THE COMPANY DO TO TAKE ADVANTAGE OF THESE**
11 **GROWTH OPPORTUNITIES?**

12 A. To effectively compete for customers, the Company must first return to a
13 sound financial position so that it may attract the capital necessary to fund
14 system expansions to developing areas and provide reliable service to new
15 and existing customers. Beyond the financial considerations, the Company
16 must enhance its ability to anticipate and influence the markets it serves. The
17 Company must develop and implement marketing programs that successfully
18 add and retain customers. The Company must find ways to encourage its
19 customers to use gas efficiently, promoting conservation actions that are in
20 the best interest of the consumer. The Company must be competitive with
21 alternate fuels, although not necessarily the lowest cost provider. There are
22 many advantages of natural gas that are not reflected solely by price. Stable
23 flame characteristics, safe and reliable delivery, no on-site storage, quick

1 heat recovery (virtually instantaneous with tankless water heaters), infinite
2 cooking temperatures, and superior temperature performance compared to
3 heat pumps are a few of the important non-price features of natural gas.
4 Increasingly, consumers should see natural gas as an environmentally
5 friendly fuel, producing significantly total cycle lower carbon emissions than
6 most competitive fuels.

7 In addition to competitive rates, the Company must also implement rates that
8 limit the subsidization of one rate class by another. Historically, the
9 Company's industrial customers contributed to the recovery of the cost to
10 serve smaller volume, especially residential customers. Finally, the
11 Company's ability to meet and exceed the service expectations of its
12 customers must be strengthened. Many of the challenges described above,
13 especially those related to meeting customer needs and alternate fuel
14 competition, can be effectively managed. The Company's business
15 strategies and marketing approach are already in transition, adapting, as
16 best it can, to the uncertain market and more competitive environment. The
17 Company is actively seeking feasible system expansion opportunities to grow
18 and diversify its revenue base. A return to financial stability is the first of
19 many steps the Company must take to ensure that it can meet the
20 challenges of the marketplace. The proposed rates, rate structure and
21 system expansion initiatives included in this filing represent a significant step
22 toward meeting the business and economic challenges facing the Company
23 in today's gas market.

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Market and Customer Projections

Q. WHY IS IT IMPORTANT THAT THE COMPANY CONTINUE TO GROW ITS CURRENT CUSTOMER BASE?

A. Companies that fail to grow find themselves spreading the fixed costs of the system over a stable, or more likely, a declining customer base. Rates increase, costs are cut, service is reduced, customers look for alternatives and the Company begins to decline. As noted above, the Company is already experiencing competition and substantial customer attrition in many of its traditional markets. Added to these threats is a downward pressure on margin from the Company's large volume customers. Fortunately, we believe there are growth opportunities in the Company's service areas that allow for the feasible expansion of the system to serve incremental loads. The Company is actively pursuing such opportunities. Over time, prudently adding high value customers in all classifications will help protect the Company and its ratepayers from the current heavy reliance on industrial and low usage residential customers and stabilize the revenue base. The Natural Gas Industry is constantly evolving and becoming more efficient, and as such, we depend on the addition of more customers each year to survive. As appliances are replaced with newer, more efficient models, the amount of gas each customer uses will continue to decrease thus causing the need for a rate increase. Increasing customer base each year will help but it has shown that it alone is not enough to make up for the lower therm usage that comes from more efficient appliances.

1 **Q. HOW WERE THE NUMBER OF CUSTOMERS IN EACH CLASS FOR THE**
2 **BASE YEAR + 1 AND THE PROJECTED TEST YEAR DEVELOPED?**

3 A. The first step in developing the customer growth forecast was a
4 determination of the number of customers over an historic period. The
5 Company has maintained records of customers by class and by month for
6 several years. I used the Company's customer records for the years 2009
7 through 2023 to develop an average of active customers per month and the
8 average total for each year. I compared the data year over year to assess
9 customer gains and losses in both the residential and commercial classes.
10 Based on this analysis, it was determined that approximately 72% of
11 customers would be assigned to the RS-2 class.

12 Residential customer additions were forecast based on discussions with
13 Company employees. The capital budget includes the addition of two
14 hundred twenty-six (226) residential services in 2024. It is assumed that all
15 two hundred twenty-six additions will become active during the year. These
16 customer additions were added in the calendar quarter in which the service
17 line is scheduled for installation in the capital budget. The average number of
18 customers forecast for 2024 totaled 3,412, a net increase of 334 accounts
19 over the projected number account in the 2008 projected test year, which at
20 the time, was 3,078.

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2024 Capital Budget

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Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPANY'S ACTUAL CAPITAL EXPENDITURES FOR THE 2022 HISTORIC BASE YEAR.

A. The Company's capital expenditures in 2022 totaled \$444,441 consisting of mains, M&R Station equipment, service lines, meters, regulators and vehicles.

Q. WHAT WERE THE COMPANY'S ESTIMATED CAPITAL EXPENDITURES FOR 2023?

A. The Company invested approximately \$717,384 in capital through the end of 2023. Virtually all of the Company's minimal capital expenses over the past two years have been for the extension of gas facilities.

Q. WHAT ARE THE COMPANY'S ESTIMATED CAPITAL EXPENDITURES FOR THE 2024 PROJECTED TEST YEAR?

A. The Company has projected total capital expenditures for the year 2024 of \$1,000,080. The capital budget is reflected in Schedule G-1 p26 of the MFRs. The Company is estimating that \$810,774 of the total budget will be for system expansion and improvement projects. In addition, the budget includes \$189,306 for other capital items (vehicle and equipment replacement, office machines).

Q. PLEASE DESCRIBE ANY MAIN ADDITIONS OR SYSTEM IMPROVEMENTS INCLUDED IN THE 2024 CAPITAL SPENDING PLAN.

A. The Company's 2024 capital plan includes the following projects:

1 1. Rebuilding company primary City Gate Receipt Point to include a
2 check meter for comparison of delivered volumes of gas from
3 company supplier, Florida Gas Transmission Company.

4 2. Replace electronic reader transponders used for drive by meter
5 reading.

6 **Q. PLEASE DESCRIBE ANY OTHER ITEMS INCLUDED IN THE**
7 **COMPANY'S PROJECTED 2024 CAPITAL PROGRAM.**

8 A. The following vehicle, equipment and office machine costs are included in
9 the capital budget for 2024.

10 1. Replace two company vehicles

11 2. Replace one power operated trencher

12 3. Replace Computers

13 **Q. DOES THE COMPANY COLLECT CIAC FROM POTENTIAL CUSTOMERS**
14 **TO MINIMIZE THE COMPANY'S CAPITAL OBLIGATIONS FOR SYSTEM**
15 **EXPANSIONS?**

16 A. Yes. Over the past several years the Company has collected Contributions in
17 Aid to Construction from a number of new construction single family residential
18 customers where the estimated annual revenue from sales would not meet the
19 Company's Maximum Allowable Construction Cost (MACC). In most cases
20 these residences wanted gas service for a single appliance (cooking, generator,
21 etc.). In accordance with Commission rules, the Company excludes all CIAC
22 amounts.

