BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY

OF RANDY TAYLOR

ON BEHALF OF THE FLORIDA DIVISION OF

CHESAPEAKE UTILITIES CORPORATION

DOCKET NO. 090125-GU

JUNE 2009

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

A. My name is Randy Taylor. I am the Director of Operations and Engineering for the Florida Division of Chesapeake Utilities Corporation (the "Company"). My business address is 1015 6th Street N.W., Winter Haven, Florida 33882.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I attended Auburn University, graduating in 1991 with a Bachelor of Science degree in Civil Engineering. I began my career in the gas industry in 1978, serving in several operations and engineering capacities with the Gas Light Company of Columbus, Georgia (currently United Cities Gas). In 1992, I joined the Company as Division Engineer and was subsequently promoted to Engineering Manager. I was appointed Director of Operations and Engineering in October 2008.

Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.

A. As Director Operations and Engineering, I am responsible for the design, construction, physical operation and maintenance of the Company's gas

distribution system (gate stations, mains, service lines, regulators, meters and other appurtenant facilities). I prepare and monitor the Company's annual capital budget with respect to extension, system improvement and relocation projects. I am also responsible for the Company's compliance with applicable codes, standards and regulations related to the construction and operation of the system and for the physical control of gas received into the distribution system from upstream pipelines.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony addresses the Company's recent reorganization of the Company's operations functions. In addition, I will describe and support the Company's projected capital expenditures for 2009 and the 2010 Projected Test Year.

Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR TESTIMONY?

A. Yes. Exhibit No. __ (RT-1) is a list of the MFR schedules I am sponsoring.

Q. WHY DID THE COMPANY REORGANIZE ITS OPERATIONS DEPARTMENT IN 2008?

A. In late 2008, the Company reorganized to combine its operations, engineering and compliance functions into one department. The reorganization was the culmination of an operations strategy that the Company initiated several years ago. The Company recognized that, given its small size and geographically scattered service areas, it would need to engage third party providers to support many of the functions traditionally conducted by in-house personnel. Over the past decade, the Company's distribution system operations have expanded from three counties in central Florida to fourteen (14) Florida counties, from Desoto County in the southwest to Washington County in the panhandle. Although at

present, several counties include only a single industrial consumer, the Company has long-term interests in growing its base of consumers throughout the state. It is not practical or prudent to build a traditional operations group with duplicate capabilities in each service area, at least not until such areas reach a reasonable size. The Company became increasingly concerned about the growth in expenses that would be necessary to add the positions, equipment and office space required to deliver appropriate operational coverage to its service areas. The Company also recognized that under a traditional organizational structure, where much of the work tasks are handled by in-house employees, it would have little ability to manage its fixed operations expenses. To a large extent, operations work load requirements fluctuate based on economic and other market influences (building construction, road construction requiring system relocations, etc.). Traditional operations units have limited opportunities to adjust fixed costs (employees, vehicles, office space, etc.) to match these fluctuations in work load. To address these concerns, over the past several years the Company began to out-source several of its functions. The 2008 operations reorganization recognized the evolution of the Company's operations activities and formally established the organizational structure needed to effectively oversee third party contractors and manage the construction, operations and maintenance work in an expanding service area.

Q. HAVE THE FUNCTIONS OR RESPONSIBILITIES OF THE OPERATIONS DEPARTMENT CHANGED AS A RESULT OF THE REORGANIZATION?

A. The fundamental responsibilities of the Operations and Engineering Department described above have not changed, however, the Company's approach to

meeting its operational obligations have changed. The most significant adjustment is the increased use of outside contractors through the Company's Energy Plus Partners program. The Company, like many gas utilities, has used third party contractors for a number of years for main and service installations, meter testing, meter reading and various specialized periodic maintenance functions. Under the current organizational structure, a number of operations tasks (meter sets for example) traditionally handled in-house are being shifted to contractors. The Company has worked to identify and, in some cases develop, a group of competent independent contractors to handle these services. Company employees are increasingly focused on quality and compliance inspections of the contractors rather than the physical completion of the task itself. That is not to say that all operational tasks are completed by third parties. Company employees continue to handle the majority of emergency response, compliance record keeping, and other specialized or technical tasks.

