BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition by Florida City Gas for Base Rate Increase	) DOCKET NO. 20260026-GU)) FILED: July 20, 2026

Attached for filing is the Direct Testimony and Exhibit of Michael P. Gorman on behalf of the Federal Executive Agencies in the above referenced docket.

Respectfully submitted,

Attorneys for Federal Executive Agencies

By: */s/ Leslie R. Newton*
Leslie R. Newton, Maj, USAF
Thomas A. Jernigan
Matthew R. Vondrasek, Capt, USAF
139 Barnes Drive, Suite 1
Tyndall Air Force Base, Florida 32403
(850) 283-6347
leslie.newton.1@us.af.mil
thomas.jernigan.3@us.af.mil
Matthew.vondrasek.1@us.af.mi

CERTIFICATE OF SERVICE
Docket No. 20260026-GU

I HEREBY CERTIFY that a true and correct copy of the foregoing Federal Executive Agencies' Direct Testimony of Michael P. Gorman has been furnished by electronic mail this 20th day of July 2026, to the following:

Florida Public Service Commission **Office of the General Counsel** Jennifer Crawford Major Thompson Alisha Hixon 2540 Shumard Oak Blvd. Tallahassee, FL 32399-0850 JCrawfor@psc.state.fl.us discovery-gcl@psc.state.fl.us mthompson@psc.state.fl.us ahixon@psc.state.fl.us	**Office of Public Counsel** W. Trierweiler C. Rehwinkel A. Watrous P. Christensen c/o The Florida Legislature 111 W. Madison Street, Suite 812 Tallahassee FL 32399-1400 rehwinkel.charles@leg.state.fl.us trierweiler.walt@leg.state.fl.us watrous.austin@leg.state.fl.us
Florida City Gas Matt Everngam 208 Wildlight Ave. Yulee FL 32097 (410) 829-4688 meverngam@chpk.com	**Gunster Law Firm** Beth Keating 215 South Monroe St., Suite 601 Tallahassee FL 32301 (850) 521-1706 bkeating@gunster.com
Federal Executive Agencies (FEA) Leslie R. Newton, Maj, USAF Thomas A. Jernigan Matthew R. Vondrasek Ebony M. Payton James Ely AF/JAOE-ULFSC 139 Barnes Drive, Suite 1 Tyndall Air Force Base, Florida 32403 (850) 283-6347 leslie.newton.1@us.af.mil thomas.jernigan.3@us.af.mil matthew.vondrasek.1@us.af.mil ebony.payton.ctr@us.af.mil james.ely@us.af.mil	

<u>*/s/ Ebony M. Payton*</u>
Ebony M. Payton
Paralegal for FEA

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

IN RE: APPLICATION FOR RATE INCREASE BY FLORIDA CITY GAS	))))	**DOCKET NO. 20260026-GU**

Direct Testimony and Exhibit of

Michael P. Gorman

On behalf of

Federal Executive Agencies

July 20, 2026

Brubaker & Associates, Inc.

Project 12109

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

IN RE: APPLICATION FOR RATE INCREASE BY FLORIDA CITY GAS	**))))**	**DOCKET NO. 20260026-GU**

STATE OF MISSOURI	**)**	
	)	**SS**
COUNTY OF ST. LOUIS	**)**	

Affidavit of Michael P. Gorman

Michael P. Gorman, being first duly sworn, on his oath states:

1. My name is Michael P. Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Federal Executive Agencies in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes are my direct testimony and exhibit which were prepared in written form for introduction into evidence in the Florida Public Service Commission Docket No. 20260026-GU.

3. I hereby swear and affirm that the testimony and exhibit are true and correct and that they show the matters and things that they purport to show.

Michael Gorman

Michael P. Gorman

Subscribed and sworn to before me this 20th day of July, 2026.

SHELBY HUGHES
Notary Public - Notary Seal
STATE OF MISSOURI
Franklin County
My Commission Expires: May 21, 2030
Commission # 26560408

Shelby Hughes

Notary Public

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

IN RE: APPLICATION FOR RATE INCREASE BY FLORIDA CITY GAS	))))	**DOCKET NO. 20260026-GU**

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BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

IN RE: APPLICATION FOR RATE INCREASE BY FLORIDA CITY GAS	**DOCKET NO. 20260026-GU**

Direct Testimony of Michael P. Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and a Managing Principal with the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to this testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am appearing in this proceeding on behalf of the Federal Executive Agencies ("FEA"). The Federal Government has multiple accounts with Florida City Gas ("FCG" or "Company") including Patrick Space Force Base, Cape Canaveral Space Force Station, and NASA's Kennedy Space Center.

Q WHAT IS THE SUBJECT MATTER OF YOUR TESTIMONY?

A My testimony addresses FCG's proposed Class Cost of Service ("CCOS") study and the proposed allocation of any allowed distribution rate increase to the Company's rate classes. These issues are addressed in the direct testimony of FCG witness John Taylor.

