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February 4, 2004

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Florida Public Service Commission
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RE: Florida Division of Chesapeake Utilities Corporation

To the Clerk:

Pursuant to Order No. PSC-02-1646-TRF-GU, enclosed herewith on behalf of the Florida Division of Chesapeake Utilities Corporation is a Report on the Company's Transitional Transportation Service Experimental Pilot Program. Please stamp and return one copy to my office acknowledging receipt.

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Sincerely,

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Chesapeake Utilities Corporation
Florida Division
Report to the Florida Public Service Commission on Transitional Transportation Service Experimental Pilot Program Pursuant to Order No. PSC-02-1646-TRF-GU

February 2004

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Chesapeake Utilities Corporation
Florida Division
Report to the Florida Public Service Commission on
Transitional Transportation Service Experimental Pilot Program
Pursuant to Order No. PSC-02-1646-TRF-GU

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Chesapeake Utilities Corporation
Florida Division
Report to the Florida Public Service Commission on
Transitional Transportation Service Experimental Pilot Program
Pursuant to Order No. PSC-02-1646-TRF-GU

Executive Summary

On November 5, 2002, the Florida Public Service Commission (the Commission) approved a petition filed by the Florida Division of Chesapeake Utilities Corporation (Company) to transfer all remaining sales customers to a Transitional Transportation Service (TTS) program and exit the natural gas merchant function. The Company proposed a multi-phased program that, over several years, would transition all customers to a fully competitive marketplace. The Commission authorized the Company to implement the first phase of its TTS program on an experimental, pilot basis, with a required report on the results of the program at the end of each of the first two years of implementation.

On April 4, 2000, the Commission adopted Rule 25-7.0335, F.A.C., requiring each Local Distribution Company (LDC) to offer gas transportation service to all non-residential customers. The new Rule also allowed LDCs to provide transportation service to residential customers with the stipulation that such service must be cost-effective to the customers. The Company's approved expansions to its non-residential transportation service programs went into effect in early 2001.

Response to the Company's new transportation programs exceeded expectations. By the end of 2001, over 40% of the Company's non-residential customers were transporting. The Company's approximately 10,000 remaining sales customers consisted of low load factor, seasonally peaking residential and small volume commercial accounts. The annual fuel requirements of these remaining sales customers were approximately 3 million therms, less than 4% of the Company's total throughput. Of significant concern was the cost of the interstate pipeline capacity quantities required to reliably serve the seasonal peaking needs of the remaining sales customers. Under these circumstances, the Company recognized that it would become increasingly difficult to keep fuel rates competitive for those sales customers.

On March 28, 2002, the Company filed a petition with the Commission to establish a multi-phased, transitional transportation program. The Company proposed to immediately transfer customers out of sales service and into a transportation service program. It did not appear practical to extend the option of electing transportation service to the Company's remaining sales service customers on a voluntary basis. If the Company were to allow a slow migration

of these customers from sales to transportation service, only the migrating customers would enjoy reduced gas supply costs. The Company determined that the combination of escalating fuel prices for sales customers and the associated burdensome administrative costs and requirements for the Company under an optional program warranted immediate and mandatory conversion of the remaining sales service customers to transportation service.

By Order No. PSC-02-1646-TRF-GU issued on November 25, 2002, the Commission approved the implementation of the first phase of the Company's program, effective November 5, 2002. The Commission also ordered that all expenses and revenues related to the program be accounted for above the line, in a "business as usual" manner. All costs and revenues related to the program would be subject to typical earnings surveillance and rate of return authorizations. The Commission further ordered that the Company, in a subsequent filing, address the appropriate disposition of any over- or under-recovery in the Purchased Gas Adjustment (PGA) mechanism following its exit of the merchant function.

The Company implemented Phase One of the approved TTS program on November 5, 2002, and immediately assigned 9,625 residential and 563 non-transporting small commercial customers to Infinite Energy, Inc. (Infinite), the gas marketer selected by competitive bid to manage the TTS customer pool during Phase One. The Company is prepared to act as the Supplier of Last Resort in the event of the default of the Pool Manager. The Company also implemented a Customer Account Administrative Service that includes all customer billing, collection services, payment tracking, non-pay disconnects and related administrative activities. The Company proposed such a service to simplify the transition for customers, to virtually eliminate the potential for "slamming," and to ensure that the fuel rates billed to TTS customers are in accordance with contract terms. Later this spring, the Company will refund the remaining balance of its PGA account over-recovery ($246,255) to TTS customers, approximately $22.50 per eligible customer. With this refund, all of the transitional steps required to exit the merchant function will be complete.

After the TTS program was implemented, the Company received inquiries from several very low use customers concerning their overall program savings. The Company worked with Commission Staff to evaluate both current and projected savings for all TTS pool customers. Based on the analysis, it appeared that customers with one or two low-use appliances were not receiving sufficient savings. By petition filed with the Commission on May 16, 2003, the Company proposed to restructure its smallest volume rate class (0 to 500 annual therms) into three new rate classes, with lower Customer Charges for the two smallest volume classes. The proposed rates reduced customer costs by approximately $298,000 per year. The new rates and classifications went into effect on July 15, 2003. The Company believes the new rates achieve an appropriate overall

balance of projected program revenues with costs, and ensure that all customers receive proportionate and immediate benefits from the program.

The Company's TTS customers are experiencing lower overall costs than would have been the case had they remained sales service customers. There are two primary factors responsible for the reduced customer costs: capacity reallocation and taxes. As a result of the Company's capacity reallocation and relinquishment efforts, capacity costs to the TTS Pool have been reduced by approximately $849,000. Gas purchased from a third-party marketer changes the application of existing tax formulas under current state and local laws and regulations. Many state and local taxes are levied on the sale of gas by utilities, and not on gas transportation service. However, local franchise fees and utility service taxes are generally not applied to transportation service. The net tax savings for the Company's TTS customers in the first year of the program was approximately $450,000.

The first-year costs of administering the TTS program, including both the Company's and Infinite's costs, total approximately $718,480. A summary of the estimated overall first-year cost-effectiveness for the TTS customers follows:

Net Capacity Cost Savings	$ 849,000
Net Tax Savings	$ 450,000
Total Estimated Gross Savings	$1,299,000
Program Administration Cost Recovery	$ 718,480
Total Estimated TTS Customers' Net Savings	$ 580,520

Customer acceptance of the TTS program is very high. To date, less than 5% of the approximately 10,000 affected customers have contacted the Company about the program. Most of the customer contacts have been related to the physical formatting of the customer's monthly bill statement (the Company is currently working to improve its Customer Information System (CIS) bill presentation). Subsequent to the rate restructuring that reduced rates to the small volume customers, the Company has received virtually no customer complaints about the program. Infinite offered a fixed price annual fuel offer that was so positively received that the Company and Infinite extended the sign-up period. Ultimately, over 15% of the TTS customers elected the fixed price option. Customers on the index price option have experienced reasonable gas supply billing prices that track the market. Price signals to these customers are far more accurate than under the previous PGA mechanism with its out-of-period true-ups and forecasts. The program design ensures that customers need not be concerned about service reliability. The Company closely monitors the Pool Manager's supply scheduling and pricing.

The TTS program has been operational for fifteen months. During that time the Company has worked diligently to complete the tasks required to transition out of the gas sales merchant function. Throughout this process the TTS Pool Manager has worked closely with the Company to ensure that customers were seamlessly transitioned to transportation service. Program administration is smooth, service is reliable and substantial savings have been achieved for all customers. Transportation service on the Company's system for all customers has become "business as usual."

Introduction

On November 5, 2002, the Commission approved a petition filed by the Company to transfer all remaining sales customers to a TTS program and exit the natural gas merchant function. The Company proposed a three-phased program that, over several years, would transition all customers to a fully competitive marketplace where they would be free to negotiate with any approved marketer. The Commission instead authorized the Company to implement Phase One of the TTS program on an experimental, pilot basis. Under Phase One, the Company retained one third-party gas marketer through a competitive bid to provide gas supply and capacity management service to the sales customers. The Commission further required the Company to report on the status of the program within 90 days of the end of the first year of implementation. This report is responsive to the Commission Order. This report provides an historical perspective on the events that resulted in the creation of the TTS program, as well as a detailed review of the development and first-year implementation of the program.