Q. PLEASE OUTLINE THE RESTRUCTURED OPERATIONS DEPARTMENT.

A. The Company's Operations and Engineering Department is currently organized into three functional areas, with a manager responsible for each area: i) Operations, ii) Safety Compliance and Training, and iii) Engineering. The operations function is responsible for all maintenance and other field services, whether performed by employees or Energy Plus Partners (EPP), in the Company's three designated regions across the state. Responsibility for all construction, operations and maintenance records has been consolidated under the operations unit. The safety, compliance, and training functions are centralized and provide services to employees and EPPs in all regions. The design,

feasibility analysis and permitting of all distribution system expansion, relocation or reliability improvement projects are also handled centrally by the Company's Engineering group.

As the Department's role evolves to require more oversight and inspection of third parties, the work force skills required to perform these functions is also changing. The Company has, and will, continue to invest in employee development and training to ensure that job skills are aligned with changing responsibilities. As part of the reorganization, the job description and duties of each operations employee was reviewed and updated.

Q. HAVE THE OPERATIONS PRACTICES DESCRIBED ABOVE ACHIEVED THE INTENDED OBJECTIVES?

A. Yes. Jeff Sylvester's testimony outlines the customer service benefits of our operations philosophy and notes the significant cost savings attributable to our current practice.

Q. YOU INDICATED ABOVE THAT YOU PREPARE THE COMPANY'S ANNUAL CAPITAL BUDGET. PLEASE EXPLAIN THAT PROCESS.

A. The Company budgets annual (calendar year) capital expenditures on a rolling five-year basis. The Company's capital budget is prepared, reviewed by senior management and approved by the Board in the fourth quarter of the year prior to implementation. The Company's capital budget process begins with an evaluation of proposed capital expenditures for general plant items (vehicles, equipment, tools, office equipment, etc). Capital requirements for distribution system expansion, facility relocation and system improvement projects are budgeted based on input from several sources. The Company's Marketing and

Sales Department maintains records on the build-out status of existing residential and commercial development projects where gas mains have been installed. The department tracks projects for which builder agreements requesting gas service have been executed and gas facility installations are scheduled. Sales personnel are also in frequent contact with both residential and commercial developers throughout the Company's service area and are able to quantify, for budget purposes, the opportunities to serve new consumers in these projects. Finally, an estimate of existing residential and commercial consumer conversions is prepared by the department using data that tracks the Company's historic energy conservation allowance activity and reflects specific marketing initiatives (propane conversion programs, for example) that could affect capital spending.

The capital budget utilizes the above information to project main, service line, meter and regulator requirements for consumer additions during the budget year. The Operations and Engineering Department routinely reviews roadway improvement plans from the state Department of Transportation and various county and municipal agencies. Capital requirements for relocation projects are forecast based on both the known and historic funding requirements for such projects. System improvement projects that enhance reliability or improve distribution pressures (gate stations or system looping, for example) are generally budgeted to resolve a known problem or result from system modeling to forecast distribution problems.

Budgeted capital expenditures for the above items are developed from project and unit costs received from various suppliers and contractors, along with internal capitalized labor costs, if any. In addition to the capital requirements for

new consumer additions, the budgeted costs of replacing existing meters, regulators and other capital items is determined based on historic activity and known regulatory requirements.

Q. WHAT WERE THE COMPANY'S ORIGINAL BOARD APPROVED CAPITAL BUDGET AMOUNTS FOR PLANT ADDITIONS IN 2009 AND 2010?

A. Budgeted capital expenditures for plant additions in 2009 are $4,772,862. The 2010 expenditures based on the approved five-year capital budget are $4,658,162.