I have examined the testimony and exhibits presented by FCG in this proceeding with respect to class cost of service and class revenue allocation, and will comment on the propriety of its proposals and make certain recommendations.

I also address FCG's proposed rate case expense and proposed Reserve Surplus Amortization Mechanism ("RSAM").

To the extent my testimony does not address any particular issue does not indicate tacit agreement with the Company's or another party's position on that issue.

Q PLEASE PROVIDE A BRIEF SUMMARY OF YOUR CONCLUSIONS AND RECOMMENDATIONS IN THIS PROCEEDING.

A My conclusions and recommendations are summarized as follows:

1. I comment on the Company's proposed CCOS and the classification and allocation of distribution main cost. I support the Company's proposal to classify these costs based on both demand and customer components, this classification more accurately aligns with how these costs are incurred in order to provide service to each of the rate classes.

2. I take issue with the Company's development of the demand or capacity cost allocation factor. The Company develops a capacity or demand allocation factor based on an equal weighting of monthly peak sales and average annual sales. Developing demand allocation factor in this manner does not align with how the Company designs its system to reliably meet customers' demands every day of the year and to be able to provide firm service to all of its customers. Capacity costs are designed to serve peak-day or peak-hour cost as noted by Mr. Taylor in his testimony. Mr. Taylor did not develop a demand allocation factor aligned with the daily peak demands of the system, which drives the Company's need to invest in capacity cost to provide reliable firm service.

4. I take issue with the Company's proposed revenue spread because it does not align with the results of its CCOS study. Indeed, the Company's proposed revenue spread moves the Residential, and certain Commercial customer classes further away from cost of service.

5. I recommend a revenue spread across rate classes reasonably moving each rate class towards cost of service, but moderate the increase to specific rate classes so as to prevent a significant increase to any rate class in this proceeding.

I. CCOS and Rate Design Principles

Q COULD YOU PLEASE EXPLAIN THE RATEMAKING PROCESS AND THE DESIGN OF RATES?

A The ratemaking process has three steps. First, we must determine the utility's total revenue requirement and the extent to which an increase or decrease in revenues is necessary. Second, we must determine how any increase or decrease in revenues is to be distributed among the various customer classes. A determination of how many dollars of revenue should be produced by each class is essential for obtaining the appropriate level of rates. Finally, individual tariffs must be designed to produce the required amount of revenues for each class of service and to reflect the cost of serving customers within the class.

The guiding principle at each step should be cost of service. In the first step—determining revenue requirements—it is universally agreed that the utility is entitled to an increase only to the extent that its actual cost of service has increased. If current rate levels exceed the utility's revenue requirement, a rate reduction is required. In short, rate revenues should equal actual cost of service. The same principle should apply in the second and third steps. Each customer class should, to the extent practicable, produce revenues equal to the cost of serving that particular class, no more and no less. This may require a rate increase for some classes and a rate decrease for other classes. The standard tool for performing this exercise is a CCOS study, which shows the rates of return for each class of service. The goal is to modify rate levels so that each class of service provides approximately the same rate of return. Finally, in designing tariffs for individual classes, the goal should also be to align the rate design with the cost of service so that each customer's rate tracks, to the extent practicable, the utility's cost of providing service to that customer.

Q WHY IS IT IMPORTANT TO ADHERE TO BASIC COST OF SERVICE PRINCIPLES IN THE RATEMAKING PROCESS?

A The basic reasons for using cost of service as the primary factor in the ratemaking process are equity and stability. Cost of service ratemaking sends efficient price signals and encourages conservation.

Q PLEASE DISCUSS THE EQUITY CONSIDERATION.

A When rates are based on a CCOS study that is prepared using allocation methodologies that best reflect cost causation, each customer pays what it costs the utility to serve that customer, no more and no less. But when rates are not based on a reasonable CCOS study, then some customers are required to contribute disproportionately to the utility's revenues by subsidizing the service provided to other customers. This is inherently inequitable.

Q PLEASE DISCUSS THE STABILITY CONSIDERATION.

A When rates are closely tied to costs, the earnings impact on the utility associated with changes in numbers of customers and their usage patterns will be minimized as a result of rates being designed in the first instance to track changes in the level of costs.

Thus, cost-based rates provide an important enhancement to a utility's earnings stability, thereby reducing the utility's need to file for future rate increases.

From the perspective of the customer, cost-based rates provide a more reliable means of determining future levels of costs. If rates are based on factors other than costs, it becomes much more difficult for customers to translate expected utility-wide cost changes (*i.e.*, expected increases in overall revenue requirements) into changes in the rates charged to particular customer classes (and to customers within the classes). From the customer's perspective, this situation reduces the attractiveness of expansion, and of continued operations, because of the lessened ability to plan.

Q WHEN YOU SAY "COST," WHAT TYPE OF COST ARE YOU REFERRING TO?

A I am referring to the utility's "embedded" or actual accounting costs of rendering service; that is, those costs which are used by the Commission in establishing the utility's overall revenue requirement.