Chesapeake's Initial Transportation Program

In 1991, Florida Gas Transmission (FGT) complied with the Federal Energy Regulatory Commission's (FERC) Order to provide open transportation access to all shippers on its pipeline. Shortly thereafter (in 1992), the Company received Commission approval of a tariff revision that offered local transportation service to large volume customers on its distribution system. Over the next decade, thirty-five (35) large industrial customers migrated to transportation service. Each of these customers exceeded the Company's minimum tariff threshold to qualify for transportation service of 200,000 therms annually. The 35 transportation accounts represented approximately 70% of the Company's throughput. The Company manually administered the program and absorbed the additional personnel and administrative costs related to managing transportation service.

Non-Residential Unbundling Rule; Company Response

On April 4, 2000, the Commission adopted Rule 25-7.0335, F.A.C., requiring each LDC to offer gas transportation service to all non-residential customers. The new Rule also allowed LDCs to provide transportation service to residential customers with the stipulation that such service must be cost-effective to the customers. The Commission required that LDC proposals be filed by July 1, 2000. On May 15, 2000, the Company filed a proposed expansion to its Transportation Service program that would comply with the Commission Rule. The transportation proposal was included as part of a general rate increase filing.

The Company's transportation proposal included three substantive modifications to its existing program. First, the eligibility threshold for Individual Transportation Service (ITS) was lowered to a minimum of 100,000 therms annually. This provision effectively doubled the number of customers eligible for individual transportation service. Second, all participating customers would be required to transport 100% of their volumes. Previously, customers could schedule any portion of their forecast monthly requirements as Transportation Service and "swing" on the Company's Sales Service for balancing their remaining requirements. Partial requirements transportation service allowed large customers to avoid the costs of peak requirement capacity, swing service commodity purchases and end-of-month pipeline imbalance resolution costs. Third, a Transportation Aggregation Service (TAS) program was proposed. The program was designed to enable small customers to pool their volumes for transportation purposes.

In the May 15, 2000 petition, the Company also designed rates to recover the costs to comply with the new Commission Rule and develop and administer its proposed TAS program. Two mechanisms were proposed. Recurring program costs would be recovered through a base rate increase in the Company's Customer Charges. The Company proposed to implement new Transportation Service rate schedules with Customer Charges higher than the comparable Sales Service rate schedules. Both Sales and Transportation Service rate schedules were based on annual throughput instead of the traditional customer-type basis (residential, commercial, industrial). The Energy Charge (volumetric rate) for comparable Sales and Transportation Service rate schedules were set at the same level per therm consumed. The Company's forecast of customer migration to Transportation Service was projected to generate approximately $80,000 in annual revenue, sufficient to cover recurring costs. Non-recurring costs were to be recovered through a proposed Transportation Cost Recovery (TCR) mechanism. A separate filing with the Commission would detail non-recurring costs (both actual and projected) and seek approval for recovery.

The Commission approved the Company's general rate increase and its expanded transportation programs by Order No. PSC-00-2263-FOF-GU, issued on November 28, 2000. The ITS program modifications went into effect immediately. The TAS program was approved with an effective date of March 1, 2001.

Response to the Company's non-residential transportation programs exceeded expectations. Gas Marketers aggressively canvassed the commercial sales customers and successfully moved a substantial number to transportation service. Five marketers qualified as pool managers and established valid transportation aggregation pools. An additional six marketers served individual transportation customers. By October 2001, transportation volumes had increased from 70% to 96% of the Company's total throughput. The number of

transporting customers had grown from 35 prior to the approved program to over 300 in less than a year.

Transportation Cost Recovery (TCR) Filing

In November 2001, the Company filed a petition with the Commission for recovery of non-recurring costs related to the implementation of the non-residential transportation program approved by the Commission in November 2000. The filing sought recovery of $339,922 over a two-year period. Of the total TCR amount filed, $164,922 represented actual costs incurred in the development and initial implementation of the TAS program. An additional $175,000 in non-recurring costs was projected to be incurred related to the program. The total costs were to be recovered only from all non-residential customers through a TCR surcharge. The proposed TCR mechanism included a true up to ensure that the total amount recovered from customers ultimately matched the actual costs incurred by the Company.

The Commission approved the TCR filing by Order No. PSC-02-0110-TRF-GU, issued January 24, 2002. The Consummating Order was issued on February 15, 2002. The Company began recovery of the approved $339,922 over a two-year period as authorized by the Commission. Subsequent to the TCR filing, the Company completed the implementation of the non-residential transportation program approved in the 2000 rate case. The Company recorded actual costs of $337,344, including interest accrual. The approved TCR recovery period was completed in December 2003. The Company will submit a petition with the Commission in February 2004 to true up revenues collected with actual expenses incurred, and to dispose of a nominal under-recovery, subject to Commission audit.

Assessing the Full Unbundling Program

The customer response to the Company's non-residential transportation program continued to grow and exceed expectations. By the end of 2001, over 40% of the Company's non-residential customers were transporting. The remaining sales customers consisted of approximately 9,600 residential and 660 small volume commercial accounts. Generally, these customers are low load factor, seasonally peaking accounts. The annual fuel requirements of the remaining sales customers were approximately 3 million therms, less than 4% of the Company's total throughput.

Under these circumstances, the Company recognized that it would become increasingly difficult to keep its fuel rates competitive for its remaining sales customers. The Company anticipated increases in commodity costs related to the small volume to be purchased for these sales customers. Of greater concern were the pipeline capacity quantities required to reliably serve such customers' seasonal peaking needs. Historically, the cost of this capacity was

allocated to all customers through the Commission's PGA cost recovery procedures. As customers migrated to transportation, the Company equitably assigned capacity to those transporting customers based on their average monthly load requirements. It became clear, however, that the non-allocated capacity costs remaining to be recovered through the PGA would significantly increase the total fuel costs of the residential and small volume commercial sales customers. The Company believed that the best option for these customers was to transfer all remaining sales accounts to transportation service and re-allocate pipeline capacity quantities to all non-residential customers based on peak requirements.

Work to develop a small volume aggregated customer transportation program was initiated in January 2002. Over the next three months, the Company conducted a technical assessment of the procedures, systems and tariff revisions required to transfer all remaining sales customers to Transportation Service. Several fundamental issues were identified that guided the development process:

- Administratively, the program should be designed to operate in a manner similar to that of the Company's existing TAS program. The remaining sales customers would be grouped into a Customer Pool for transportation purposes.

- The proposed program would need to accommodate all of the Company's residential customers and those non-residential accounts initially transferred into the program. In addition, any non-residential customer that is unable to meet the credit-worthiness standards of an ITS gas marketer or TAS Pool Manager would need to be accommodated in the proposed program.

- Notwithstanding the open market transition noted above, a means of immediately transferring customers out of sales service and into a transportation service program was needed. It did not appear practical to extend the option of electing transportation service to the Company's remaining sales service customers on a voluntary basis. If the Company were to allow a slow migration of these customers from sales to transportation service, only the migrating customers would enjoy reduced gas supply costs. Any further diminution in the load served under the Company's sales service would have led to ever-increasing fuel costs.

- In addition to increased fuel costs for sales customers, the Company would bear a disproportionate burden to administer an optional program implemented over an extended period. The Company's systems and administrative capabilities were not sufficient to manage such a voluntary program for a small number of customers with a

correspondingly low level of throughput. Foremost of the many concerns raised by a gradual migration of the remaining sales service customers to transportation service was the Company's inability to administer (including billing, tracking marketer relationships and managing multiple gas supply pricing mechanisms, and so on) several hundred accounts in multiple aggregated transportation pools with its current Customer Information System (CIS). Simply put, the Company determined that the combination of escalating fuel prices for sales customers and the associated burdensome administrative costs and requirements for the Company under an optional program warranted immediate and mandatory conversion of the remaining sales service customers to transportation service.