Q. WHAT ARE THE PROJECTED CAPITAL EXPENDITURES FOR PLANT ADDITIONS IN 2009 AND 2010 IN THE COMPANY'S MFRS?

A. MFR Schedule G-1, page 19 projects 2009 plant addition capital expenditures at $8,783,157. MFR Schedule G-1, page 23 projects 2010 capital expenditures at $4,290,917.

Q. PLEASE EXPLAIN THE VARIANCE BETWEEN THE COMPANY'S 2009 CAPITAL BUDGET AND ITS 2009 MFR CAPITAL EXPENDITURE PROJECTIONS.

A. In its MFRs, the Company has adjusted its 2009 capital budget to reflect current capital spending forecasts. There are five principal adjustments to the 2009 budget included in the MFRs.

1. The purchase of the Florida Gas Transmission (FGT) Winter Haven lateral and construction of a gate station ($464,000).
2. The purchase of the FGT Haines City lateral and construction of a gate station ($834,000).

3. A system reinforcement project to add a second gate station and distribution main near Homosassa, Florida to provide for system looping and future expansion in the Company's southern Citrus County service area ($1,800,000).

4. A system expansion project to add a third gate station and distribution main near Lecanto, Florida to serve new consumer loads in central Citrus County ($430,000).

5. The Company's 2008 capital budget included funding for Automatic Meter Reading (AMR) equipment that was only partially expended in 2008. The Company carried-over approximately $500,000 of unused 2008 AMR funds to its 2009 capital budget. Although not an addition to the 2009 capital budget, the Company also transferred approximately $500,000 in funds originally budgeted for mains in 2009 to completely fund the initial implementation phase of the AMR project.

The Company's Board has approved each of the above budget additions or modifications. The variance between the Company's original 2009 capital budget ($4,658,162) and the 2009 MFR construction budget ($8,783,157) equals $4,010,295. The total incremental funding required for the above listed projects equals approximately $4,028,000. In addition, the MFRs include several relatively minor adjustments to various plant accounts that update the original 2009 budget (for example, $2,500 for fencing for alley at Winter Haven office in account 390; $3,500 for meter purchases for Publix meter in account 385; $7,116 for tape back-up for server in account 391).

Q. PLEASE DESCRIBE THE FLORIDA GAS TRANSMISSION (FGT) WINTER HAVEN LATERAL PURCHASE.

A. The FGT Winter Haven lateral is a 2.3 mile, four-inch steel pipeline that begins on Recker Highway in Polk County and terminates at the Company's existing Winter Haven gate station. The Company has negotiated the purchase of this lateral at FGT's current book value of $34,000. Acquisition of the lateral will require the Company to construct a city gate station at the point the acquired lateral interconnects with FGT. The estimated cost of the gate station is $430,000 for a total project cost of approximately $464,000.

Acquisition of the Winter Haven lateral will provide a critical second feed into the Company's Auburndale, Florida service area and support existing and future consumers, especially in the south Auburndale area. At present, the primary Auburndale feed is provided by a three-inch FGT lateral terminating at the Company's Auburndale gate station. This lateral is contractually constrained under FGT's existing firm service agreements with CFG and Cutrale Citrus. The Auburndale lateral is the primary feed to the Company's major industrial customers in the vicinity including Florida Distiller's, Ennis Drum, Packaging Corporation of America and Minute Maid (which has recently increased its production). We currently have a request from APAC (a cement plant) for natural gas service, with an expected usage of 500,000 therms annually (APAC is included in the 2009 revenue forecast). The Company currently experiences low pressure conditions in the Auburndale area during periods of high consumer demand. Without an upgrade in the service capabilities in Auburndale, the Company would find it difficult to provide firm service to APAC or any other large

volume consumers in Auburndale. The Company evaluated several alternatives to the lateral purchase including the construction of main along various routes to interconnect with either FGT or Gulfstream. The acquisition of the lateral and construction of the gate station as proposed was approximately $400,000 less cost than the next best alternative.