Q PLEASE COMMENT ON THE BASIC PURPOSE OF A CCOS STUDY.

A The basic purpose of a CCOS study is to determine the costs that a utility incurs to provide service to different categories of customers. After the utility's overall cost of service (or revenue requirement) is determined, a CCOS study is used, first, to allocate the cost of service between the utility's jurisdictional and non-jurisdictional businesses, and second, to allocate the jurisdictional cost of service among the utility's jurisdictional customer classes.

A CCOS study shows the extent to which each customer class contributes to the total cost of the system. For example, when a class produces the same rate of return as the total system, it returns to the utility just enough revenues to cover the costs incurred in serving that class (including a reasonable authorized return on investment). If a class produces a rate of return below the system average, the revenues it provides for the utility are insufficient to cover all relevant costs. If, on the other hand, a class produces a rate of return above the average, then that class pays revenues sufficient to cover the costs attributable to it, and it also pays for part of the costs attributable to other classes that produce below-average rates of return. The CCOS study therefore is an important tool, because it shows the revenue requirement for each class along with the rate of return under current rates and any proposed rates.

Q PLEASE COMMENT ON THE PROPER FUNDAMENTALS OF A CCOS STUDY.

A Cost of service is a basic and fundamental ingredient to proper ratemaking. In all CCOS studies, certain fundamental concepts should be recognized. Of primary importance among these concepts is the functionalization, classification, and allocation of costs. Functionalization is the determination and arrangement of costs according to major functions, such as production, storage, transmission and distribution. Classification involves identifying the nature of these costs according to whether the costs vary with the demand placed upon the system, the quantity of gas consumed, or the number of customers being served. Fixed costs are those costs that tend to remain constant over the short run, irrespective of changes in output, and are generally considered to be demand-related. Fixed costs include those costs that are a function of the size of the utility's investment in facilities, and those costs that are necessary to keep the facilities "on line." Variable costs, on the other hand, are basically costs that tend to vary with throughput (or usage), and are generally considered to be commodity-related. Customer-related costs are costs that are most closely related to the number of customers served, rather than the demands placed upon the system or the quantity of gas consumed.

II. FCG's Proposed CCOS Study

Q HAVE YOU REVIEWED THE CCOS STUDY FILED BY FCG IN THIS PROCEEDING USED TO ESTABLISH RATES?

A Yes. I have reviewed the CCOS study filed by FCG in this proceeding that is sponsored by Company witness John Taylor.

According to Mr. Taylor at page 15 of his testimony, the Company's filed CCOS study allocates distribution main cost using a customer/demand approach. He concludes that distribution main capacity cost should be classified as 30% customer and 70% demand or capacity. This classification is based on classifying small mains (2 inch diameter and smaller) as 60% customer and 40% demand. He estimated that these small mains represent about 50% of total distribution costs. Hence, he classified the total distribution main cost to be 30% customer and 70% demand.[1]

Mr. Taylor testified that customer-classified cost should be allocated on customer numbers, and demand-classified cost should be allocated on peak hourly or maximum daily gas flows that are designed to meet customers maximum demands.[2]

Mr. Taylor demonstrates that distribution main cost are highly correlated with customer numbers because main cost are incurred to both connect customers to the distribution system and are sized to serve customer peak daily demands on the

[1] *Id* at pages 25-26. He relied on the zero intercept method to estimate the proper classification of small main between customer and demand.

[2] *Id* at page 19.

system.[3] He finds that gas throughput does not reasonably reflect cost causation and should not be used to allocate distribution main cost.[4]

Q DO YOU HAVE ANY CONSERNS WITH MR. TAYLOR'S DEVELOPMENT OF THE ALLOCATION FACTOR?

A Yes. Mr. Taylor acknowledges that the demand cost relates to the maximum usage for a customer on an hourly or a daily basis. However, in his CCOS study he develops a capacity/demand cost allocation factor based on a weight composite of peak monthly throughput usage or sales and annual average throughput or sales.[5] Monthly peak throughput is a distorted gauge of the design day demand that the system is designed for and for which causes the system capacity to incur capacity or demand costs. Indeed, Mr. Taylor's capacity or demand allocator is largely a throughput allocation because average demand is included in both peak month sales and is the average annual sales factor used by Mr. Taylor to derive the capacity cost allocator.

The flaws in the development of a capacity allocator based on peak month sales and average annual sales is evident from Mr. Taylor's own testimony. Mr. Taylor acknowledges at page 28-29 of his direct, that throughput is not a cost-causation factor of main capacity costs. Hence, Mr. Taylor is not allocating distribution main capacity cost across rate classes based on cost causation. Mr. Taylor's cost of service study hence shifts cost responsibility to high-load factor customer classes and away from weather-sensitive, low-load factor classes, such as the residential class.