- A means of transitioning the remaining sales customers to a fully competitive marketplace was needed to provide both customers and the Company sufficient time to adjust to the new program. In a competitive marketplace, customers would be able to select from any authorized gas marketer and negotiate individual price, service options and other terms.

- The program should be designed to minimize the opportunity for customer "slamming." Over the first several years of the proposed program the Company would retain an oversight responsibility, through its Pool Manager Agreement, with respect to participating gas suppliers.

- A method was required to select a gas marketing company to serve the small volume customer pool.

- The non-residential customers initially assigned to the program should be able periodically to select a TAS Pool Manager and exit the proposed program.

- A new capacity allocation methodology would be required to equitably assign pipeline capacity to all customers.

- Any program proposed by the Company would need to ensure reliable service.

- The Company's participation in PGA cost recovery procedures would need to be terminated, and proper disposition of any over- or under-recovery would be required.

- A tariff-authorized mechanism was needed to account for any charges or credits received by the Company related to pipeline capacity, Delivery Point Operator services or emergency Supplier of Last Resort services. Such mechanism would be used to allocate these charges or credits to

all shippers on a non-discriminatory basis consistent with the methodology of the interstate pipelines.

- A method of ensuring that customers could not "game the system" and avoid service disconnect by paying only the regulated transportation charges was required. It appeared that under current prevailing law, it was not feasible to give gas marketers the ability to order a disconnect of service for non-payment of fuel bills.

- The billing and payment system for customers should be simple and easy to understand.

Transitional Transportation Service (TTS) Petition

On March 28, 2002, the Company filed its petition with the Commission to establish a TTS program. The proposed TTS program would immediately convert all remaining sales customers to transportation service and enable the Company to exit the merchant function. The Company proposed a three-phased program that, over several years, would transition all customers to a fully competitive marketplace where they would be free to negotiate with any approved marketer.

The multi-phased transition proposed by the Company was intended to allow all stakeholders adequate time to develop the knowledge and experience needed for a successful transition to a fully competitive marketplace. In the Company's view, an open marketplace for gas would provide more efficient capacity utilization, better overall price signals, increased supplier competition and greater energy choice options for individual consumers. An important feature of the Company's proposed TTS Program was that it maintained a contractual relationship with the Pool Manager from the initial implementation of the program until the time at which all of the Company's customers would be able to choose from any authorized gas marketer doing business in Florida. The Company's approach was designed to ensure reliable service at reasonable prices, while gradually introducing more options and choices (both of marketers and of services) to a better-informed customer group.

The major program elements included in the Company's petition are described below:

Proposed Transitional Phases

The Company's proposal established a TTS tariff with a flexible transition period, the length of which would be dependent upon customer response to the first phase of the program, the improvement of the Company's administrative and system capabilities and the evolution of the competitive gas marketplace in Florida. The initial implementation phase would occur during a two-year period where all remaining residential and non-residential sales customers would

receive gas supply service through one qualified Pool Manager. In Phase One, customers would have the option to select between two pricing options: a monthly indexed (floating) price alternative similar to the PGA pricing mechanism, or a pricing option that enabled customers to mitigate the potential price volatility of the monthly indexed price (through a fixed-price or other hedging method). Phase Two would expand the options for customers to include an additional marketer and increased pricing options. Phase Three would transition all customers to a fully competitive marketplace with multiple gas suppliers, service options and other choices.

Selection of TTS Pool Manager

Concurrent with the filing of the Company's TTS petition, a Request for Proposals (RFP) bid process was initiated to select a gas marketer for the proposed Phase One of the TTS program. As the Company's petition noted, "...its customer's gas supply needs are best served by a gas marketer with the ability to 'rebundle' the Company's small volume gas users into a diversified, statewide customer group consisting of industrial and commercial customers with different levels of weather sensitivity and peak usage." The increased 'market power' of a larger overall customer group with greater gas volume requirements and more efficient capacity utilization would result in a higher probability of obtaining lower fuel costs than would be achievable by the diminished sales service volumes on the Company's system alone.

The Company solicited proposals from gas marketers actively serving small volume customers in the Florida market. A contract award resulting from the RFP was contingent upon Commission approval of the TTS petition. The Company selected Infinite as the TTS Pool Manager for Phase One. Infinite, headquartered in Gainesville, Florida, is a major regional marketer serving over sixty thousand customers in the Southeastern United States. A TTS Pool Manager Agreement was executed with Infinite (after the program was approved) that defined the services to be provided to the TTS customer pool. The agreement provided for a two-year initial term with an annual renewal option.

TAS "Open Enrollment" Opportunity

Under Commission Rule 25-7.0335, F.A.C., the non-residential sales customers that would be transferred to the TTS pool were eligible to transport under the Company's existing TAS tariff. The Company's petition further proposed to periodically allow all non-residential customers to exit the TTS program and choose any authorized TAS gas marketer as their fuel supplier. These "open enrollment" periods would be offered soon after the program was initiated and again at the end of each annual period the program was in place.

Interstate Pipeline Capacity Allocation

The TTS petition also proposed to modify the Company's tariff methodology to equitably allocate its existing FGT and Gulfstream pipeline capacity to all non-residential customers. Capacity would be assigned based on one of three factors: 1) Customers with existing long-term capacity release contracts with the Company would retain contracted quantities; 2) Customers in rate classes TS-7, TS-8 and TS-9 (over 100,000 annual therms) would receive a capacity allocation based on their actual 2001 peak month usage; and, 3) The smaller volume non-residential customers in rate classes TS-1 through TS-6 would receive a capacity allocation based on the upper annual therm threshold of their respective rate class. The capacity allocations for all TAS and TTS customers would be released to the customer's selected Pool Manager. In the event additional capacity were required to serve customers subsequent to the allocation of the Company's capacity quantities, it would be the gas marketer's responsibility to obtain such capacity from market sources. The TTS Pool Manager would be required to maintain sufficient capacity to serve all customers assigned to the customer pool during the term of its TTS Agreement with the Company.

Supplier of Last Resort

The Company's proposal was carefully designed to avoid exposure of its customers to the risk of service disruption. The TTS Agreement provided for severe financial penalties and potential termination in the event that the TTS Pool Manager failed to deliver gas. For delivery failures of short duration, no service interruption to customers on the Company's distribution system would occur. The Pool Manager would be subject to balancing and penalty charges at the end of the month for any under-delivery. The Company is prepared to act as the Supplier of Last Resort in the event of longer term problems, such as default of the Pool Manager. The Company would implement procedures and provide the oversight necessary to ensure continuity of service to pool customers in such situations. Under these circumstances, the Company, as the Supplier of Last Resort, would act as necessary to terminate the TTS Pool Manager. All interstate pipeline capacity would be recalled. The Company would arrange for gas supply and perform all other necessary functions to ensure delivery to affected customers until arrangements to qualify a replacement Pool Manager could be made. Should the Company be required to provide such temporary emergency back-up service, the cost of gas charges would be allocated to customers through proposed revisions to the existing Operational Balancing Account mechanism in the Company's tariff.

Payment Hierarchy

The Company proposed to follow a prescribed hierarchy in applying customer payments. All payments would first be applied to any applicable taxes and fees imposed by government; second, to Pool Manager's fuel charges for gas supply; and third, to the Company's regulated transportation charges. This payment hierarchy would enable the Company to retain the capability to disconnect customers for non-payment or partial payment. Applying the payment to the Pool Manager's gas supply cost prior to the Company's regulated charges would prevent customers from taking advantage of the absence of the Pool Manager's service disconnect authority by paying only the regulated charges. This was an important consideration, since it appears that under current Florida law, the Commission has no jurisdiction over gas marketers, and therefore cannot authorize them to discontinue service for non-payment of gas supply charges. Under the proposed hierarchy of payments, the Company would retain "the power of the wrench," and the TTS Pool Manager would be appropriately protected from customers attempting to "game the system" by attempting to only pay the regulated charges. However, this arrangement would not provide protection to the Pool Manager in the event that the customer failed to pay at all. Accordingly, the Pool Manager, through the TTS Agreement, would also have the ability to secure customer accounts through cash deposits or similar means.