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Cost of Service and Rate Design

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

A. A fully embedded cost-of-service study was used to determine the appropriate assignment of expense and investment costs to each of the Company's classes of service. The cost study utilized information from all areas of the Company's operations, including customer billing and consumption records, engineering studies, forecasts of growth, and cost data from the accounting records. The total cost of service was allocated to determine the revenue requirements of each class of customers. The results provided the principal basis for the Company's proposed rate design, which is detailed on MFR schedule H-1.

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

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

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

A. There are two primary objectives in a cost-of-service analysis. The first objective is to establish a relationship between the Company's costs to provide service and the cause of such costs. Plant investment and operating

1 cost information associated with major operational functions (production,
2 distribution, customer service, etc.) are classified based on utilization factors
3 (demand, commodity, number of customers, revenue, etc.) that “cause the
4 cost”, and then allocated to the Company’s customer classes to determine
5 the cost to provide service to each class. The second objective is the
6 determination of the rate of return for each of the Company’s customer
7 classifications based on present rates. Such information will provide
8 guidance in equitably allocating the Company’s existing costs and proposed
9 revenue increase. The determination of cost causality developed in the cost
10 study is the fundamental starting point in designing rates by class that
11 recover the Company’s cost to serve.

12 **Q. YOU INDICATED THAT COSTS WERE ALLOCATED BY SERVICE**
13 **CLASS. PLEASE DESCRIBE HOW CLASSES OF SERVICE ARE**
14 **ESTABLISHED.**

15 A. Customers of a utility are usually grouped into relatively homogeneous
16 classes according to their service characteristics. Consumption levels,
17 pressure requirements, load factors, conditions under which service is
18 provided (curtailment status, for example), and end-use application of the
19 fuel can be considered when establishing service classes. Traditionally,
20 LDC’s have established classes based on customer type (residential,
21 commercial, industrial) and/or annual volumetric therm consumption ranges.
22 Other class distinctions, firm vs. interruptible and sales vs. transportation, for
23 example, are also common.

1 Typically, the utility can identify a different level of cost to provide service to
2 each discrete service class. Distinctions between classes established by
3 customer type or volume have generally been based on the discernable cost
4 differences from one class to another or the presence of market conditions
5 that dictate the classification. Several cost breakpoints can be identified
6 which can generally be linked to annual volumetric requirements. Meter and
7 regulator type and size, service line size, and on-going maintenance costs
8 are among the cost items that distinguish one service class from another.
9 Another important factor that may be considered in classifying customers is
10 the impact of a customer or class of customers on the Company's local
11 distribution capacity. The facility related costs to serve are a function of peak
12 hour load requirements not annual transportation volumes. System demand
13 considerations are critical in assessing the overall cost of providing service to
14 the respective service classes. However, most LDC's have elected to group
15 customers by annual volume rather than a peak hour or other demand
16 requirement.

17 **Q. PLEASE DESCRIBE THE SERVICE CLASSIFICATIONS IN THE**
18 **COMPANY'S CURRENT TARIFF.**

19 **A.** The Company offers general sales service and transportation service rate
20 classes. All residential customers and non-residential customers opting for a
21 general service rate class, purchase gas commodity and interstate pipeline
22 transportation service directly from the Company. Customers electing

1 transportation service arrange for gas supply services from a third-party
2 supplier (gas marketer). The Company's current rate classes are as follows:

	<u>Rate Class</u>	<u>Applicability</u>
3		
4	RS-1 Residential Service 1	< 150 therms
5	RS-2 Residential Service 2	150 - 300 therms
6	RS-3 Residential Service 3	> 300 therms
7	GS-1 General Service 1	< 2000 therms
8	GS-2 General Service 2	2000 – 87,500 therms
9	GS-4 General Service 4	87,500 – 1,000,000 therms
10	GS-5 General Service 5	> 1,000,000 therms
11	FTS-1 Firm Transportation Service 1	< 2000 therms
12	FTS-2 Firm Transportation Service 2	2000 – 87,500 therms
13	FTS-4 Firm Transportation Service 4	87,500 – 1,000,000 therms
14	FTS-5 Firm Transportation Service 5	> 1,000,000 therms

15 **Q. IS THE COMPANY PROPOSING CHANGES TO ITS EXISTING SERVICE**
16 **CLASSIFICATIONS?**

17 A. Yes. The Company is proposing to combine residential service class RS-1
18 into RS-2, as described in Stuart Shoaf's testimony.

19

20

1 **Q. DOES THE COMPANY'S CUSTOMER, SALES AND REVENUE**
2 **FORECAST ACCOUNT FOR THE PROPOSED REVISIONS TO ITS**
3 **EXISTING CUSTOMER CLASSIFICATIONS?**

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

7 **Q. HAS THE COMPANY PROVIDED BILLING DETERMINANT**
8 **INFORMATION THAT WILL ALLOW THE COMMISSION TO COMPARE**
9 **THE EXISTING CLASSIFICATIONS TO THE PROPOSED**
10 **CLASSIFICATIONS?**

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

14 **Q. DOES THE COMPANY INTEND TO MAINTAIN CUSTOMER**
15 **INFORMATION THAT WILL ENABLE IT TO CONTINUE TO PROVIDE**
16 **DATA TO THE COMMISSION BY TRADITIONAL CUSTOMER TYPE?**

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

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

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

1 Functionalization refers to the process of relating plant investments and
2 associated operating expenses to four basic functional categories. The
3 functional categories are production, storage, transmission and distribution.
4 Plant investments and related operation, maintenance, depreciation and tax
5 expenses are assigned to the functional categories. The functional
6 assignment of costs is a relatively straightforward process. The Company
7 maintains its accounting records in accordance with the FERC Uniform
8 System of Accounts. FERC accounting assigns plant facilities and
9 investments to cost of service functions. Related expenses follow the same
10 functionalization.

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

20 The cost classification methodology contained in the MFR model. The
21 "classifiers" identified in the model were not altered. The classification of
22 each functionalized cost component is contained in MFR schedule H-1,

1 pages 2-5. By way of further explanation, the “costs” addressed fall into four
2 main categories:

3 1. Capacity or demand costs are those costs incurred by the utility to
4 meet the on-demand service requirements of the total customer base.
5 Capacity costs are related to the peak or maximum demand
6 requirements placed on the system by its customers. Capacity costs
7 are incurred to ensure that the system is ready to serve customers at
8 peak requirements levels. These costs are generally considered to be
9 “fixed” and are incurred whether or not a customer uses any gas.

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

13 3. Customer costs are those costs incurred to connect a customer to
14 the distribution system, meter their usage and maintain their account.
15 In addition, other costs such as meter reading, which are a function of
16 the number of customers served, should be included in this category.
17 Customer costs continue to be incurred without regard to a customer’s
18 level of consumption.