Therefore the Commission should direct him to change his demand allocation factor in the next rate case to use of a design day demand based capacity cost

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[3] Taylor direct at pages 19 and 32-33.
[4] *Id* at pages 28-29.
[5] Mr. Taylor's Exhibit JT-2 p. 11 (Schedule H-2, p. 5a).

allocator and discontinue the use of a peak and average based capacity cost allocator. A design day demand capacity cost allocator will allocate capacity cost to rate classes in proportion to the amount of capacity costs FCG must incur to provide firm service to its rate classes.

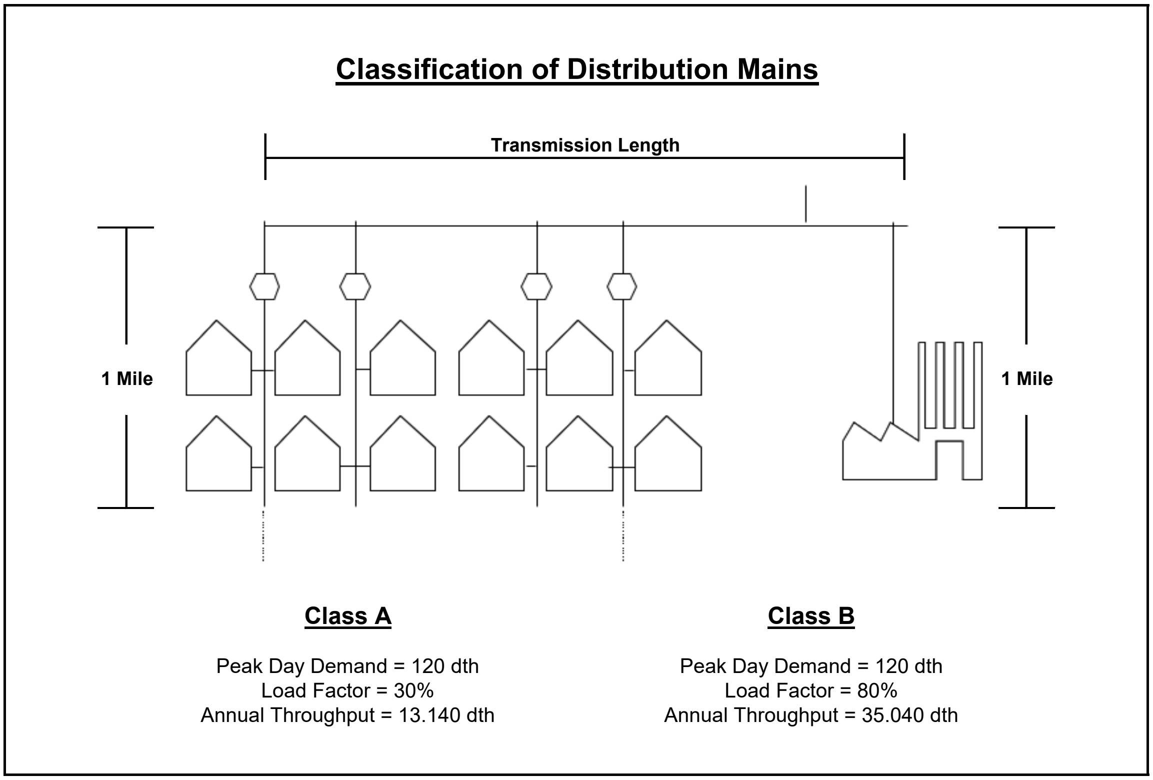
Q CAN YOU EXPLAIN HOW THE SYSTEM IS DESIGNED BASED ON THE DESIGN DAY DEMAND BASIS, BUT THE ANNUAL THROUGHPUT FROM THE SYSTEM DOES NOT IMPACT THE CAPACITY DESIGN IN THE SYSTEM?

A Yes. Gas utilities must design their system to have adequate capacity to meet their demands on their peak day. Once that system is designed to serve demand on peak day, that same capacity can be used every day of the year at less than 100% capacity factor, to serve customers' daily demands. The effectiveness is that weather-sensitive customer classes will receive firm service on peak day demands, but place demands far less than 100% capacity factor on the system on non-peak periods throughout the year. The capacity to serve those classes peak-day demands is used every day of the year, just at less than 100% capacity. In contrast, non-weather-sensitive customers have stable loads, and high-load factors have greater utilization of their peak-day demand capacity throughout the year. Similar to low-load factor classes, the Utility designs the system to meet non-weather-sensitive customers' demands based on their peak day and uses that capacity to serve those customers every day of the year. For hig- load factor customer classes, however, capacity utilization is relatively high, compared to the weather-sensitive, low-load factor classes.

Q DO YOU AGREE THAT DISTRIBUTION MAINS CAPACITY COST IS NOT IMPACTED BY AVERAGE DEMAND OR COMMODITY THROUGHPUT, BUT IS IMPACTED BY CUSTOMER NUMBERS AND LOCATIONS, AND PEAK DAILY DEMANDS?