Customer Account Administration Service

The Company also proposed to provide a Customer Account Administration Service (CAAS) to the TTS Pool Manager. This service would include billing, collection services, payment tracking, non-pay disconnects, various account reports and related administrative activities. The Company proposed such a service to simplify the transition for customers, to virtually eliminate the potential for "slamming," and to ensure that the fuel rates billed to TTS customers are in compliance with the Pool Manager Agreement. A CAAS fee of $2.00 per month per TTS customer would be billed to the TTS Pool Manager.

Under the proposed TTS Program and the Company's tariff, customers would continue to receive only one monthly bill, since the Pool Manager's charges would appear in lieu of the Company's fuel charges. The potential for customer "slamming" would thereby be essentially eliminated. Pool Managers would be able to focus their efforts on gas supply and capacity management, without the financial and administrative burdens of maintaining a customer database, billing system and customer service support staff. The potential for errors and customer confusion would be minimized.

Customer Notices

The Company issued three notices to customers prior to the implementation of the TTS program. On February 4, 2002, a letter, indicating that the Company was considering an open access filing and soliciting customer input, was mailed to all remaining sales customers. On April 1, 2002, a second letter was mailed to the same customer group indicating that the Company was filing a petition to establish a multi-stepped transitional transportation program for sales customers. An attachment to the letter provided additional information in a question and answer format. On May 30, 2002, the Company sent a "Notice to Our Natural Gas Customers" to all residential and non-transporting commercial customers. The notice provided information on the Company's proposed program as filed with the Commission and announced the dates, times and locations of four customer meetings on the proposed TTS program. The meetings were held in Winter Haven, Plant City, St. Cloud and Crystal River on June 25 and 26, 2002.

Each of the above notices was mailed to approximately 10,000 sales customers. The Company received about 200 total telephone inquiries following the various customer notices (approximately 160 inquiries from residential customers and 40 from commercial customers). Less than 30 residential customers and no commercial customers attended the customer meetings. The vast majority of the customer contacts were inquiries to clarify the Company's proposal. Three customer questions were prevalent: Will I have to find my own gas supplier? Will I get two bills? Will the Company still read the gas meter and respond to emergencies?

TTS Program Commission Order

By Order No. PSC-02-1646-TRF-GU issued on November 25, 2002, the Commission approved the implementation of Phase One of the Company's proposal, effective November 5, 2002. The TTS program was approved as an experimental, pilot program. The Commission order indicated, "... it is reasonable and prudent to monitor the results of the implementation of Phase One before ruling on the Company's request regarding Phases II and III". The Company was required to provide a status report to the Commission within 90 days of the end of the first year and again at the end of the second year of the program. The Commission ordered that no substantive change to the program could occur without an affirmative action on its part.

The Commission otherwise substantially approved the Company's proposals, including the selection of a TTS Pool Manager, the TAS "open enrollment" opportunity, the interstate pipeline capacity allocation, the Supplier of Last Resort procedures, the payment hierarchy process and the CAAS. However, the Commission also ordered that all expenses and revenues related

to the program be accounted for above-the-line, in a "business as usual" manner. Therefore, all costs and revenues related to the program would be subject to typical earnings surveillance and rate of return authorizations. The Commission further ordered that the Company, in a subsequent filing, address the appropriate disposition of any over- or under-recovery in the PGA following its exit of the merchant function. The Consummating Order was issued on December 19, 2002.

Implementation Of The Approved TTS Program

The Company implemented Phase One of the approved TTS program on November 5, 2002, and immediately assigned 9,625 residential and 563 non-transporting small commercial customers to Infinite, the gas marketer selected to manage the TTS customer pool during Phase One. A fourth customer notice announcing that the TTS program had been approved by the Commission was promptly sent to all customers transferring into the TTS pool.

The Company anticipated that a transitional period would be required to completely exit all of its merchant function activities. Nine substantive steps were identified. Certain merchant activities could be immediately terminated. Others would require a longer transitional period. For example, terminating the Company's fuel purchases and discontinuing the application of its PGA billing factor was achieved immediately following Commission approval of the TTS program. On the other hand, the full allocation of the Company's interstate pipeline capacity to the gas marketers serving its customers required more time to complete.

Transitional Step 1: Upgrade the Company's Customer Information System (CIS) and Internal Systems.

During the initial planning for the TTS program, the Company identified several CIS revisions necessary to support program implementation. While there were numerous enhancements required for Phase One, much of the software upgrade or replacement concerns were related to Phases Two and Three. Since the Commission only authorized Phase One, the Company substantially scaled back its planned CIS improvements. Only those revisions that were needed to support Phase One were implemented.

In addition to the Phase One CIS upgrades, increasing the automation applied to the administration of the Company's Delivery Point Operator (DPO) responsibilities was an important issue. The back office spreadsheet and database applications supporting imbalance resolution, capacity allocations and shipper billings required significant revision. The complexity of these activities increased with the June 2002 interconnect with the new Gulfstream pipeline. Of particular concern was the continuing need to appropriately track and reallocate pipeline capacity as customers change marketers. The assignment and

reallocation of receipt and delivery points among shippers was also of significant importance. In addition, in an unbundled environment it became critical that the Company have the ability to establish and administer individual shipper Operational Balancing Accounts (OBAs). The shipper OBAs, as authorized in the approved tariff, will ensure that charges and credits for pipeline capacity, alert days and imbalance resolution previously recorded in the PGA account are appropriately allocated to all shippers.

Transitional Step 2: Discontinue All Gas Commodity Purchases.

The second step in exiting the merchant function was the discontinuation of the Company's gas commodity purchase activities. The transfer of all remaining sales service customers to transportation service shifted the Company's remaining gas supply responsibilities to the TTS Pool Manager. Effective November 5, 2002, the Company stopped buying gas for resale. Unlike the unbundling process experienced by the interstate pipelines during the late 1980s and early 1990s, the Company had no commodity-related stranded costs to address. Many of the interstate pipelines required several years to transition out of their long-term gas supply contracts. Customers of the pipelines were assessed a Transitional Cost Recovery surcharge to enable the pipelines to terminate their gas supply contracts. On the FGT system, customers paid said surcharge for a period of five years. In contrast, the Company had no long-term supply contract obligations on November 5, 2002, when all its customers were shifted to transportation service.

Since March 2001, as greater numbers of non-residential customers elected transportation service, the Company took steps to reduce the base quantity requirements and term lengths of its gas supply contracts. During the year preceding the Company's TTS petition, it had become increasingly clear that a large number of the Company's commercial customers would migrate to Transportation Service. Following the implementation of the Company's TAS Program in March 2001, over 40% of all non-residential customers transferred to Transportation Service. With these additions, transporting customers represented 96% of the Company's total throughput. The Company was able to structure gas supply contracts for the remaining sales customers that required no minimum "takes" and contained no termination penalties. Therefore, the exit of the Company's gas purchase function was accomplished with no stranded commodity costs and required no extended transition period.

Transitional Step 3: Discontinue the Company's Retail Sale of Fuel.

