FLORIDA GAS TRANSMISSION COMPANY, LLC

Statement of the Nature, Reasons and Basis for the Proposed Changes

The instant filing reflects rates and charges necessary to recover increased annual costs which Florida Gas Transmission Company, LLC ("FGT") expects to incur in performing services under its rate schedules, utilizing a twelve-month Base Period ended May 31, 2009, adjusted for known and measurable changes anticipated to occur during the nine-month Adjustment Period ending February 28, 2010. Based on Test Period reservation and usage determinants, the proposed rate increase under all Rate Schedules would generate approximately $108 million in additional annual transportation revenues for FGT. In addition, this filing proposes changes in certain rate schedules of FGT's Tariff. This filing is being made pursuant to the rate case filing requirement in the Stipulation and Agreement in Docket Nos. RP04-12-000, *et al.*[1]

FGT proposes an effective date of November 1, 2009 for the revised tariff sheets listed in Appendix A to the transmittal letter. However, in anticipation that the Commission will exercise its authority under Section 4(e) of the Natural Gas Act ("NGA") to suspend the effective date for such sheets for five (5) months, FGT expects that the Commission will permit the revised sheets to become effective April 1, 2010. FGT also proposes certain changes to be effective on a prospective basis following a Commission order on the merits or a settlement of this proceeding. These proposed changes are detailed in the Pro Forma tariff sheets listed in Appendix A to the transmittal letter.

[1] Stipulation at Article XI, approved in *Florida Gas Transmission Co.*, 109 FERC ¶ 61,320 (2004).

A. Cost of Service

1. Non-Incremental or Pre-expansion System

FGT's proposed rates for its Non-Incremental or Pre-expansion system are based on an overall cost of service of approximately $231.7 million, which reflects actual experience for the twelve-month Base Period ended May 31, 2009, adjusted for known and measurable changes expected to occur during the nine-month Adjustment Period ending February 28, 2010. The rate base for FGT's Non-Incremental system as of May 31, 2009, adjusted for known and measurable changes through February 28, 2010, is approximately $675.2 million. The depreciation component of FGT's cost of service reflects a continuation of the depreciation rate for onshore transmission plant of 2.13 percent.

2. Incremental System

FGT's proposed Rate Schedule FTS-2 rates are based on an overall cost of service for its incremental system of approximately $347.5 million, which reflects actual experience for the twelve-month Base Period ended May 31, 2009, adjusted for known and measurable changes expected to occur during the nine-month Adjustment Period ending February 28, 2010. The rate base for FGT's incremental system as of May 31, 2009, adjusted for known and measurable changes through February 28, 2010, is approximately $1,318.3 million. The cost of service upon which the proposed FTS-2 rates are based reflects the same cost of debt, return on common equity and capital structure as the cost of service of the pre-expansion system. The depreciation component of the proposed FTS-2 rates reflects the same 2.50% depreciation rate previously approved by the Commission. FGT's FTS-2 shippers have certain rate caps (as agreed to in the Phase III Expansion Settlement, and as revised by the Phase IV Expansion Settlement), which limit the amount that FGT can collect to the lower of the maximum tariff rates or the rate caps. The proposed rates herein are below the rate caps provided for in the Phase III Expansion Settlement.

3. Required Comparison

In compliance with Section 154.7(a)(6) of the Commission's regulations, 18 CFR §154.7(a)(6), the following table compares the cost of service, rate base and throughput underlying this filing with the same information underlying the last rate found just and reasonable by the Commission:

	Instant Filing	RP04-12 [2]
Transport Revenues	$ 578,412,087	$ 471,700,000
Cost of Service	$ 579,218,226	$ 471,700,000
Rate Base	$ 1,993,432,712	$ 1,871,200,000
Throughput (MMBtu)		
Western Division	124,156,093	75,074,120[2]
Market Area	658,827,074	636,881,202[2]

FGT's overall cost-of-service, as detailed in Statement A, for the Base Period ending May 31, 2009, adjusted for known and measurable changes through February 28, 2010, justify the rate increase. The cost of service upon which the proposed rates are based reflects an overall return of 11.58%, with an 8.02% cost of debt and a return on common equity of 13.88%, utilizing FGT's test period capital structure of 39.26% debt and 60.74% equity. FGT is controlling expenses, and taking a conservative approach in its rate proposals, while striving to match cost incurrence with cost causation.

B. Cost Classification, Cost Allocation and Rate Design

In developing the rates proposed herein, FGT has generally continued to use the same cost classification, cost allocation, and rate design which underlie its currently effective

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[2] The Settlement in Docket No. RP04-12-000 was a "black-box settlement," and as such, did not identify underlying cost of service components nor rate design determinants. The amounts shown are FGT's estimates for comparison purposes only.

rates. First, FGT has continued to allocate operation and maintenance costs (including administrative and general costs) between the pre-expansion and incremental systems based on the methodology agreed to in the Stipulation and Agreement ("the Phase III Settlement"), approved by the Commission in Docket No. CPO92-182-000, et al. (*Florida Gas Transmission Co.*, 64 FERC ¶61,288 (1993); *reh'g granted in part and clarification granted,* 66 FERC ¶ 61,160 (1994)), even though such agreement has expired.

Second, FGT has continued the Straight-Fixed Variable ("SFV") methodology of designing rates, consistent with the Commission's directive in Order No. 636.

Third, FGT continues to design its rates for services on both the pre-expansion system and the incremental system on a traditional cost-of-service basis.

Fourth, FGT has continued to design rates for deliveries into the State of Florida on a postage-stamp basis.

Fifth, the non-incremental costs attributable to the Western Division facilities continue to be allocated to both the Western Division and Market Area services based on reservation quantities, usage quantities, on miles of haul, and revenue determinants.