A Yes. An example can help explain this cost-causation relationship. Assume two rate classes, a Class A that was composed of 12 smaller customers that are dispersed over four separate distribution lines over a large geographic footprint that requires four miles of small distribution lines to connect the Customer A class to the system transmission lines. Also, a Class B that was composed of a single large customer with one mile length of distribution that is needed to connect the mains to the Utility's system of transmission mains. Both classes of customers in this illustration have a peak day demand of 120 Dth. These two distribution loops and the transmission line that connects both customer groups are illustrated in Figure MPG-1 below.

FIGURE MPG-1



This figure illustrates that the length of mains needed to provide service is a cost driver to connect the customers to the gas delivery distribution system and it also illustrates that the throughput commodity delivered does not impact the cost of delivery mains. Typically there is no dispute that sizing the delivery mains' capacity to serve design day demand is a cost-causation factor.

As a hypothetical, assume Class A is composed of weather-sensitive customers with a coincident peak day demand of 120 Dth, and an annual load factor of about 30% over 365 days in the year. The customer numbers and locations require the company to invest and install four miles of distribution main necessary to connect all the Class A customers to the system transmission line connection. For Class A, the utility would deliver an average throughput commodity of 13,140 Dth.[6] This volume

[6] 365 days per year, peak day of 120 Dth, at a load factor of 30%.

is based on the low-load factor demand of the Class A customers. If customer Class A increased demands during off-peak periods, then the class load factor increases, but delivery mains currently serving Class A would still be sufficient to reliably serve the rate class because the mains are already sized to serve peak day demand, the length is sufficient to connect the customers to the system and the distribution mains are capable of serving this daily demand more frequently, if the class load factor increases. That is, if the class load factor increases above 30%, then the mains could still reliably serve the rate class's daily demands as long as the class peak-day demand is within the design peak-day capacity of 120 Dth. Hence, the changes in the class average demand or commodity annual throughput does not impact the fixed capacity cost of the distribution mains that serve the rate class. Therefore, the fixed capacity cost of the delivery mains servicing Class A is not impacted by the throughput commodity but rather is impacted by sizing of the mains needed to serve peak day demands and the length of the mains needed to connect the customers to the system.

Class B in this illustration is an industrial process customer that is not weather-sensitive but is a high-load factor customer that operates its industrial facility over multiple production shifts. The utility needed to install one mile of distribution line to connect these customers to the transmission line. Hence, Class B has an 80% annual load factor and the utility delivers 35,040 Dth of throughput commodity annually. Similar to Class A, if Class B decreases its load factor but does not change its peak day demand, then the mains delivery cost to service Class B will not change because the existing fixed mains can deliver a reduced annual throughput volume and will not change the fixed capacity cost of the mains. Conversely, if the peak day demand stays constant, the Class B could increase throughput usage during off-peak periods, and increase its load factor, but the utility's cost of distribution main would not be impacted.

The delivery mains designed to serve Class A and Class B must be capable of reliably and safely servicing the class demands on the peak day but also on all other days of the year. This requires the mains to be sized for the peak day demands and have adequate length to connect all customers to the utility. But after these designs are met, both gas delivery mains networks can deliver the class average daily gas demands by varying the capacity factor operation of the mains. Simply stated, the amount of gas annual throughput through the mains does not impact the design nor the fixed capacity cost of the delivery mains.

Q DO YOU AGREE WITH MR. TAYLOR AT PAGES 28-30 THAT DISTRIBUTION MAIN CAPACITY COSTS ARE NOT IMPACTED BY ANNUAL THROUGHPUT?

A Yes. Setting aside the importance of the customer classification that impacts the length of distribution mains is a cost-causation factor, a simple example can be used to illustrate how allocating on commodity throughput can distort the development of an efficient price signal. In the example above, even though both Customer A and Customer B have the same design day demand of 120 Dth, and the system has a coincident design day capacity was 240 Dth, two customers at 120 Dth each. If the total system average design-day installed capacity costs is $30/Dth, or $7,200/240 Dth, and if the capacity cost is allocated between customer classes A and B based on design day demands, both would pay $30/Dth for 120 Dth peak day capacity that is needed to serve each customer class every day of the year. This capacity that is designed to serve demand on peak day is operated every day of the year, but at varying capacity factor utilization as required to serve the daily demands of the customer classes.

However, if capacity costs are allocated on annual throughput, Customer A would pay 27% of the $7,200 system capacity cost or $1,964 which is about $16.37/Dth ($1,964/120Dth) for the capacity needed to serve its peak demand. Customer B would pay 73% of the total system capacity costs or $5,236, which is $43.63/Dth ($5,236/120Dth) of the 120 Dth peak day demand needed to serve its peak demand.

This simple example illustrates why it is unreasonable to allocate distribution mains costs on the basis of annual throughput or usage, when capacity is designed to serve peak demand but the daily utilization can vary demanding on the capacity utilization of the infrastructure.

Q IS ANNUAL USAGE A DESIGN CRITERION FOR A TYPICAL GAS DISTRIBUTION COMPANY FACILITY?