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

1 Allocation involves the distribution or assignment of the classified costs to the
2 Company's service classes. Those costs which can be directly attributable to
3 a specific customer or class of customers are assigned to that customer or
4 class. The remaining costs are assigned by applying a series of allocation
5 factors. The allocation factors attempt to distribute costs based on the causal
6 relationships between the respective customer classes and the classified
7 costs. The development and application of the allocation factors and direct
8 assignment of costs is the final step in a cost of service study. MFR Schedule
9 H-2, page 5, details the development of allocation factors by class of service.

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

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

18 The peak and average methodology allocates certain plant and plant-related
19 expenses by assessing system-wide monthly demand by customer class. It
20 is not sophisticated enough to account for peak hour demand, system load
21 diversity or demand requirements on particular segments of the distribution
22 system. Gas distribution systems are designed to meet peak hour
23 requirements. Employing a capacity cost allocator based on peak and

1 average monthly data typically results in poor load factor customers receiving
2 a lower than appropriate allocation of capacity costs. Conversely, customers
3 with higher load factors (usually the large volume customer classes) typically
4 receive a higher allocation of costs than is reasonable. In a competitive
5 environment, recovering costs from customers who are not causing the costs
6 may result in lost accounts.

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

8 A. Commodity related costs were allocated on the basis of annual sales
9 volumes. These costs are, however, not included in the final calculation of
10 the proposed base rates, as these costs are recovered through the
11 Purchased Gas Adjustment cost recovery mechanism.

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

13 A. Customer costs were allocated based on the relative number of customers
14 served in each customer class. The "weighted number of customers"
15 allocator was used to distribute costs based on the recognition that larger
16 customers exhibit higher customer costs. Meters, regulators and service lines
17 are generally more expensive for larger customers. The weightings used
18 were derived from the relative investment in meters, regulators and service
19 lines required to serve representative customers in each class. The
20 weightings can be found on MFR Schedule E-7.

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

22 A. Revenue costs were allocated on the basis of gross revenues by customer
23 class.

1 **Q. IT WOULD APPEAR THAT A COST OF SERVICE STUDY IS PRIMARILY**
2 **A MECHANICAL ACCOUNTING OF COSTS. ARE THERE**
3 **OPPORTUNITIES TO APPLY JUDGMENT, CONSIDER MARKET**
4 **CONDITIONS OR OTHER MITIGATING FACTORS IN THE STUDY?**

5 A. Yes. Cost studies, at the outset, are not simply formula-based accountings of
6 costs by rate classification. They require judgment, an understanding of the
7 utility's business strategy, market area and competitive position in order to
8 complete an appropriate rate design. Within the cost-of--service study, the
9 selection and application of allocation factors requires not only a mechanical
10 understanding of the Company's costs, but also a common sense
11 understanding of a variety of economic, social, regulatory and competitive
12 considerations.

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

15 A. No. As noted above, there are a number of factors that must be considered
16 when designing rates. One of the most critical is the competitive position of
17 the Company in the marketplace. Customers in all rate categories have fuel
18 alternatives. Price is only one factor considered when evaluating fuel types.
19 There are numerous non-price issues in all customer classes that affect fuel
20 selections. For example, maintenance concerns, fuel storage, emissions
21 levels, appliance efficiency, comfort and aesthetics all play a part in a
22 customer's fuel decisions. The bottom line is that customers have choices.
23 The Company's proposed rate design utilizes a cost of service study as a

1 starting point, but the final rate recommendations consider the above issues
2 and make appropriate adjustments.

3 **Q. DOES THE COMPANY'S PROPOSED RATE DESIGN REFLECT**
4 **ADJUSTMENTS BASED ON ALTERNATE FUEL PRICING OR OTHER**
5 **MARKET FACTORS.**

6 A. Yes. The Company considered alternate fuel prices, customer rate impact
7 and other market factors in designing rates. The proposed classes of service
8 and their respective rates were selected based on the Company's primary
9 need to retain customers. In setting rates for the low usage classes RS-2,
10 RS-3, GS-1 and GS-2, the Company was particularly sensitive to the
11 Company's competitive concerns with electricity and propane. The
12 Company's rate design for non-residential customers in the FTS-4 class also
13 propose rates that reflect competition with electricity and propane gas.
14 Proposed rates for these large industrial classes are designed to provide the
15 Company its best opportunity to compete with the other alternatives available
16 to large volume customers yet recover an appropriate cost of service.

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

18 A. There are three fundamental reasons why it is important to carefully consider
19 Customer Charge rates for each customer class. First, to the extent rates are
20 established on a Straight Fixed Variable (SFV) basis, the Customer Charge
21 provides customers with a reasonable price signal related to the impact of
22 receiving service from the Company's distribution system. Second, to the
23 extent that a portion of customer-related costs are recovered through

1 variable or usage charges, intra-class subsidies would be created as larger
2 customers pay a disproportionate share of such costs. The Company's
3 proposed rate design addresses this concern through the increased
4 stratification of the existing customer classes. Third, the Customer Charge
5 provides a greater degree of revenue stability for the Company by allowing it
6 to recover fixed costs to serve through a fixed charge.

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

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

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

18 A. The cost of service analysis provided a reasonable basis upon which to
19 begin the design of rates by customer class. I compared the results of the
20 cost studies to the Company's historic rates and the competitive cost
21 analysis. I considered the Company's objectives to reduce rate subsidization
22 among and within classes and to recover a greater portion of its fixed costs
23 from fixed charges. The Company's proposed rate design results in each

1 customer moving toward a more uniform contribution to costs compared to
2 present rates. The final rates were designed on the basis of cost of service
3 by class, the competitive considerations discussed above and a review of the
4 current structure of rates and classes. The rate design I am proposing
5 establishes rates of return for each customer class that continue to improve
6 the historical inequity within and between classes. The final rate design
7 ensures that each proposed volumetric class generates a return at the
8 Company's projected cost of capital of 6.53%. Rates of return for each
9 proposed class under projected rates are included in MFR Schedule H-3,
10 page 3.

11 **Q. IS THE COMPANY PROPOSING CHANGES TO ITS OTHER OPERATING**
12 **REVENUE CHARGES?**

13 A. Yes. The Company is proposing to increase its residential Connection and
14 Reconnection Charge from \$40 to \$80. The Company is also proposing to
15 increase its Change of Account Charge from \$26 to \$66. Finally, The
16 Company is proposing to increase its existing Late Payment fee from \$3.00
17 to \$13.00, to increase the returned check charge from \$25.00 to \$35.00 and
18 adding a Realtor Inspection Charge at \$105.00. This Realtor charge involves
19 initiating temporary gas service for only a few days for inspection purposes
20 only after which the Company terminates the gas service. The current Late
21 Payment Fee provision that collects the fixed rate component (proposed at
22 \$13) or "1.5% of the amount due whichever is greater" would not change.
23 The Company's Other Operating Revenue forecast includes \$50,922 in

1 deferred income imputed by the Commission in the 2001 rate Order as part
2 of the disposition of the Florida Coast Paper bankruptcy. The forecast of
3 Other Revenue in the Projected Test Year at present rates is \$89,333 and
4 under proposed rates is \$153,351. The current other revenue charges are
5 displayed on MFR Schedule E-1, page 3 and Schedule H-3, page 5.