The third transitional step was taken when the Commission approved the discontinuance of the Company's retail sale of fuel through the PGA billing mechanism. The Commission in its November 2002 Order states, "As the Company prepares to exit the merchant function, participation in the purchased gas cost recovery proceedings will no longer be necessary." The Company

complied with the September 2002 projected PGA filing that established the billing rate cap for 2003. However, with the activation of Phase One of the TTS program, the need for an active PGA billing mechanism or rate cap ceased. The Company duly filed its final monthly PGA for the month of October 2002. Based on the Commission's approval of the TTS program, the Company discontinued the application of the PGA billing mechanism beginning with all bills rendered in November 2002. The Company duly notified the Commission that it did not intend to implement its purchased gas cost recovery factor for 2003. All subsequent commodity purchases for the TTS customer pool in Phase One would be the responsibility of the Pool Manager.

Transitional Step 4: TAS "Open Enrollment" for Non-Residential TTS Customers.

The fourth transitional step was to provide an open enrollment period to allow non-residential customers assigned to the TTS Pool an additional opportunity to select Transportation Aggregation Service under Section 17.2 of the Company's approved tariff. At the time of the Order, the Company had five authorized TAS Pool Managers. Customers electing the TAS program could select from any of the authorized Pool Managers and negotiate their individual contract for service. All of the non-residential sales customers who were transferred to the TTS Pool received a ninety-day open enrollment period to opt into the TAS program. Eligible customers were notified by mail on January 17, 2003, that they were free to choose any of the approved TAS Pool Managers. The authorized Pool Managers received a list of non-residential customers and were encouraged by the Company to solicit customer migration to their respective pools. The open enrollment period extended through February 19, 2003. Ninety (90) non-residential customers elected to migrate to a TAS Pool during the open enrollment. The Company reallocated pipeline capacity for these customers to the TAS Pool Managers in accordance with its approved tariff. Internal records were updated to ensure that imbalance reconciliation and other related transactions (primarily related to the Company's ongoing responsibilities as DPO, discussed in detail below) were assigned to the proper TAS pool.

The Company provided a second "open enrollment" period in September 2003. Eligible customers were notified by mail on September 8, 2003. The second open enrollment period extended through October 17, 2003. The Company again provided a list of potential customers to the authorized marketers. During the second open enrollment, 127 non-residential customers elected to transfer out of the TTS pool and into a TAS customer pool.

Transitional Step 5: Allocate Interstate Pipeline Capacity

In Step 5, the Company allocated the interstate pipeline capacity held under firm contracts by the Company to transporting customers or shippers. Firm capacity contracts reserve guaranteed access at a specific quantity to the interstate pipelines. This reserved access allows gas to be reliably transported

from the production wells to the interconnection points between the pipelines and the Company's distribution system. Historically, the Company has entered into long-term (20 year) contracts with interstate pipelines to reserve the primary firm capacity required to reliably serve customers on its distribution system. The Company also held a small quantity of no-notice capacity on the FGT pipeline. (No-notice service on the FGT pipeline provides a mechanism that, under certain operational conditions, may help shippers avoid imbalance penalties.) The conversion of all sales customers to transportation service required that the marketers and Pool Managers providing gas supply to the Company's customers hold pipeline capacity. The Company's approved tariff includes a methodology to allocate the Company's capacity to shippers, including the TTS Pool Manager. The methodology is designed to address two principal objectives: (i) the non-discriminatory allocation of capacity from all sources to all current shippers and, (ii) the avoidance of stranding any unallocated capacity with the Company or its ratepayers.

At the time of TTS program authorization, the Company held capacity on both the FGT and Gulfstream pipelines. The Gulfstream pipeline was placed in-service in June 2002. The Company pre-subscribed for Gulfstream capacity in June 1999. Gulfstream capacity was acquired primarily to replace the Company's FGT FTS-2 capacity. The FTS-2 capacity was turned-back to FGT, in accordance with FERC procedures, during FGT's Phase IV and Phase V pipeline expansions. The Gulfstream capacity was, and continues to be, significantly less expensive than the FGT FTS-2 capacity. Additionally, the inter-connection to a second pipeline markedly improved reliability and delivery flexibility on the Company's distribution system. The approved capacity allocation methodology was designed to ensure that an equitable blend of FGT and Gulfstream capacity was relinquished to each shipper.

The Company's approved capacity allocation process was initiated on November 5, 2002. The first of the month capacity relinquishments to shippers for the November gas month were made at the end of October 2002, in accordance with the pipelines' FERC tariffs. The Company temporarily relinquished capacity to eleven shippers (including five TAS Pool Managers and the TTS Pool Manager) for November 2002. The TTS Pool relinquishments were subject to recall in the event the Commission did not approve the Company's unbundled service proposal. For the period December 2002 through February 2003, the Company allocated its FGT primary firm capacity in accordance with existing contracts for certain shippers and on the basis of customer peak requirements for all other customers, as authorized in Section 17 of its approved tariff.

However, the Company could not fully allocate its Gulfstream capacity during the first five months of the program. The majority of gas marketers operating on the Company's distribution system were not approved shippers on the Gulfstream pipeline. In the current energy market environment, pipelines are

exercising greater caution in establishing creditworthiness for energy marketing companies. The credit process is somewhat more time consuming than in the past. In January 2003, the Company established a deadline, putting marketers on notice that they must be capable of accepting released capacity and scheduling gas deliveries on Gulfstream for the March 2003 gas month. All shippers on the Company's system who had not already done so received Gulfstream approval in February 2003. The Company began allocating its entire primary firm FGT and Gulfstream capacity entitlements as of March 1, 2003.

The allocation of the Company's capacity included quantities historically held by the Company for growth and peak delivery purposes. As is common practice in the industry, the Company prudently contracted for capacity in quantities sufficient to handle system growth and meet customer requirements on a peak delivery basis. Most of the peak system requirements occur during the winter season, and are largely attributable to residential and small commercial space heating. To accommodate these seasonal peaks, the Company's capacity holdings have always been greater in the winter. During non-peak conditions, some quantity of capacity remains unutilized. To reduce total gas costs to its customers the Company has historically made an effort to market this capacity off-system and credit the PGA account.

Some of the benefits of the TTS program include the equitable allocation of the Company's capacity held for peaking and growth to all customers and the TTS Pool Manager's enhanced ability to market idle peaking capacity. At the time the Company's capacity was fully allocated, the responsibility for remarketing peaking capacity was completely transferred to the gas marketers, including the TTS Pool Manager. The Company's agreement with the TTS Pool Manager specifically requires active marketing of any idle capacity. Under that agreement, revenues received as a result of remarketing efforts by the TTS Pool Manager are shared with customers in the TTS pool on a 50/50 basis.

Capacity to Pool Managers was released in accordance with FERC's temporary relinquishment policies. A temporary relinquishment ensures that that the Company is able to recall the capacity from a defaulting shipper and provide emergency service to customers as the "Supplier of Last Resort." The temporary capacity release also allows the Company to recall and reallocate capacity from one marketer to another as customers change marketers or Pool Managers. The process of ensuring that capacity "follows the customer" has been standard practice by all investor-owned Florida LDCs. Under certain circumstances, capacity may be relinquished on a permanent basis to industrial or interruptible customers, to off-system shippers, or turned-back to the pipeline. Such a permanent release or turn-back could be advantageous to pool customers by reducing the overall weighted average cost of capacity.

A non-discriminatory distribution of pipeline Receipt Point and Delivery Point entitlements was also completed. Receipt Points are interconnection points

where gas enters the interstate pipeline. Delivery Points are the interconnection points in the pipeline where gas is transferred from the pipeline to a local distribution system or direct sale customer. Receipt Point allocations are important to shippers since the gas commodity price can vary significantly by receipt point, especially on the FGT pipeline. The Company's FGT Service Agreements establish a Maximum Daily Quantity of gas that can be introduced at each Primary Receipt Point. FGT's FERC tariff establishes three production area zones with Primary Receipt Points located in each zone.

The relinquishment of the Company's FGT capacity included an equitable distribution of receipt point quantities by zone to each shipper. The FGT in-line pooling points provide some operational flexibility for gas receipts. However, the Company ultimately had to assign receipt points to its relinquished FGT capacity by shipper. The Company also allocated its Gulfstream receipt points which are limited in number and are all contained within one production zone. The allocation of Receipt Point quantities to all shippers on both the FGT and Gulfstream pipelines was completed prior to the capacity relinquishments for the May 2003 gas month.