A No, it is not. To be sure, annual usage is certainly a factor that should be and is considered in allocating the variable cost of operating the gas system. However, annual usage does not determine the amount of system capacity that is necessary to provide firm (i.e., non-interruptible) service to every customer every day of the year. Rather, the actual physical size of the distribution mains, compressors, and related equipment is based on customers' contributions to the system design day demand. The system's capacity must be sized for design day demand, so that all firm customers can utilize their entitlement to that capacity to receive a firm, uninterrupted supply of gas every day of the year, including the day of the system peak demand.

III. Supplemental COSS

Q DID THE COMPANY PROVIDE A SUPPLEMENTAL CCOS STUDY IN ADDITION TO THEIR RECOMMENDED CCOS STUDY?

A Yes. Mr. Taylor states at page 26 of his Direct Testimony a primary distinction between the supplemental CCOS and the proposed CCOS is the treatment of distribution main cost. He states in the supplemental CCOS, distribution mains are classified entirely as demand-related, where in the proposed CCOS, distribution mains are classified as both customer and demand related costs.

Q DO YOU HAVE ANY COMMENTS CONCERNING THE ACCURACY OF THE COMPANY'S PROPOSED VERSUS THEIR SUPPLEMENTAL CCOS STUDY?

A Yes. For the reasons outlined in the illustration above, the Company's Proposed CCOS Study that classifies small distribution mains on the basis of customers and demand is more reasonable and more accurately reflects class cost of service. For that reason, I support the Company's Proposed CCOS Study, and find that the Supplemental CCOS Study is not reliable and does not accurately allocate distribution main costs across rate classes.

Q PLEASE SUMMARIZE WHY THE ALLOCATION OF DISTRIBUTION MAINS COSTS ON BOTH A DEMAND AND CUSTOMER BASIS MORE ACCURATELY REFLECTS COST CAUSATION AS COMPARED TO AN ALLOCATION OF MAINS COSTS BASED PARTIALLY ON ANNUAL USAGE.

A As previously discussed, a gas distribution company designs its distribution mains to meet the firm coincident demands of its rate classes on the system design day. The company also designs its distribution mains in such a way that all customers are connected to the system. The company does not design its system to meet the total annual volumes of gas sold to its rate classes. It is only when the distribution mains system is designed to meet the design day demand of the company's rate classes that the company is able to deliver gas each and every day of the year to meet its customers' demands. Therefore, the company incurs the costs of these facilities to meet class coincident design day demands and to connect all customers to the distribution mains system. Allocating the costs of these facilities on a coincident design day demand basis and on a customer basis reflects how the costs are incurred and, as a result, more accurately reflects cost causation than allocating costs on an annual usage basis. As a result, the Company's CCOS Study does not best reflect class cost causation on the FCG distribution system.

V. Class Revenue Apportionment

Q HAVE YOU REVIEWED FCG'S PROPOSAL FOR THE DISTRIBUTION OF ITS REQUESTED REVENUE INCREASE ACROSS RATE CLASSES?

A Yes. The Company's proposed class revenue allocation to customer classes is summarized in Table MPG-1 below.

TABLE MPG-1

FCG's Proposed Revenue Spread
($ '000)

Proposed Rate Schedule	Base Non-Fuel Revenues*	Increase/(Decrease) to Reach COS Amount	Percent	Index	FCG Proposed Increase/(Decrease) Amount	Percent	Index
RS	$53,042	$26,567	50.1%	1.15	$16,129	30.4%	0.70
RSG	23	29	124.3%	2.86	29	124.3%	2.86
GS - I	16,416	7,125	43.4%	1.00	12,648	77.0%	1.77
GS - 2 (10K)	14,087	6,234	44.3%	1.02	10,853	77.0%	1.77
GS - 3 (50K)	3,049	1,512	49.6%	1.14	2,349	77.0%	1.77
GS - 4 (120K)	12,830	9,467	73.8%	1.70	3,901	30.4%	0.70
GS - 5 (1250K)	3,655	346	9.5%	0.22	397	10.9%	0.25
GS - 6 (11M)	0	0	0.0%	-	0	0.0%	-
GS - 7 (25M)	0	0	0.0%	-	0	0.0%	-
CSG	58	330	571.6%	13.16	330	571.6%	13.16
Special Contracts	4,740	-4,740	-100.0%	(2.30)	235	4.9%	0.11
Total	**$107,899**	**$46,871**	**43.4%**	**1.00**	**$46,871**	**43.4%**	**1.00**

Source: FCG Witness Taylor, Direct testimony, Table 5.
*Includes SAFE revenues.

Mr. Taylor describes the principles the Company's proposed class revenue apportionment is based on as follows[7]:

1. Limit the residential class to a factor of 0.7 of the system average increase;
2. A maximum class increase of 2x the system average increase, and
3. Standby class set to cost of service.