Q. PLEASE DESCRIBE THE FGT HAINES CITY LATERAL PURCHASE.

A. The FGT Haines City lateral is approximately 10.8 miles in length and consists of 4.1 miles of 4-inch and 6.7 miles of 3-inch steel pipeline. The lateral begins north of Auburndale, Florida and traverses east to the Company's existing Lake Alfred gate station and continues east to a terminal point at the Company's existing Haines City gate station. The Company is the only FGT customer served from this lateral. The Company has negotiated the purchase of this lateral at FGT's current book value of $404,000. Acquisition of the lateral will require the Company to construct a city gate station interconnection with FGT at the intersection of Lake Mattie Road and SR 559. The estimated cost of the gate station is $430,000, for a total project cost of approximately $834,000.

Acquisition of the Haines City lateral will provide several benefits to the Company and its consumers. First, the lateral is located approximately five miles from the soon to be constructed University of South Florida (USF) – Lakeland campus. The new USF campus is within the Company's service territory and offers an opportunity to serve not only the school but the commercial and residential development that will follow. Second, the lateral is approximately 4.5 miles from the Company's north Auburndale, Florida distribution system described above. In the event additional industrial development occurs in north

Auburndale, the lateral could support a distribution expansion to serve future load. Third, the lateral provides access to the commercial growth that is expected along Highway 92 between Lake Alfred and Haines City. Fourth, there are several residential projects under construction and proposed for the north Auburndale and Lake Alfred area. The Company's existing distribution system is primarily on the south side of Auburndale, the above projects are not feasible under the Company's existing tariff extension of facilities policy. Purchasing this FGT lateral would enable the Company to feasibly extend service to these developments.

Q. PLEASE DESCRIBE THE CITRUS COUNTY DISTRIBUTION SYSTEM IMPROVEMENT PROJECT.

A. FGT's 1995 Phase III "west leg" expansion project included the construction of a pipeline through Citrus County, Florida. In 1999, the Company constructed a gate station interconnecting to FGT in northern Citrus County (close to the Black Diamond development) and began building a distribution system to serve the cities of Inverness, Crystal River, Homosassa Springs and unincorporated areas of the county. Over the past ten years the Company's distribution system has expanded to serve over two thousand consumers in Citrus County. The current distribution system extends from several miles north of Inverness in the eastern portion of the county to Homosassa Springs in the southwestern section of the county, a distance of approximately 30 miles. At present, all of the consumers in the county are served from the single gate station. Any disruption of the supply from this station would potentially impact all Citrus County consumers. The

system has grown to the point that a second supply feed is required to assure the operational integrity and reliability of the Company's distribution system.

The Company has identified a point along the FGT transmission pipeline in south Citrus County for the construction of a gate station interconnection. The Company would construct a six-inch and four-inch plastic distribution main approximately 10 miles to intersect its existing distribution system which terminates south of Homosassa Springs on U.S. Highway 19-98. In addition, to improving reliability and delivery pressure, the route is adjacent to prime development property and would offer opportunities for future consumer growth. The gate station cost is estimated at $430,000 and the main installation cost is estimated at $1,370,000, for a total project cost of approximately $1,800,000.

Q. PLEASE DESCRIBE THE LECANTO, FLORIDA EXPANSION PROJECT IN CITRUS COUNTY.

A. The Company has executed a service agreement with a cement manufacturer close to Lecanto, Florida. In addition, the Company plans to serve several county schools a community college and other residential and commercial development planned for this area. The expansion project includes construction of a gate station with FGT and the initial installation of 8,500 feet of six-inch plastic gas main. The gate station will also provide a third feed from the FGT system in central Citrus County that will ultimately be looped to connect with the existing distribution system.