6 **Q. HOW ARE MISCELLANEOUS CHARGE REVENUES HANDLED IN THE**
7 **COST STUDIES?**

8 A. The Company forecast Miscellaneous Revenue by class based on its
9 existing charges and proposed charges. When available, historical data was
10 utilized to project the number of annual charges. The cost study includes the
11 cost to provide the various Miscellaneous Charge services in the Total
12 Revenue Requirement. The miscellaneous charge revenues were adjusted
13 out of the proposed revenue requirement by class prior to the development of
14 the proposed base rates.

15 **Q. DID THE COMPANY INCLUDE AN ANALYSIS OF ALL OF ITS**
16 **PROPOSED RATE SCHEDULES IN THE COST OF SERVICE STUDY?**

17 A. No. The Company only evaluated the rate classifications with active
18 customers in its cost study. The company does not currently serve customers
19 in its GS-5, FTS-1, FTS-2 or FTS-5 rate classes. However, given that the
20 proposed sales and transportation service rate classes mirror each other
21 (same annual term range applicability provisions and same rates) all of the
22 proposed rate classes are represented.

23

1 **Q. PLEASE COMPARE THE PROPOSED RATES TO THE PRESENT RATES.**

2 A. A comparison of present and proposed base rates and customer charges by
3 customer class is presented in MFR Schedule H-3, page 5.

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

5 A. The rates and charges are designed to produce additional revenues of
6 \$744,223, as indicated on MFR Schedule H-3, page 1. Total target revenues
7 under the proposed rates are \$2,234,848.

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

10 A. The cost of service analysis provided a reasonable basis upon which to
11 begin the design of rates by customer class. I compared the initial results of
12 the cost study to the Company's historic rates, the competitive cost analysis
13 and the Company's objective to minimize rate subsidizations among and
14 within classes. My final rate design brought the rate of return for all customer
15 classes to the Company's cost of capital. The rate design begins to shift
16 toward a SFV structure for all accounts. I believe the proposed rate design is
17 just and reasonable, producing fair and equitable rates for each customer
18 class.

19 **Q. HAS THE COMPANY PREPARED A LEGISLATIVE VERSION OF ITS
20 NEW TARIFF INDICATING THE SPECIFIC PROPOSED REVISIONS?**

21 A. Yes. The Company is only submitting legislative and clean versions of the
22 tariff sheets that include proposed changes. The Company is not proposing a
23 new tariff version, as existing language in the current tariff is proposed to be

1 retained with the exception of the proposed collapse of the RS-1 rate class
2 into RS-2. The Company is prepared to work closely with the Commission to
3 identify all substantive revisions to the tariff.

4 **Q. PLEASE BRIEFLY DESCRIBE THE SUBSTANTIVE TARIFF**
5 **MODIFICATIONS PROPOSED IN THIS FILING.**

6 A. In addition to those tariff revisions related to customer classes and rates
7 described previously in my testimony the following discussion summarizes
8 the Company's tariff revision proposals.

9 1. The RS-1 Rate Class ECCR rate has been removed from Sheet No.
10 Sixteenth Revised Sheet No. 104 as described in Stuart Shoaf's
11 testimony to address effect of combining RS-1 into RS-2.

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

13 A. Yes.

LIST OF MFR SCHEDULES SPONSORED BY ANDY SHOAF

<u>Schedule</u>	<u>Title</u>
E-1 Pp. 1-3	Cost of Service – Therms and Revenue
E-2 P. 1	Cost of Service – Revenues at Present and Proposed Rates
E-3 Pp. 1-5	Cost of Service – Miscellaneous Revenue
E-4 Pp. 1-2	Cost of Service – Peak Monthly Sales Volumes
E-5 Pp. 1-7	Cost of Service – Monthly Bill Comparisons
E-6 Pp. 1-5	Cost of Service – Derivation of Overall Cost of Service
E-7 P. 1	Cost of Service – Meter Set and Service
E-8 P. 1	Cost of Service – Dedicated Facilities
E-9 Pp. 1-13	Cost of Service – Tariff
H-1 P. 1	Cost of Service – Classification of Rate Base – Plant
H-1 P. 2	Cost of Service – Classification of Rate Base – Accum. Dep.
H-1 Pp. 3-4	Cost of Service – Classification of Expense
H-1 P. 5	Cost of Service – Summary
H-2 P. 1	Cost of Service – Development of Allocation Factors
H-2 Pp. 2-5	Cost of Service – Allocation of rate Base To Customer Classes
H-2 P. 6	Cost of Service – Summary
H-3 P. 1	Cost of Service – Derivation of Revenue Deficiency

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

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **DIRECT TESTIMONY**

3 **OF DEBBIE STITT**

4 **ON BEHALF OF ST. JOE NATURAL GAS COMPANY, INC**

5 **DOCKET NO. 20240046-GU**

6 **May 2024**

7

8 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

9 A. My name is Debbie K. Stitt. My business address is St. Joe Natural Gas
10 Company, Inc., 301 Long Avenue, Port St. Joe, Florida 32456-0549.

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

12 A. I am employed by St. Joe Natural Gas Company ("SJNG" or "Company") as
13 the Bookkeeper. In this capacity, I am responsible for all internal accounting
14 and bookkeeping activities for the Company's regulated and non-regulated
15 businesses, as well as the general supervision of customer service, billing,
16 and other office administrative functions for the regulated utility.

17 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

18 A. I received an Associates of Arts Degree in Accounting from Gulf Coast
19 Community College in 1984.

20 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.**

21 A. I have been employed by SJNG for thirty-eight years in the accounting
22 department.

23

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

2 A. My testimony will provide support for the Company's requested rate relief by
3 addressing the Company's historical rate base, historical income, projected
4 income and capital structure. I also support our calculation of the requested
5 interim relief.

6 **Q. ARE THERE ANY EXHIBITS TO YOUR TESTIMONY?**

7 A. Yes. Exhibit No. DKS-1 is a list of MFR schedules I am sponsoring. The
8 Minimum Filing Requirements ("MFR") schedules and other exhibits were
9 prepared under my direction, supervision, and control.

10 **Historic Data**

11 **Q. HOW DID YOU DERIVE THE HISTORIC DATA PRESENTED IN THE**
12 **MFR'S?**

13 A. All data related to the historic base year (2022) are taken from the books and
14 records of the Company, located in Port St. Joe, Florida. The Company
15 maintains its accounting records in accordance with the recognized
16 accounting practices and provisions of the Uniform System of Accounts as
17 prescribed by the Florida Public Service Commission (the "Commission").