He also notes that the Company considered a uniform spread of the increase across rate classes but rejected that option in favor of an allocation based on several class revenue spread options.[8]

Mr. Taylor's proposed class spread does not move rate classes closer to cost of service. For example, the residential class needs an above system average increase to move to cost of service, but Mr. Taylor is proposing a below system average increase to this class. This proposed spread moves this rate class further

[7] *Id* at pages 41-42.
[8] *Id* at pages 40-41.

below the cost of service. His proposal to give the GS-2 and GS-3 rate class above system average increases when his cost of service study show a below system average increase is needed to move them to cost of service also moves these classes further above cost of service. Mr. Taylor's proposed revenue spread is not reasonable and does not move rate classes closer to cost of service.

Q DO YOU AGREE WITH THE COMPANY'S PROPOSED CLASS REVENUE ALLOCATION?

A No. The class revenue spread should be designed to bring all classes to cost of service or closer to cost of service using a gradual movement toward cost of service. The limited movement will ensure that no class get an excessive or harmful increase in any individual rate case. The company's proposed class spread fails to move classes closer to the cost of service. Indeed, as noted above, the proposed class revenue spread moves the residential class further below cost of service, and moves the GS-2 and GS-3 rate classes further above cost of service. This movement away from cost of service is not balanced or reasonable.

Q WHAT DO YOU RECOMMEND?

I recommend a class revenue spread based on the results of the COSS, but limited so no class gets an increase of more than 1.2x the system average increase, and no less than 0.5x the system average increase. My proposed class revenue spread is shown below in Table MPG-2.

TABLE MPG-2

FEA's Proposed Revenue Spread
($ '000)

Proposed Rate Schedule	Base Non-Fuel Revenues*	FEA Proposed Increase/(Decrease) Amount	Percent	Index
RS	$53,042	$25,157	47.4%	1.09
RSG	23	29	124.3%	2.86
GS - I	16,416	6,689	40.7%	0.94
GS - 2 (10K)	14,087	5,859	41.6%	0.96
GS - 3 (50K)	3,049	1,431	46.9%	1.08
GS - 4 (120K)	12,830	6,347	49.5%	1.14
GS - 5 (1250K)	3,655	794	21.7%	0.50
GS - 6 (11M)	0	0	0.0%	-
GS - 7 (25M)	0	0	0.0%	-
CSG	58	330	571.6%	13.16
Special Contracts	4,740	235	4.9%	0.11
Total	**$107,899**	**$46,871**	**43.4%**	**1.00**

Source: Exhibit MPG-1
*Includes SAFE revenues.

As outlined in Table MPG-2 above, I recommend a class revenue spread that is designed to move classes closer to cost of service to limit the increase to any rate class to no more than 1.2x the system average increase, except for the two self-generation rate classes identified by the Company that it proposes to move all the way to cost of service; including residential small generators and commercial small generator customers. I do not oppose the Company's proposal to move these rates to cost of service.

This rate spread, as shown in the table above, will not impose any increase on any rate that is significantly out of line with cost of service, and therefore does not impose any excessive burden on any specific rate class. The addition to this revenue spread will help to design rates that provide efficient price signals to all customers to allow them to make economic consumption decisions to improve the system efficiency.

These additions will aid customers efforts to improve consumption decisions and will support the Utility's effort to make this system as economic and efficient as possible.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does.

Qualifications of Michael P. Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and a Managing Principal with the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A In 1983 I received a Bachelor of Science Degree in Electrical Engineering from Southern Illinois University, and in 1986, I received a Master's Degree in Business Administration with a concentration in Finance from the University of Illinois at Springfield. I have also completed several graduate level economics courses.

In August of 1983, I accepted an analyst position with the Illinois Commerce Commission ("ICC"). In this position, I performed a variety of analyses for both formal and informal investigations before the ICC, including: marginal cost of energy, central dispatch, avoided cost of energy, annual system production costs, and working capital. In October of 1986, I was promoted to the position of Senior Analyst. In this position, I assumed the additional responsibilities of technical leader on projects, and my areas of responsibility were expanded to include utility financial modeling and financial analyses.

In 1987, I was promoted to Director of the Financial Analysis Department. In this position, I was responsible for all financial analyses conducted by the Staff. Among other things, I conducted analyses and sponsored testimony before the ICC on rate of return, financial integrity, financial modeling and related issues. I also supervised the development of all Staff analyses and testimony on these same issues. In addition, I supervised the Staff's review and recommendations to the Commission concerning utility plans to issue debt and equity securities.

In August of 1989, I accepted a position with Merrill-Lynch as a financial consultant. After receiving all required securities licenses, I worked with individual investors and small businesses in evaluating and selecting investments suitable to their requirements.

In September of 1990, I accepted a position with Drazen-Brubaker & Associates, Inc. ("DBA"). In April 1995, the firm of Brubaker & Associates, Inc. was formed. It includes most of the former DBA principals and Staff. Since 1990, I have performed various analyses and sponsored testimony on cost of capital, cost/benefits of utility mergers and acquisitions, utility reorganizations, level of operating expenses and rate base, cost of service studies, and analyses relating to industrial jobs and economic development. I also participated in a study used to revise the financial policy for the municipal utility in Kansas City, Kansas.