Sixth, FGT is continuing to allocate some compressor-related costs to Rate Schedule NNTS service because compression is utilized to provide this No Notice service, in order to minimize line pack fluctuations caused by overage or underage flows.

Seventh, FGT is continuing the 50% load factor basis for calculating rates under Rate Schedule SFTS.

Finally, FGT is continuing to utilize a "blended" rate derived from the costs and volumes underlying the FTS-1 and FTS-2 rates for its rates under Rate Schedule ITS-1. FGT continues to believe that a blended rate for ITS-1 services is reasonable for several reasons. Although firm services on FGT's pre-expansion and incremental systems are priced differently, the systems are operationally integrated, the capacity is not distinct for purposes of providing interruptible services, and, together, the systems' available capacity is utilized for interruptible transportation services.

C. Projected Annual Volumes

The proposed rates reflect representative annual volumes of firm and interruptible transportation developed using volumes transported during the twelve-month Base Period ending May 31, 2009, as adjusted for the nine-month Adjustment Period ended February 28, 2010. The total throughput reflected in the instant filing is 658,827,074 MMBtu for the Market Area and 124,156,093 MMBtu for the Western Division. Contracts which began during the Base Period or Test Period, and will continue beyond the Test Period, have been annualized. Likewise, contracts which expired and were not renewed during the Base Period, or are known to expire during the Test Period, have been eliminated for purposes of calculating the billing determinants.

D. Discount adjustment

FGT has calculated its billing determinants by utilizing a discount adjustment which uses the iterative methodology preferred by the Commission. Such adjustment is made in accordance with the goals and directives of the Commission's Rate Design Policy Statement[3] that allows a pipeline to seek a reduction in the volumes used to design its maximum rates, if it obtained those volumes by offering discounts to meet competition.

E. Asset Retirement Obligations

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. FGT adopted the new rules on asset retirement obligations ("ARO") on January 1, 2003. In March 2005, the FASB issued FASB Interpretation ("FIN") No. 47, "Accounting for Conditional Asset Retirement Obligations – an

[3] *Policy for Selective Discounting by Natural Gas Pipelines*, 111 FERC ¶ 61,309 (2005).

interpretation of FASB Statement No. 143," which clarified the rules related to ARO accounting. FGT adopted FIN No. 47 in December 2005.

Section 154.315 of the Commission's regulations, 18 CFR §154.315, addresses a natural gas company's rate case filing requirements related to AROs. Under those requirements, a company may seek to recover non-rate base costs related to AROs, but all ARO cost components that would impact the calculation of rate base must be removed from the rate base calculation. In the instant filing, FGT has complied with Section 154.315 of the Commission's regulations, and has reflected ARO depreciation expenses of $26,980 and an ARO funding allowance of $962,590 for its transmission facilities.

The main reason for the increase in Cost of Service is a substantial increase in gas plant since the 2004 Rate Case. At February 29, 2004, the end of the test period in the last Rate Case, the gas plant balance was $916 million and $1.826 billion for the non-incremental and incremental facilities, respectively. In this filing, the gas plant, as shown in Statement C, is $1.442 billion and $2.051 billion for the non-incremental and incremental facilities, respectively. These increases of over 27 percent in total gas plant reflect expansions for new customer load on the incremental facilities, substantial capital needed to comply with Department of Transportation ("DOT") and the Pipeline Hazardous Materials and Safety Administration ("PHMSA") requirements of the Pipeline Safety Improvement Act of 2002 and relocation/replacement cost to accommodate expansions and improvements to the Florida Turnpike, as required by the Florida Department of Transportation.

F. Basis for the Filing

The basis for FGT's proposed changes are fully detailed in Statements A through J, L, M and O, submitted as part of this rate filing, and as described in Section 154.312 of the Commission's regulations [18 CFR §154.312]. In addition, Statement P, submitted herewith, contains prepared direct testimony setting forth the evidence that supports FGT's case-in-chief. The testimony of FGT's witnesses are as follows:

Witness	Testimony
Michael T. Langston	Background Information Related to Filing, Including Selection of Equity Return, Proposed Base Rates, and Proposed Tariff Changes
Richard N. Marshall	Capital Structure and Cost of Debt
Robert B. Hevert	Range of Return on Equity
Rickey J. Brocato	Overall Cost of Service, Rate Base, Gas Plant, Accumulated Provision for Depreciation, Depreciation Expense, Working Capital and Other Taxes
Debra E. Thompson	Accumulated Deferred Income Taxes, Regulatory Assets, Operating Expenses and Income Taxes
William W. Grygar	Functionalization, Classification and Cost Allocation, and Roll-in Justification of Phase VII Expansion
Lawrence J. Biediger	Transportation & Compression By Others Expense, Gas Balance, Base Period Reservation and Usage Quantities, Test Period Adjustments to Reservation and Usage Quantities, Discount Adjustment, Rate Design for Transportation Services, Revenues and Revenue Credits

G. Revised Tariff Sheets

As part of the instant rate filing, FGT proposes to make certain modifications to its FERC Gas Tariff, as contained in the revised tariff sheets submitted herein, which are proposed to be effective November 1, 2009.

FGT is proposing a number of tariff changes. These involve: (1) removal of the Capital Surcharge tracker provision, (2) modification of the fuel tracker provision for electric compression, (3) modification of the Right of First Refusal ("ROFR") provision, (4) a new provision to permit extension of contracts, (5) change to the contracting practice to require electronic execution of service agreements and amendments, (6) a new provision governing waste heat recovery facilities, (7) modification of gas quality provisions, (8) revision to Rate Schedule ITS-1 to permit delivery in the Western Division, and (9) expanding Rate Schedule IPS to allow Western Division shippers to use the pooling service.