18 **Rate Base**

19 **Q. PLEASE DESCRIBE HOW THE COMPANY'S HISTORIC YEAR RATE**
20 **BASE WAS CALCULATED FOR PURPOSES OF THIS RATE FILING.**

21 A. For the historic base year, a 13-month average rate base was calculated for
22 the period ended December 31, 2022. The historic base year corresponds to
23 the Company's fiscal year. The Company was able to utilize year-end

1 accounting data, without partial period adjustments, in completing the historic
2 base year MFR requirements. MFR Schedule B-2 shows the calculation of
3 the Company's historic base year rate base. Net plant is defined as the sum
4 of (1) plant in service, less common plant allocated; (2) acquisition
5 adjustments; and (3) construction work in progress ("CWIP"), less
6 accumulated depreciation, and amortization. Net plant during the historic
7 year was \$2,871,542. An allowance for working capital, after adjustments, in
8 the amount of \$154,444 was then added to net plant to calculate the total
9 rate base. As shown on MFR Schedule B-2, the total 13-month average rate
10 base for the Company, after adjustments, was \$2,934,410.

11 **Q. HAS THE COMPANY IDENTIFIED AND EXCLUDED FROM RATE BASE**
12 **THOSE PORTIONS OF ITS COMMON PLANT THAT ARE PROPERLY**
13 **ALLOCATED TO NON-UTILITY OPERATIONS?**

14 A. Yes. In preparation for this rate proceeding, the Company conducted a
15 comprehensive review of natural gas ("NG") Non-Utility cost allocations.
16 Adjustments were made to common plant and accumulated depreciation in
17 rate base and depreciation expense. These adjustments are reflected on
18 pages 15 through 22 of MFR Schedule G-1 for the historic base year +1, and
19 for the projected test year. During the historic base year utility net plant was
20 recorded at \$2,779,966. NG Non-Utility has no plant allocated: therefore, a
21 percentage of NG Non-Utility labor costs were allocated instead.

22

1 **Q. HAS THE COMPANY EXCLUDED COMPONENTS OF WORKING**
2 **CAPITAL APPLICABLE TO NON-UTILITY OPERATIONS FROM THE**
3 **WORKING CAPITAL ALLOWANCE?**

4 A. Yes. Any specific assets and liabilities related to non-utility operations
5 remaining on SJNG's books were removed from working capital by adjustment.
6 In addition, provision has been made to exclude from working capital the
7 appropriate portion of common current assets and liabilities apportionable to
8 non-utility activities. The percentage of NG Non-Utility labor costs allocated, as
9 described previously, serves as the basis for this percentage allocation.

10 **Q. PLEASE EXPLAIN ANY ADJUSTMENTS TO THE HISTORIC YEAR RATE**
11 **BASE.**

12 A. Adjustments to the historic year rate base as indicated in MFR Schedule G-1,
13 include: assets were reduced by non-utility cash \$329,958, A/R for Propane
14 \$66,140, A/R for Appliance \$194,403, merchandise and jobbing material
15 \$17,110 and operating material \$27,804; appliance inventory \$1,703,589;
16 prepayments \$18,563; Propane inventory fuel \$71,312; accounts payable for
17 appliances \$516,033; Propane deposits \$9,928; Customer advances for
18 Appliances \$765,281. Non-utility taxes accrued and payable was increased
19 by \$6,850. Capital structure was reduced by a note payable of \$136,151;
20 customer deposits of \$163,574; accumulated deferred income taxes of
21 \$767,446; deferred credit amounts of \$460,252 for Florida Coast Paper
22 Company (FCPC) and Gulf Correctional Institute. Other adjustments include
23 miscellaneous current liabilities \$17,501 reduction.

1 **Q. WHAT ARE THE APPROPRIATE DEPRECIATION RATES FOR THE**
2 **HISTORIC BASE YEAR AND THE PROJECTED TEST YEAR?**

3 A. The depreciation rates used by the Company for the historic base year reflect
4 the rates approved by the Commission in Order PSC-2023-0215-PAA-GU,
5 issued July 26, 2023.

6 **Q. WHAT IS THE EFFECT OF THE COMPANY'S 2024 CAPITAL**
7 **INVESTMENT PROGRAM ON RATE BASE IN THE PROJECTED TEST**
8 **YEAR?**

9 A. Capital spending for 2023 is detailed on Schedule G-1 (page 23) for
10 \$717,384 and \$1,000,080 (page 26) in the projected test year. The capital
11 expenditures for the projected test year have been scheduled by month in
12 accordance with the Company's expectations as to the timing of the actual
13 outlays. Average Rate Base is calculated reflecting the timing of the
14 expenditures and their impact on CWIP and plant balances.

15 **Q. WHAT IS THE APPROPRIATE PROJECTED TEST YEAR UTILITY PLANT**
16 **IN SERVICE FOR SJNG?**

17 A. The appropriate Utility Plant in Service is \$9,549,790, reflecting the
18 adjustments described above, MFR Schedule G-1, page 1.

19 **Q. PLEASE EXPLAIN ANY ADJUSTMENTS TO THE PROJECTED TEST**
20 **YEAR RATE BASE.**

21 A. Net Plant was reduced by \$439,176 to reflect common plant adjustments and
22 CWIP adjustment. Working Capital was increased by \$356,039 to eliminate

1 non-utility assets and liabilities. Total adjustments to Rate Base in the
2 Projected Test Year are \$81,066 from MFR Schedule G-1, page 4.

3 **Q. WHAT IS THE APPROPRIATE WORKING CAPITAL ALLOWANCE FOR**
4 **THE PROJECTED TEST YEAR?**

5 A. The appropriate Working Capital Allowance, calculated using the Balance
6 Sheet Method, is \$74,822 per Schedule G1, page 3, which reflects the
7 adjustments described above.

8 **Q. WHAT IS THE APPROPRIATE ADJUSTED RATE BASE FOR THE**
9 **PROJECTED TEST YEAR?**

10 A. The appropriate Adjusted Rate Base for the projected test year is
11 \$3,381,787. MFR Schedule G-1, page 1 presents the components of the
12 SJNG Rate Base.

13

14 **Net Operating Income (Historical)**

15 **Q. HOW DID YOU DERIVE THE DATA USED TO DETERMINE THE**
16 **COMPANY'S INCOME FOR THE HISTORIC BASE YEAR ENDED**
17 **DECEMBER 31, 2022?**

18 A. All data related to the Company's historical income was obtained from the
19 Company's books and records. These books and records are kept in
20 accordance with recognized accounting practices and the Uniform System of
21 Accounts as prescribed by the Commission.

22

1 **Q. WHAT WERE THE COMPANY'S OPERATING REVENUES FOR THE**
2 **HISTORIC BASE YEAR?**

3 A. The Company's 2022 operating revenues were \$2,411,551. This information
4 appears on Schedule C-1 of the MFRs.

5 **Q. WHAT WERE THE COMPANY'S OPERATING EXPENSES FOR THE**
6 **HISTORIC BASE YEAR?**

7 A. The Company's 2022 operating expenses were \$2,498,416. This
8 information appears on Schedule C-1 of the MFRs.

9 **Q. HOW WAS THE COMPANY'S INCOME TAX EXPENSE CALCULATED?**

10 A. For MFR purposes, taxes on adjustments and projections were calculated as
11 follows: Florida state income tax was calculated on taxable income using a
12 rate of 4.458%. Federal income tax was calculated on taxable income at the
13 incremental rate of 21%. Income taxes on historical base year and base year
14 minus one were calculated using the federal corporate tax table, and the
15 state tax rate of 4.458%.