Delivery Point allocations were less critical than Receipt Points, since the Company has substantial latitude, in its role as the interstate pipeline Delivery Point Operator (DPO), to allocate delivery volumes on the Company's distribution system. However, the Company has, to the extent practicable, allocated capacity at each Delivery Point based on the physical location and consumption requirements of each customer. The Company's engineering staff conducted a detailed study of customer loads and the primary delivery path on the Company's distribution system. An evaluation of alternate delivery capabilities on the distribution system was also investigated. Finally, an assessment of capacity delivery on FGT and Gulfstream was completed prior to the final assignment of capacity quantities among the Company's twenty-four (24) interstate pipeline Delivery Points. The allocation of Delivery Point quantities to all shippers on both the FGT and Gulfstream pipelines was completed prior to the capacity relinquishments for the June 2003 gas month.

To complete the capacity allocation process in accordance with the Company's tariff, the appropriate service agreements between the Company and shippers were amended to include the new allocated capacity quantities and any adjustments to Receipt and Delivery Point assignments. Such amendments were executed between the Company and the Individual Transportation customers, as well as the TAS and TTS Pool Managers. The Company will administer future reallocations of capacity and the reassignment of Receipt and Delivery Points. Capacity reallocations could also occur as a result of pipeline changes in Receipt or Delivery Points, in the event of any permanent relinquishment or addition of capacity, or any other action that affects the Company's capacity holdings.

Transitional Step 6: Establish the Administrative and Accounting Procedures for the Company's Operational Balancing Account (OBA).

The sixth transitional step was the creation of internal procedures and accounting practices required to administer the OBA upon discontinuing the PGA. The Billing Adjustments Section of the Company's approved tariff, effective November 5, 2002, modified the existing OBA mechanism to allow for the continuing disposition of any imbalance charges or credits and other related transactions. The intent of the Company's OBA, as defined in its approved tariff, is to "recover or refund such charges or credits... as have historically been recovered from or allocated to customers pursuant to the Commission's Purchased Gas Adjustment cost recovery proceedings."

The OBA is structured along the same lines as the interstate pipeline accounts established by FERC to facilitate pipeline imbalance resolution. In an unbundled environment, the Company would continue to perform all duties required of the DPO, that is, the manager of the interconnections between the Company's distribution facilities and the interstate pipeline(s) that provide service to such facilities. As the DPO, the Company acts an intermediary between the interstate pipeline and the shippers for all imbalance charges and credits. The Company's approved tariff authorizes that any net over- or under-recoveries of costs associated with its performance of the DPO function would be periodically refunded or collected from each shipper on its system through its approved OBA mechanism. The Company has established procedures to allocate imbalance resolution charges and credits in accordance with the approved tariff.

Transitional Step 7: Resolve an FGT Measurement Error.

At the end of its February 2003 billing month, the Company identified a significant over-recording of gas volumes delivered to the Company at one of its interconnection points with FGT. Examination of the facilities pointed to probable lightning damage to a transducer. The FGT meter installed at the interconnection was affected. Based on the Company's review of metering data downstream of the FGT meter, the beginning date of the problem was identified. FGT measurement technicians derived an over-billed gas quantity that was virtually identical to the Company's independent measurement records. FGT and the Company agreed that the total over-recorded volume was approximately 385,000 dekatherms. The Company received a refund from FGT on September 19, 2003 totaling $2,143,188. The full refund amount was accrued in the Company's PGA account for the month of August 2003.

Transitional Step 8: Discontinue the PGA and Activate the OBA.

The eighth transitional step was the discontinuance of the existing PGA mechanism and the activation the approved OBA mechanism. The Company discontinued commodity purchases and sales immediately following TTS

program approval. By March 2003, all of the Company's capacity holdings were allocated. Discontinuing the PGA and activating the OBA was originally scheduled to occur in June 2003, following the final allocation of pipeline Receipt and Delivery Point capacity to shippers. However, the FGT meter error required resolution prior to formally discontinuing the PGA mechanism. Otherwise, the magnitude of the over-charges from the FGT meter error would have significantly distorted the Company's PGA balance. Further, the Company believed that it would not have been practicable to dispose of the PGA in advance of the FGT refund. The Company did not want to pursue an under-recovery billing to customers, and then turn around and issue a customer refund after the FGT payment was received. As noted above, the FGT refund was credited to the August 2003 gas month PGA balance. The Company immediately prepared to discontinue the PGA and petition the Commission for authority to refund the over-recovered balance.

The Company discontinued its PGA account at the end of August 2003 and activated the OBA account on September 1, 2003. Establishing a date certain transition enabled both the Company and the Commission to clearly differentiate PGA and OBA activity for audit purposes, and established a finite PGA remaining balance.

Transitional Step 9: Dispose of any Over- or Under-Recovery of the PGA.

Step nine in transitioning out of the merchant function is the disposition of any remaining balance in the Company's PGA. The Commission's November 25, 2002 Order directed the Company to submit a proposal to address the final disposition of the PGA. On September 30, 2003, the Company filed a petition with the Commission for the final disposition of the PGA. The Commission Staff conducted a PGA true-up audit during the month of October 2003 for the audit period November 2002 through September 2003. The staff audit concluded that the final PGA balance was a $246,255 over-recovery.

On January 26, 2004, the Commission issued Order No. PSC-04-0083-PAA-GU, authorizing the Company to refund $246,255 to all customers who received sales service in 2002. Based on the approved Commission refund methodology, the average residential customer would receive a refund of about $22.50 each, in the spring of 2004.

Additional First Year Implementation Actions

1. *Closed Tariff Sales Schedules:*

Included in the Company's September 30, 2003, petition to dispose of its PGA balance was a proposal to formally close all of the tariff sales rate

schedules. Commission Order No. PSC-04-0083-PAA-GU authorized closing the schedules effective January 6, 2004.

2. *Eliminated the TAS Minimum Customer Threshold:*

Also included in the Company's petition to dispose of its PGA balance was a proposal to eliminate the TAS tariff requirement (Section 17.2) that a valid aggregation pool must contain a minimum of ten (10) customers. This requirement posed a barrier to new gas marketers interested in doing business on the Company's distribution system. The Company believed it could accommodate service requests from new marketers and proposed eliminating the ten-customer eligibility threshold. Increasing the number of Pool Manager options will ultimately promote competition and increase customer choice. Commission Order No. PSC-04-0083-PAA-GU authorized the elimination of the minimum customer requirement.

3. *Offered Fixed Price Option to Customers:*

In its original TTS program petition, the Company indicated that during Phase One customers would be able to choose between two fuel price options. The Company's TTS Pool Manager Agreement with Infinite required that customers have the option to establish a fixed monthly fuel price over an annual period as an alternative to a fluctuating monthly index fuel price. The fixed price was to include all Infinite fuel-related charges. The Company's charges for transportation service would remain separately stated on the customer bills. Infinite developed a fixed price option, along with a Letter of Authorization (LOA) agreement form. On September 15, 2003, the Company sent a notice to each TTS customer advising them of the fixed price option and enclosing the Infinite LOA. The notice was designed to continue to educate the Company's customers on the choices available through the TTS program. The notice included the actual monthly billing costs since the program's inception and an annual average. Customers were given until October 2, 2003 to respond. The fixed price was established at $0.80 per therm for a period beginning November 1, 2003 through October 31, 2004. The Company received 589 customer LOAs (575 residential and 14 commercial), exercising the fixed price option.