At BAI, I also have extensive experience working with large energy users to distribute and critically evaluate responses to requests for proposals ("RFPs") for electric, steam, and gas energy supply from competitive energy suppliers. These analyses include the evaluation of gas supply and delivery charges, cogeneration and/or combined cycle unit feasibility studies, and the evaluation of third-party asset/supply management agreements. I have participated in rate cases on rate design and class cost of service for electric, natural gas, water and wastewater utilities. I have also analyzed commodity pricing indices and forward pricing methods for third party supply agreements, and have also conducted regional electric market price forecasts.

Q HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?

A Yes. I have sponsored testimony on cost of capital, revenue requirements, cost of service and other issues before the Federal Energy Regulatory Commission and numerous state regulatory commissions including: Alaska, Arkansas, Arizona, California, Colorado, Delaware, the District of Columbia, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming, and before the provincial regulatory boards in Alberta, Nova Scotia, and Quebec, Canada. I have also sponsored testimony before the Board of Public Utilities in Kansas City, Kansas; presented rate setting position reports to the regulatory board of the municipal utility in Austin, Texas, and Salt River Project, Arizona, on behalf of industrial customers; and negotiated rate disputes for industrial customers of the Municipal Electric Authority of Georgia in the LaGrange, Georgia district.

Q PLEASE DESCRIBE ANY PROFESSIONAL REGISTRATIONS OR ORGANIZATIONS TO WHICH YOU BELONG.

A I earned the designation of Chartered Financial Analyst ("CFA") from the CFA Institute. The CFA charter was awarded after successfully completing three examinations which covered the subject areas of financial accounting, economics, fixed income and equity valuation and professional and ethical conduct. I am a member of the CFA Institute's Financial Analyst Society.

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FEA's Proposed Revenue Spread
($ '000)

			Step 1 Increase/(Decrease) to Reach COS			Step 2 Set GS-4 and GS-5 to FEA Max/Min Increase/(Decrease)		Step 3 Set Special Contracts to Company Proposed Increase/(Decrease)		Step 4			FEA Proposed Increase/(Decrease)		
Line	Proposed Rate Schedule	Base Non-Fuel Revenues*	Amount	Percent	Index	Amount	Percent	Amount	Percent	Adjust?	Portion of Base Revs. for Adjustable Classes	Spread Remaining Rev. Def.	Amount	Percent	Index
(1)	(2)	(3)	(4)	(5) = (4)/(3)	(6)	(7)	(8) = (7)/(3)	(9)	(10) = (9)/(3)	(11)	(12)	(13)	(14) = (9)+(13)	(15) = (14)/(3)	(16)
1	RS	$53,042	$26,567	50.1%	1.15	$26,567	50.1%	26,567	50.1%	Yes	53.3%	-$1,410	$25,157	47.4%	1.09
2	RSG**	23	29	124.3%	2.86	29	124.3%	29	124.3%	No	-	0	29	124.3%	2.86
3	GS - I	16,416	7,125	43.4%	1.00	7,125	43.4%	7,125	43.4%	Yes	16.5%	-436	6,689	40.7%	0.94
4	GS - 2 (10K)	14,087	6,234	44.3%	1.02	6,234	44.3%	6,234	44.3%	Yes	14.2%	-374	5,859	41.6%	0.96
5	GS - 3 (50K)	3,049	1,512	49.6%	1.14	1,512	49.6%	1,512	49.6%	Yes	3.1%	-81	1,431	46.9%	1.08
6	GS - 4 (120K)	12,830	9,467	73.8%	1.70	6,688	52.1%	6,688	52.1%	Yes	12.9%	-341	6,347	49.5%	1.14
7	GS - 5 (1250K)	3,655	346	9.5%	0.22	794	21.7%	794	21.7%	No	-	0	794	21.7%	0.50
8	GS - 6 (11M)**	0	0	0.0%	-	0	0.0%	0	0.0%	No	-	0	0	0.0%	-
9	GS - 7 (25M)**	0	0	0.0%	-	0	0.0%	0	0.0%	No	-	0	0	0.0%	-
10	CSG**	58	330	571.6%	13.16	330	571.6%	330	571.6%	No	-	0	330	571.6%	13.16
11	Special Contracts**	4,740	-4,740	-100.0%	(2.30)	-4,740	-100.0%	235	4.9%	No	-	0	235	4.9%	0.11
12	**Total**	**$107,899**	**$46,871**	**43.4%**	**1.00**	**$44,539**	**41.3%**	**$49,514**	**45.9%**		**100%**	**-$2,643**	**$46,871**	**43.4%**	**1.00**
13	**Revenue Deficiency**					$ 2,332		$ (2,643)					-		

Notes:

*Includes SAFE revenues.

**RSG, GS-6, GS-7, CSG, and Special Contracts will remain at FCG Proposed values.