16 **Q. PLEASE DESCRIBE HOW THE COMPANY ALLOCATED COSTS TO ITS**
17 **UNREGULATED ACTIVITIES DURING THE HISTORIC BASE YEAR?**

18 A. All of NG non-utility labor activity performed by the Company's employees is
19 recorded on each employee's daily time sheet in account number 416 and
20 non-utility material is inventoried in accounts 154 and 156. The Company
21 uses Work Orders for all work performed and NG non-utility work is booked
22 in appropriate non-utility accounts. Non-utility expense is allocated at the
23 time of distribution of payment.

1 **Q. PLEASE EXPLAIN ANY ADJUSTMENTS TO THE COMPANY'S**
2 **HISTORICAL OPERATING REVENUES AS IDENTIFIED ON MFR**
3 **SCHEDULE C-2.**

4 A. The Company's revenues were not reduced by for non-regulated revenue. All
5 non-regulated revenue was recorded accordingly in its own account., (2)
6 \$755,341 for purchased gas adjustment revenue, (4) \$ 11,796 for regulatory
7 assessment fees.

8 **Q. PLEASE EXPLAIN ANY ADJUSTMENTS IN THE COMPANY'S**
9 **HISTORICAL OPERATING EXPENSES AS IDENTIFIED ON MFR**
10 **SCHEDULE C-2.**

11 A. The Company's operating expenses were decreased by the following
12 adjustments: (1) \$300 for donations; (2) \$437 for penalties; (3) \$656,262,
13 \$77,399 and \$2,258 for fuel costs; (4) \$1,195 for interest expense and
14 \$19,693 for LT Debt interest; and (6) \$399 for Florida Natural Gas
15 Association.

16

17

Net Operating Income (Projected)

18 **Q. WHAT IS THE APPROPRIATE AMOUNT OF OPERATING REVENUE AT**
19 **PRESENT RATES FOR THE PROJECTED TEST YEAR?**

20 A. Operating revenues for the Projected Test Year are \$2,081,498 reflecting the
21 Company's forecast of customers and volumes and the application of the
22 proposed rates on MFR Schedule E-2.

1 **Q. WHAT IS THE APPROPRIATE AMOUNT OF OPERATING EXPENSE AT**
2 **PRESENT RATES FOR THE PROJECTED TEST YEAR?**

3 A. The Company's projected expenses for the 12 months ending December 31,
4 2022 are \$1,497,821, as reflected in MFR Schedule E-6.

5 **Q. WHAT ADJUSTMENTS WERE MADE TO PROPERLY REFLECT**
6 **OPERATING REVENUES FOR THE PROJECTED TEST YEAR?**

7 A. No adjustments were made to operating revenues for the projected test year.

8 **Q. WHAT IS THE APPROPRIATE O&M EXPENSE BENCHMARK**
9 **COMPOUND MULTIPLIER FOR SJNG?**

10 A. The appropriate compound multiplier is 1.3779, reflecting the net increase in
11 the average number of customers and the increase in the average Consumer
12 Price Index ("CPI") from 2011 to the current case historic base year (2022). The
13 calculation of this benchmark variance factor is presented on Schedule C-37.

14 **Q. PLEASE EXPLAIN THE SOURCE OF DATA FOR THE O & M**
15 **COMPOUND MULTIPLIER CALCULATION ON MFR SCHEDULE C-37.**

16 A. Company records were used to determine the number of customers at year-
17 end. The Consumer Price Index (CPI) annual average data was obtained
18 from the Commission staff.

19 **Q. PLEASE EXPLAIN THE TRENDING FACTORS ON MFR SCHEDULE G-2,**
20 **PAGE 10, AND DESCRIBE ANY ADJUSTMENTS YOU MADE FOR KNOWN**
21 **CHANGES.**

22 A. The trending was done in two parts. All O&M expenses were divided between
23 labor and other expenses. An appropriate factor was calculated or otherwise

1 determined for each group of expenses. This factor was then compounded for
2 a two-year period (2023 and 2024) and applied to the 2022 expenses in each
3 functional area to derive the Projected Test Year amounts.

4 An annual increase of 6.24% was used to trend labor expenses in 2023 and
5 2024, respectively. Non-labor expenses were trended using either: 1) the
6 projected annual Consumer Price Index ("CPI") increase of 3.0% for 2023
7 and 2024 or, 2) a compounded customer growth at zero times the inflation
8 rate of 3.0%. CPI annual increase projections for 2023 and 2024 were based
9 on U.S. Bureau of Labor Statistics actual CPI.

10 **Q. WHAT IS THE APPROPRIATE AMOUNT OF RATE CASE EXPENSE AND**
11 **THE APPROPRIATE AMORTIZATION PERIOD?**

12 A. The Company's calculation of rate case expense for the current case is
13 included on Schedule C-13. The total projected costs amount to \$137,500. It
14 should be noted, however, that this projection will change in the event a
15 hearing is required to resolve this case. We propose that the amount
16 projected for this case be amortized over a four-year period. The total
17 amount projected for rate case amortization expense in the projected test
18 year is \$137,500.

19 **Q. HAS SJNG PROPERLY IDENTIFIED AND EXCLUDED FROM O&M THOSE**
20 **PORTIONS OF ITS EXPENSES THAT ARE APPLICABLE TO ITS NON-**
21 **UTILITY OPERATIONS?**

22 A. Yes.

23

1 **Q. WHAT IS THE APPROPRIATE AMOUNT OF PROJECTED TEST YEAR**
2 **O&M EXPENSE?**

3 A. The appropriate amount of O&M for the Projected Test year is \$1,541,730,
4 which is included in Operating Expenses used to calculate Net Operating
5 Income on Schedule G-2, page 1.

6 **Q. WHAT IS THE APPROPRIATE AMOUNT OF DEPRECIATION EXPENSE TO**
7 **BE INCLUDED IN THE PROJECTED TEST YEAR?**

8 A. The appropriate amount of depreciation expense is \$374,049, after eliminating
9 non-utility common plant, which is included on Schedule G-2, page 25.

10 **Q. WHAT IS THE APPROPRIATE AMOUNT OF TAXES OTHER THAN**
11 **INCOME TAXES TO BE INCLUDED IN THE PROJECTED TEST YEAR?**

12 A. The appropriate amount of taxes other than income taxes is \$128,363, which
13 is included in Operating Expenses on Schedule G-2, page 1.

14 **Q. WHAT IS THE APPROPRIATE AMOUNT OF NOI FOR THE PROJECTED**
15 **TEST YEAR?**

16 A. The appropriate amount of NOI for the projected test year, as adjusted for
17 the items described above, is (\$576,971) as identified on MFR Schedule G-2,
18 page 1.