Q. DO THE COMPANY'S 2010 PLANT ADDITION PROJECTIONS IN MFR SCHEDULE G-1, PAGE 23 VARY FROM ITS ORIGINAL 2010 CAPITAL BUDGET? IF SO, PLEASE EXPLAIN THE VARIANCES.

A. The Company's forecast capital expenditures for 2010 shown on MFR Schedule G-1, page 23 ($4,290,917) are less than its original budget capital expenditures ($4,658,162). The Company's Lecanto, Florida expansion project was originally included in the 2010 budget. The Company's Board approved moving the project from its 2010 budget to 2009 to accommodate the gas requirement timing of the affected customers. The MFRs reflect this approved budget addition.

Q. HAVE THE COMPANY'S PLANT ACCOUNTS BEEN RECENTLY ADJUSTED TO REFLECT THE TRANSFER OF CERTAIN ASSETS OUT OF THE REGULATED UTILITY?

A. Yes. On January 1, 2009, the Company transferred a total of approximately $1,600,000 in various accounts associated with the construction of facilities to serve the Suwannee Correctional Institution (SCI) to its affiliate Peninsula Pipeline Company, Inc. The account was originally established under the Company's Flexible Gas Service (FGS) agreement with SCI. T he Peninsula Pipeline Company set up its books of account effect January 1, 2009, and SCI was transferred at that time. The transfer is included as a retirement on MFR Schedule G-1, page 21.

Q. ARE THERE OTHER PLANT ACCOUNT TRANSFERS THAT IMPACT THE 2009 PLANT ACCOUNTS?

A. Yes. Mr. Sylvester's testimony describes the Company's request that the Commission authorize the Company to record Automatic Meter Reading (AMR) equipment capital investments in a newly created sub-account (397.1 – AMR Communications Equipment). The Company's MFRs (schedule G-1, page 21) reflect the transfer of AMR plant balances recorded in 2008 and through March

2009 to the proposed 397.1 sub account. Projected capital expenditures for AMR equipment during the remainder of 2009 and in 2010 are included in the new sub account on MFR schedules G-1, page 20 and 24, respectively.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

MFR SCHEDULES SPONSORED BY
RANDY TAYLOR

MFR Schedule No. (page)	Schedule Title
E-7 (1)	COST STUDY - METER SET
E-8 (1)	COST STUDY - DERIVATION OF FACILITIES
G-1 (9)	HISTORIC BASE YEAR + 1 - 13-MONTH AVERAGE UTILITY PLANT
G-1 (10)	PROJECTED TEST YEAR - 13-MONTH AVERAGE UTILITY PLANT
G-1 (18)	PROJECTED TEST YEAR - ALLOCATION OF COMMON PLANT
G-1 (19)	HISTORIC BASE YEAR + 1 - CONSTRUCTION BUDGET
G-1 (20)	HISTORIC BASE YEAR + 1 - MONTHLY PLANT ADDITIONS
G-1 (21)	HISTORIC BASE YEAR + 1 - MONTHLY PLANT RETIREMENTS
G-1 (22)	HISTORIC BASE YEAR + 1 - MONTHLY PLANT RETIREMENTS - SALVAGE
G-1 (23)	PROJECTED TEST YEAR - CONSTRUCTION BUDGET
G-1 (24)	PROJECTED TEST YEAR - MONTHLY PLANT ADDITIONS
G-1 (25)	PROJECTED TEST YEAR - MONTHLY PLANT RETIREMENTS
G-1 (26)	PROJECTED TEST YEAR - MONTHLY PLANT RETIREMENTS - SALVAGE
I-1 (1)	CUSTOMER SERVICE - INTERRUPTIONS
I-2 (1)	NOTIFICATION OF COMMISSION RULE VIOLATIONS
I-3 (1-3)	METER TESTING - PERIODIC TESTING
I-4 (1)	RECORDS - VEHICLE ALLOCATION