After the sign-up period had expired the Company continued to receive inquiries about the fixed-price program. Infinite was approached about providing customers a second opportunity to elect a fixed price. On November 24, 2003, the Company sent a second mailing to TTS customers with an extended offering of the $0.80 fixed price option. Customers were given until December 12, 2003 to respond. The fixed price of $0.80 per therm was extended for a period beginning January 1, 2004 through December 31, 2004. The Company received an additional 1,005 residential customer LOAs and 34 commercial LOAs as a result of the second mailing. In total, 1,628 customers, representing over 15% of the

TTS customer pool, elected the fixed price option. Infinite will offer a new fixed price option in the fall of 2004.

4. *Audit of Infinite Energy Program Administration:*

The Company's TTS Pool Manager Agreement with Infinite provides for a periodic audit of the program. The Company is currently conducting an audit for the period of November 2002 through December 2003. An initial audit site visit to Infinite's Gainesville office occurred on January 29, 2004. The audit is scheduled for completion by the end of February 2004. The audit includes the following major components:

- Verification of NYMEX monthly index fuel prices.
- Reconciliation of capacity release quantities to customer billings.
- Verification of interstate pipeline capacity utilization.
- Verification of appropriate margin billings to TTS customers.
- Verification of the appropriate tax rate applications.
- Inspection of efforts to re-market excess capacity and the application of re-market credits.
- Reconciliation of true-up charges and credits related to partial payments, uncollectible accounts, partial month billings, cancel re-bills, etc.
- Inspection of program record-keeping activities.
- Review of information exchange and operational procedures.

5. *Restructured Small Volume Customer Rates:*

Subsequent to the Company's implementation of the TTS program less than 20 residential customers requested cost comparisons to demonstrate their overall cost savings. The Company is aware of only six (6) customers who contacted the Commission directly with concerns about the TTS program. The Company worked with these customers and the Commission staff to evaluate both current and projected savings for all TTS pool customers. Based on this analysis, it appeared that certain customers were not realizing savings under the program. It also appeared that customers with one or two low-use appliances were receiving a lower percentage of overall savings than higher-use customers. Most of these customers were residential water heating or cooking accounts using less than 130 therms per year.

The Company's rate design, authorized under the November 28, 2000 Commission Order, provided for a monthly Customer Charge for each transportation rate schedule at a higher rate level than that established for sales rate schedules. The higher Customer Charge rates allow the Company to recover the administrative costs of operating its transportation service programs. When the TTS program was implemented, all remaining sales customers transferred to a transportation service rate schedule and began paying an increased customer charge. For most customers, the fuel and tax savings associated with the TTS program more than offset the increases in the monthly Customer Charge, and resulted in an overall lower monthly bill. However, for certain low use customers, such as residential single appliance customers, this was not the case.

The Company's smallest volume rate class included customers using 0-500 annual therms (TS-1). Through its analysis of bill frequencies, appliance mix, seasonal usage patterns and related data, the Company determined that there was a need to establish a greater stratification of its smallest volume rate class, and that the current volume range of 0 to 500 annual therms in the TS-1 class was insufficient to homogeneously represent the group of customers currently assigned to the class.

By petition filed with the Commission on May 16, 2003, the Company proposed to restructure the existing TS-1 class into three new rate classes. Class TS-1A would be established at an annual volume range of 0 to 130 therms, TS-1B at 131 to 250 therms and TS-1C at 251 to 500 therms. The Company further proposed a reduction in its base rates. The Customer Charges for the proposed TS-1A class would be reduced from $15.00 to $10.00; the proposed TS-1B class customer charge from $15.00 to $12.50; while the customer charge for the proposed TS-1C class would remain unchanged.

The Commission authorized the new rates by Order No. PSC-03-0890-TRF-GU, issued on August 4, 2003. The Consummating Order was issued on August 29, 2003. The new rates and classifications went into effect on July 15, 2003, the date of the Commission vote. The Company believes that the proposed new customer classifications and rates will achieve an appropriate overall balance of projected program revenues with costs, and ensure that all customers receive proportionate and immediate benefits from the program.

Results And Conclusions

Cost-Effectiveness of the TTS Program

Commission Rule 25-7.0335, F.A.C., allows local distribution companies to provide transportation service to residential customers with the stipulation that such service must be cost-effective to the customers. The Company's TTS program meets the standard established in the Rule. The Company's TTS

customers are experiencing lower overall costs than would have been the case had they remained sales service customers. There are two primary factors responsible for the reduced customer costs: overall fuel costs and taxes.

Customers in the TTS program are realizing significantly reduced overall fuel costs due to the Company's pipeline capacity reallocation and relinquishment efforts. The Company's authorized capacity allocation methodology distributes the capacity held by the Company for peak demand and growth requirements among all shippers. In addition, the Company actively worked to relinquish portions of its capacity quantities to shippers in need of incremental capacity, both on and off-system. Historically, the cost of these capacity quantities was recovered from sales customers through the Company's PGA mechanism.

As a result of the capacity reallocation and relinquishment efforts, the amount of capacity being allocated to the TTS Pool is substantially less than what would have been recoverable through the PGA. In addition, the burden to provide adequate gas supply and interstate pipeline capacity now falls on the Pool Managers. The TTS Pool Manager Agreement specifically requires Infinite to deliver each day gas quantities sufficient to meet the requirements of the customer pool. Infinite delivers gas to a large pool of customers with diversified load profiles. In Florida, substantial quantities of capacity are available on the secondary capacity market during the winter season. Meeting an occasional peak day during the winter does not pose a problem for Infinite. There is no need to hold capacity at peak day quantities for use one or two days during the winter. As a result, capacity costs to the TTS Pool have been reduced by approximately $849,000 per year.

Gas purchased from a third-party marketer changes the application of existing tax formulas under current state and local laws and regulations. The Company obtained a Technical Assistance Advisement (TAA), dated November 18, 1998, from the Florida Department of Revenue that states, in part, that the transportation of customer-owned gas is not subject to State Gross Receipts Tax (GRT). Accordingly, the Company discontinued the collection of the GRT from then existing transportation customers. After implementation of the TTS program, the Company discontinued collecting the GRT on the Company's transportation service charges from the TTS customers. Likewise, the Company has also discontinued the collection of State Sales Tax from all non-exempt TTS customers. Upon transferring all remaining sales customers to transportation service, the Company was no longer involved in the sale of a taxable fuel product. Finally, the Company collects the Regulatory Assessment Fee (RAF) only on its remaining non-fuel transportation service revenues.

Similarly, most of the Company's franchise agreements with local governments only allow for the collection of fees based on the gross amount of gas "sales" revenues. At present five (5) agreements apply the franchise fee to the "sales

and transportation" of natural gas. In those jurisdictions the Company collects a franchise fee on its transportation service. State statutes relating to local utility service taxes have been interpreted in a manner similar to the GRT. Since the Company no longer sells natural gas, it no longer collects local utility service taxes.

Some of the historic tax obligations have shifted to the TTS Pool Manager. Infinite charges a 2.5% GRT on their fuel sales to the TTS customers. Infinite also collects sales tax on its fuel sales to all non-exempt TTS customers. The monthly therm sales data from the Company's measurement records enables Infinite to determine its tax obligations. Remittance of all applicable taxes on the sale of fuel to the TTS customers is the responsibility of Infinite. It is the Company's understanding that Infinite has no obligation, under statute, rule or local ordinance, to collect and remit the RAF or local franchise and utility service taxes.

The Company has reviewed its tax payments for the period of November 2001 through October 2002 and compared this amount to its payments for November 2002 through October 2003. The Company's annual tax collections from its customers have been reduced by approximately $520,000. As noted above, the GRT and State Sales Tax obligations have shifted to Infinite following the initiation of the TTS program. Infinite is collecting about $70,000 annually from customers in the TTS program. Therefore, the net tax savings for the Company's TTS customers is approximately $450,000.