19 **Capital Structure**

20 **Q. HAVE YOU PREPARED A SCHEDULE SHOWING THE COMPANY'S**
21 **CAPITAL STRUCTURE FOR THE PROJECTED TEST YEAR?**

22 A. Yes. This information appears on MFR Schedule G-3, Page 2.

1 **Q. HAVE YOU PREPARED THE COMPANY'S CAPITAL STRUCTURE FOR**
2 **RATEMAKING PURPOSES CONSISTENT WITH THE MANNER IN WHICH**
3 **IT WAS APPROVED IN THE LAST RATE CASE?**

4 A. Yes.

5 **Q. WHAT DEBT TO EQUITY RATIO IS PROPOSED FOR THE PROJECTED**
6 **TEST YEAR?**

7 A. The Company proposes to employ a debt-to-equity ratio of 52.87% debt and
8 47.13% equity in the projected test year. The calculation of capital structure
9 reflects sources of capital as follows: Equity, 47.13%; Long-Term Debt,
10 8.50%; Customer Deposits, 1.71% and Short-Term Debt, 0%, Deferred
11 Credits (Florida Coast) 11.99%, Deferred Taxes 29.25%.

12 **Q. HOW IS THE TOTAL AMOUNT OF EQUITY IN THE PROJECTED TEST**
13 **YEAR DETERMINED?**

14 A. The amount of equity is based on the projected weighted average balance of
15 common equity for the Projected Test Year, including the equity adjustments
16 described above. It is my belief that the SJNG proposed debt/equity ratio is
17 appropriate and reflective of the approximate actual capital structure that will
18 exist during the period rates are in effect.

19 **Q. PLEASE DESCRIBE THE COMPANY'S FORECAST DEBT POSITION IN**
20 **THE PROJECTED TEST YEAR.**

21 A. In February 2024 the Company acquired a \$248,111 loan obtained from
22 Centennial Bank. The cost rate on this loan was 8.5%. The Company's 2024
23 capital budget anticipates expenditures of approximately \$1,000,000 to support

1 the projects described in Andy Shoaf's testimony. The Company is forecasting
2 that \$800,000 of the capital budget requirements and some operating
3 requirements will be funded from debt. The Company's total debt for the
4 projected test year is forecast at \$800,000. All Company debt in the projected
5 test year is anticipated to be long-term.

6 **Q. WHAT IS THE APPROPRIATE LEVEL OF CUSTOMER DEPOSITS TO BE**
7 **USED IN THE DETERMINATION OF THE SJNG CAPITAL STRUCTURE**
8 **FOR THE PROJECTED TEST YEAR?**

9 A. The appropriate level of Customer Deposits to be included in the
10 determination of the SJNG capital structure is \$57,824, which is the average
11 level of customer deposits for the Projected Test Year.

12 **Q. WHAT IS THE APPROPRIATE LEVEL OF DEFERRED INVESTMENT TAX**
13 **CREDITS TO BE USED IN THE DETERMINATION OF THE SJNG CAPITAL**
14 **STRUCTURE FOR THE PROJECTED TEST YEAR?**

15 A. The Company has no Deferred Investment Tax Credits.

16 **Q. WHAT IS THE APPROPRIATE LEVEL OF DEFERRED INCOME TAXES**
17 **TO BE USED IN THE DETERMINATION OF THE SJNG CAPITAL**
18 **STRUCTURE FOR THE PROJECTED TEST YEAR?**

19 A. \$989,098.

20 **Q. DOES THE SJNG CAPITAL STRUCTURE FOR RATEMAKING**
21 **PURPOSES FOR THE PROJECTED TEST YEAR PROPERLY EXCLUDE**
22 **NON-UTILITY INVESTMENTS?**

23 A. Yes.

1 **Q. WHAT IS THE APPROPRIATE COST RATE FOR COMMON EQUITY?**

2 A. The appropriate cost rate for Common Equity is 11.0%, as addressed in
3 Stuart Shoaf's testimony.

4 **Q. WHAT IS THE APPROPRIATE COST RATE FOR LONG-TERM DEBT?**

5 A. The appropriate cost rate for Long-Term Debt is 8.5%, based on the current
6 cost rate for the Company's line of credit and discussions with a local
7 financial institution.

8 **Q. WHAT IS THE APPROPRIATE COST RATE FOR SHORT-TERM DEBT?**

9 A. The Company anticipates no Short-Term Debt in the Projected Test Year.

10 **Q. WHAT IS THE APPROPRIATE COST RATE FOR CUSTOMER DEPOSITS?**

11 A. The appropriate cost rate for Customer Deposits is 2.0% for Residential and
12 3% for Commercial.

13 **Q. WHAT IS THE APPROPRIATE COST RATE FOR INVESTMENT TAX
14 CREDITS AND DEFERRED INCOME TAXES?**

15 A. As noted above, SJNG has no Deferred Investment Tax Credits.

16 **Q. WHAT IS THE APPROPRIATE WEIGHTED AVERAGE COST OF CAPITAL
17 FOR SJNG FOR RATEMAKING PURPOSES FOR THE PROJECTED TEST
18 YEAR?**

19 A. The appropriate weighted average overall cost of capital for the Company in
20 the Projected Test Year is 6.05%.

21

22

1 **Q. WHAT IS THE APPROPRIATE REVENUE EXPANSION FACTOR FOR**
2 **THE PROJECTED TEST YEAR?**

3 A. The appropriate revenue expansion factor is 1.3356, as calculated on
4 Schedule G-4.

5 **Q. WHAT ARE THE REVENUE DEFICIENCY AND TOTAL OPERATING**
6 **REVENUE REQUIREMENT FOR THE PROJECTED TEST YEAR?**

7 A. The revenue deficiency for SJNG in the Projected Test Year is \$1,043,838,
8 as calculated on Schedule G-5 of the MFRs. This deficiency has been used
9 as the basis for the proposed rates developed by Company witness Andy
10 Shoaf, as presented in his testimony. The requested increase is required by
11 the Company in order to give it the opportunity to earn a fair rate of return
12 based on conditions during the projected test year.

13

14

Interim Rate Increase

15 **Q. ON WHAT HISTORICAL PERIOD IS THE COMPANY'S REQUEST FOR**
16 **AS INTERIM INCREASE BASED?**

17 A. The historical period is the 12-month period ended December 31, 2023.

18 **Q. WHAT IS THE AMOUNT OF THE INTERIM INCREASE SJNG IS**
19 **REQUESTING IN THIS PROCEEDING?**

20 A. The Company requests that annual revenues be increased by \$612,209 on
21 an interim basis. This amount represents a 47.33% increase in base rates.

22

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

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

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

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

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

12 A. The Revenue Deficiency for the interim rate increase is calculated on MFR
13 Schedule F-7. It was derived based on an Adjusted Rate Base of \$3,186,767
14 and a Requested Rate of Return of 5.46%, yielding an NOI requirement of
15 \$173,957. The Adjusted Rate Base is calculated on MFR Schedule F-1, and
16 the Requested Rate of Return is calculated on MFR Schedule F-8. As
17 required by Florida Statute 366.071 (5)(b)3, the Company used the middle of
18 the range (11.0%) of its most recent authorized return on equity (Order No.
19 PSC-08-0436-PAA-GU) to determine the weighted cost of capital. The
20 Company's Adjusted NOI for 2023 is (\$284,430), which has been calculated
21 on MFR Schedule F-4. An NOI Deficiency of \$458,387 was determined by
22 subtracting the Company's Adjusted NOI from the NOI Requirement. The
23 requested interim rate increase of \$612,209 equals the NOI Deficiency

1 grossed up by the Revenue Expansion Factor (1.3356) calculated on MFR
2 Schedule F-6.

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

6 A. Yes.

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

9 A. The revenue deficiency calculated on MFR Schedule F-7 was allocated on
10 an equal percentage basis (47.33%) to each of the Company's existing
11 customer classifications. The transportation charge for each respective class
12 has been adjusted to achieve the proposed interim increase.

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

14 A. Yes.

LIST OF MFR SCHEDULES SPONSORED BY DEBBIE STITT

<u>Schedule</u>	<u>Title</u>
A-1	P. 1 EXECUTIVE SUMMARY - MAGNITUDE OF CHANGE-PRESENT vs PRIOR RATE CASE
A-2	P. 1 EXECUTIVE SUMMARY - ANALYSIS OF PERMANENT RATE INCREASE REQUESTED
A-3	P. 1 EXECUTIVE SUMMARY - ANALYSIS OF JURISDICTIONAL RATE BASE
A-4	P. 1 EXECUTIVE SUMMARY - ANALYSIS OF JURISDICTIONAL N. O. I.
A-5	P. 1 EXECUTIVE SUMMARY - OVERALL RATE OF RETURN COMPARISON
A-6	P. 1 EXECUTIVE SUMMARY - FINANCIAL INDICATORS
B-1	P. 1 13 MONTH AVERAGE BALANCE SHEET - ASSETS
B-1	P. 2 13 MONTH AVERAGE BALANCE SHEET - LIABILITIES & CAPITALIZATION
B-2	P. 1 RATE BASE - 13 MONTH AVERAGE
B-3	P. 1 RATE BASE ADJUSTMENTS
B-4	P. 1 MONTHLY PLANT BALANCES TEST YEAR - 13 MONTHS
B-5	P. 1 ALLOCATION OF COMMON PLANT
B-5	P. 2 DETAIL OF COMMON PLANT
B-5	P. 3 DETAIL OF COMMON PLANT (CONT)
B-6	P. 1 ACQUISITION ADJUSTMENT

B-7	P. 1	PROPERTY HELD FOR FUTURE USE - 13 MONTH AVERAGE
B-7	P. 2	PROPERTY HELD FOR FUTURE USE DETAILS
B-8	P. 1	CONSTRUCTION WORK IN PROGRESS
B-9	P. 1	DEPRECIATION RESERVE BALANCES
B-10	P. 1	AMORTIZATION / RECOVERY RESERVE BALANCES
B-11	P. 1	ALLOCATION OF DEPRECIATION / AMORTIZATION RESERVE - COMMON PLANT
C-1	P. 1	NET OPERATING INCOME
C-2	P. 1	NET OPERATING INCOME ADJUSTMENTS
C-2	P. 1	NET OPERATING INCOME ADJUSTMENTS (CONT)
C-3	P. 1	OPERATING REVENUES BY MONTH
C-4	P. 1	UNBILLED REVENUES
C-5	P. 1	OPERATION & MAINTENANCE EXPENSES
C-5	P. 2	OPERATION & MAINTENANCE EXPENSES (CONT)
C-6	P. 1	ALLOCATION OF EXPENSES
C-7	P. 1	CONSERVATION REVENUES AND EXPENSES
C-8	P. 1	UNCOLLECTIBLE ACCOUNTS
C-8	P. 2	UNCOLLECTIBLE ACCOUNTS (CONT)
C-9	P. 1	ADVERTISING EXPENSES
C-9	P. 2	ADVERTISING EXPENSES (CONT)
C-10	P. 1	CIVIC AND CHARITABLE CONTRIBUTIONS
C-11	P. 1	INDUSTRY ASSOCIATION DUES

C-12	P. 1	LOBBYING AND OTHER POLITICAL EXPENSES
C-13	P. 1	TOTAL RATE CASE EXPENSE AND COMPARISONS
C-14	P. 1	MISCELLANEOUS GENERAL EXPENSE
C-15	P. 1	OUT OF PERIOD ADJUSTMENTS TO REVENUES AND EXPENSES
C-16	P. 1	GAINS AND LOSSES ON DISPOSITION OF PLANT OR PROPERTY
C-17	P. 1	MONTHLY DEPRECIATION EXPENSE FOR THE HISTORIC BASE YEAR - 12 MONTHS
C-18	P. 1	AMORTIZATION / RECOVERY SCHEDULE FOR THE HISTORIC BASE YEAR - 12 MONTHS
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D-1	P. 2	APPLICANT'S AVERAGE COST OF CAPITAL - HISTORICAL DATA
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D-2	P. 2	LONG-TERM DEBT OUTSTANDING (CONT)
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D-4	P. 1	PREFERRED STOCK
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D-9	P. 1	SUBSIDIARY INVESTMENTS
D-10	P. 1	RECONCILIATION OF AVERAGE CAPITAL STRUCTURE TO AVERAGE JURISDICTIONAL RATE BASE
D-11	P. 1	FINANCIAL INDICATORS - CALCULATION OF INTEREST AND PREFERRED DIVIDEND COVERAGE RATIOS
D-11	P. 2	FINANCIAL INDICATORS - CALCULATION OF PERCENTAGE OF CONSTRUCTION FUNDS GENERATED INTERNALLY

D-11	P. 3	FINANCIAL INDICATORS - AFUDC AS PERCENTAGE OF INCOME AVAILABLE FOR COMMON
D-12	P. 1	APPLICANT'S MARKET DATA
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F-3	P. 1	CALCULATION OF INTERIM RATE RELIEF - ADJUSTMENTS TO RATE BASE
F-3	P. 1	CALCULATION OF INTERIM RATE RELIEF - ADJUSTMENTS TO RATE BASE (CONT)
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G-1	P. 10	PROJECTED TEST YEAR - 13-MONTH AVERAGE UTILITY PLANT
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G-1	P. 17	HISTORIC BASE YEAR + 1 - ALLOCATION OF COMMON PLANT - DETAIL (CONT.)
G-1	Pp. 18- 20	ALLOCATION OF COMMON PLANT - EXPLANATION
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G-1	P. 22	ALLOCATION OF DEPRECIATION/AMORTIZATION RESERVE– COMMON PLANT/ EXPLANATION – PROJECTED TEST YEAR
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G-1	P. 25	MONTHLY PLANT RETIREMENTS – HISTORIC BASE YEAR +1
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G-1	P. 26	CALCULATION OF PROJECTED RATE BASE – CONSTRUCTION BUDGET – PROJECTED TEST YEAR
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