Projected incremental revenues related to implementation of the program totaled $608,480. These annual revenues are generated from the CAAS fee and transportation service customer charges. As noted in the Commission Order, "This revenue reduction will cause the total revenues to be essentially equal to the total costs." Infinite's fees for program administration are approximately $110,000 per year. A summary of the approximate overall first-year cost-effectiveness for the TTS customers follows:

Net Capacity Cost Savings	$ 849,000
Net Tax Savings	$ 450,000
Total Estimated Gross Savings	$1,299,000
Incremental Revenues from Program Implementation	$ 608,480
Infinite's Program Administration Fees	$ 110,000
Total Estimated TTS Customers' Net Savings	$ 580,520

Customer Response

Customer acceptance of the TTS program is very high. To date, less than 5% of the approximately 10,000 affected customers have contacted the Company about the program. Many of the customer contacts have been related to the physical formatting of the customer's monthly bill statement (the Company is currently working to improve its CIS bill presentation). Subsequent to the rate restructuring that reduced rates to the small volume customers, the Company has received virtually no customer complaints about the program. As noted above, customer reaction to the fixed price fuel offer was so positive that the Company and Infinite extended the sign-up period. Customers on the index price option have experienced reasonable gas supply billing prices that track the market. Price signals to these customers are far more accurate than under the previous PGA mechanism with its out-of-period true-ups and forecasts. The program design ensures that customers need not be concerned about service reliability. The Company closely monitors the Pool Manager's supply scheduling and pricing. It appears that the Company's customers are satisfied that the TTS program is working.

Marketer Response

The Company has worked closely with Infinite throughout the program's implementation process. During a recent audit visit, the Company interviewed Infinite at length on their impressions of the program over the first year of operation. From Infinite's perspective, the program is working well. The data exchange on customer gas usage and payments has become routine. The bad debt accounts are trending as expected. Tax remittance responsibilities are clear between the two companies. Payments for gas supply are received in a timely manner. The gas supply and capacity management activities required for the TTS pool mirror those of any other TAS pool on the Company's distribution system. The fixed price offers were well coordinated. Infinite developed the offers, and the Company administered customer enrollment. Service reliability has not been an issue. Infinite has delivered gas each day as expected. Infinite has remained flexible in their approach to establishing operational procedures for the program. As the program has evolved, Infinite has supported the Company's efforts to reduce capacity costs in the pool, simplify administrative procedures and ensure savings for customers.

Summary

The TTS program has been operational for fifteen months. During that time the Company has worked diligently to complete the tasks required to transition out of the gas sales merchant function. Substantial revisions and enhancements have been completed to traditional CIS billing, account administration, payment tracking and reporting procedures. Additional adjustments to gas management and accounting systems and procedures have

been put in place. Comprehensive staff training in support of the program has been accomplished. A complex process to reallocate and relinquish interstate pipeline capacity has been implemented. After the final disposition of the PGA, with a refund to customers of approximately $22.50 per customer in the spring of 2004, the Company will have completed its exit of the merchant function. Throughout this process the TTS Pool Manager has worked closely with the Company to ensure that customers are seamlessly transitioned to transportation service. Program administration is smooth, service is reliable and substantial savings have been achieved for all customers. Transportation service on the Company's system for all customers has become "business as usual."

Exhibit A
Chesapeake Utilities Corporation
Florida Division
Report to the Florida Public Service Commission

		1 Nov	2 Dec	3 Jan	4 Feb	5 Mar	6 Apr	7 May	8 Jun	9 Jul	10 Aug	11 Sep	12 Oct	
Nov. 2002 - Oct. 2003 (Estimated, in dekatherms per day)														
Company's Available Capacity														
FGT		28,579	28,579	28,579	28,579	28,579	28,579	22,200	22,200	22,200	22,200	22,200	28,416	
GulfStream		10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	
Company's Designated Capacity														
FGT		21,643	21,853	22,043	21,991	21,348	21,623	17,645	17,224	18,444	18,490	18,509	20,090	
Gulfstream								4,567	3,284	2,036	1,997	2,045		
Company's Remaining Capacity														
FGT		6,936	6,726	6,536	6,588	7,231	6,956	4,555	4,976	3,756	3,710	3,691	8,326	
Gulfstream		10,000	10,000	10,000	10,000	10,000	10,000	5,433	6,716	7,964	8,003	7,955	10,000	
Company's TAS Capacity Requirements		6,567	6,585	7,573	7,404	7,138	7,138	7,362	6,956	6,741	6,593	6,109	6,182	
FGT		40.95%	40.21%	39.53%	39.72%	41.97%	41.02%	45.60%	42.56%	32.05%	31.67%	31.69%	45.43%	
Gulfstream		59.05%	59.79%	60.47%	60.28%	58.03%	58.98%	54.40%	57.44%	67.95%	68.33%	68.31%	54.57%	
TAS Capacity Allocation														
FGT		2,689	2,648	2,994	2,941	2,996	2,928	3,357	2,960	2,160	2,088	1,936	2,808	
Gulfstream		3,878	3,937	4,579	4,463	4,142	4,210	4,005	3,996	4,581	4,505	4,173	3,374	
Company's Capacity for Peaking & Growth														
FGT		4,247	4,078	3,542	3,647	4,235	4,028	1,198	2,016	1,596	1,622	1,755	5,518	
Gulfstream		6,122	6,063	5,421	5,537	5,858	5,790	1,428	2,720	3,383	3,498	3,782	6,626	
Capacity Costs in PGA (per Month)														
FGT	$0.3703	$47,178	$45,304	$39,352	$40,516	$47,049	$44,747	$13,308	$22,390	$17,725	$18,019	$19,497	$61,294	
Gulfstream	$0.5500	$101,016	$100,037	$89,440	$91,358	$96,654	$95,535	$23,563	$44,888	$55,828	$57,717	$62,402	$109,337	
Total Costs in PGA (Estimated)		**$148,194**	**$145,341**	**$128,792**	**$131,874**	**$143,703**	**$140,282**	**$36,871**	**$67,278**	**$73,552**	**$75,736**	**$81,899**	**$170,631**	**$1,344,154**
Nov. 2002 - Oct. 2003 (Actual, in dekatherms per day)														
Company's Allocation to TTS Pool														
FGT		924	827	788	811	1,100	842	253	354	253	247	228	1,113	
Gulfstream		3,146	3,032	3,005	3,034	3,353	3,186	329	510	639	638	590	3,346	
Capacity Costs in TTS Pool														
FGT	$0.3703	$10,265	$9,187	$8,754	$9,009	$12,220	$9,354	$2,811	$3,933	$2,811	$2,744	$2,533	$12,364	
Gulfstream	$0.5500	$51,909	$50,028	$49,583	$50,061	$55,325	$52,569	$5,429	$8,415	$10,544	$10,527	$9,735	$55,209	
Total Costs in TTS Pool (Actual)		**$62,174**	**$59,215**	**$58,336**	**$59,070**	**$67,544**	**$61,923**	**$8,239**	**$12,348**	**$13,354**	**$13,271**	**$12,268**	**$67,573**	**$495,316**
Estimated Capacity Costs Savings		**$86,020**	**$86,126**	**$70,456**	**$72,804**	**$76,158**	**$78,359**	**$28,632**	**$54,931**	**$60,198**	**$62,465**	**$69,631**	**$103,058**	**$848,838**

Exhibit B
Chesapeake Utilities Corporation
Florida Division
Report to the Florida Public Service Commission

	Nov 2001 through Oct 2002 *	Nov 2002 through Oct 2003 **	Annual Savings
Gross Receipts Tax (GRT)	$162,442	$71,269	$91,173
Local Utility Service Tax	$210,058	$0	$210,058
Franchise Fees	$180,439	$44,413	$136,026
Regulatory Assessment Fee (RAF)	$73,064	$59,082	$13,982
	$626,003	$174,764	$451,239

* Collected by Company Only

** GRT collected by Infinite, remainder collected by Company

Note: State Sales Taxes are not shown; Company is unable to determine Nov. 2001 - Oct. 2002 amount that is attributable to non-residential, non-exempt fuel charges only. Logically, some additional overall savings could be attributed to State Sales Tax due to the overall lower fuel rates (capacity savings) achieved by converting customers to the TTS Program.