

**UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION**

Florida Gas Transmission Company, LLC § Docket No. RP10-____-000

**PREPARED DIRECT TESTIMONY
OF
RICHARD N. MARSHALL**

1 **Q. Please state your name and business address.**

2 A. My name is Richard N. Marshall. My business address is 5444 Westheimer Road,
3 Houston, Texas 77056.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am Senior Vice President and Chief Financial Officer for Southern Union
6 Company (“Southern Union”) and certain of its subsidiaries and affiliates,
7 including Florida Gas Transmission Company, LLC (“FGT”). I am responsible
8 for the oversight of all financial activities, including treasury, investor relations,
9 budget and tax, as well as financial reporting including: (1) internal reports to
10 executive management and the Board of Directors and external reports filed with
11 the Securities and Exchange Commission and other federal and state agencies; (2)
12 annual report and proxy to stockholders; (3) presentations to rating agencies; (4)
13 annual budget process and monthly variance analysis; and (5) federal, state and
14 local tax planning and compliance. I also oversee the purchasing function for
15 multiple divisions.

16

1 **Q. What is your employment history with FGT and Southern Union?**

2 A. From 2001 through November 2006, I served as Vice President and Treasurer of
3 Southern Union. Prior to 2001, I was Vice President, Rates and Regulatory
4 Affairs of PG Energy, Southern Union's Pennsylvania natural gas distribution
5 division. From 1985 until its acquisition by Southern Union in 1999, I served in
6 various financial and regulatory roles for Pennsylvania Enterprises, Inc., a natural
7 gas distribution company in northeastern Pennsylvania. I assumed my current
8 duties for both Southern Union and FGT in November 2006.

9 **Q. What is your educational background?**

10 A. I graduated from Wilkes University in 1980 with a Bachelor of Science in
11 Accounting.

12 **Q. Have you previously given testimony before the Federal Energy Regulatory**
13 **Commission?**

14 A. No.

15 **Q. What is the purpose of your testimony?**

16 A. My testimony addresses the capital structure of FGT, the cost of debt, and level of
17 return on equity. The exhibits I am sponsoring are comprised of statements and
18 schedules supporting the costs and the capital structure of FGT.

19 **Q. What Exhibits are you responsible for in this proceeding?**

20 A. I am responsible for the following exhibits and schedules which support my
21 testimony and have been prepared by me or under my supervision:

1	<u>Exhibit No.</u>	<u>Reference</u>	<u>Description</u>
2	FGT-8	STATEMENT F-1	Rate of Return Claimed
3	FGT-9	STATEMENT F-2	Capitalization and Rate of
4			Return Claimed
5	FGT-10	STATEMENT F-3	Debt Capital
6	FGT-11	STATEMENT F-4	Preferred Stock Capital

7 **Q. Please explain Exhibit No. FGT-8.**

8 A. Exhibit No. FGT-8 includes Statement F-1 of the rate filing in this proceeding and
9 is a narrative explanation for the rate of return claimed by FGT. In addition,
10 Exhibit No. FGT-8 describes the ownership of FGT.

11 **Q. What is the ownership of FGT?**

12 A. FGT is a wholly-owned subsidiary of Citrus Corp., which in turn, is owned 50
13 percent by El Paso Citrus Holdings, Inc. ("EPCH"), a wholly-owned subsidiary of
14 El Paso Corporation ("El Paso") and 50 percent owned by CrossCountry Citrus,
15 LLC ("CCC"), a wholly-owned subsidiary of Southern Union Company and
16 certain of its subsidiary companies. In November 2007, Southern Natural Gas
17 Company ("Southern"), whose parent is El Paso, distributed EPCH to El Paso.

18 **Q. Is FGT a Limited Liability Company?**

19 A. Yes. On September 1, 2006, Florida Gas converted its legal entity type from a
20 corporation to a limited liability company, pursuant to the Delaware Limited
21 Liability Company Act.

22

1 **Q. What effect did the conversion have on FGT?**

2 A. As a result of the conversion, common stock, additional paid-in capital, and
3 retained earnings at that date were reclassified to Member's Equity. The
4 conversion did not have a material effect on FGT's results of operations (including
5 income taxes), cash flows or financial position.

6 **Q. Please explain your Exhibit No. FGT-9.**

7 A. Exhibit No. FGT-9 includes Statement F-2 of the rate filing in this proceeding and
8 sets forth the resulting return on common equity from the overall rate of return
9 claimed. In addition, Page 2 of Exhibit No. FGT-9 reflects the Capitalization of
10 FGT as of the end of May 31, 2009, the end of the Base Period, and as adjusted for
11 known and measurable changes for the period ending February 28, 2010, the end
12 of the Test Period.

13 The adjustment reflected in Column (c) of Page 2 consists of an increase in
14 common equity to give effect to estimated net income and amortization of
15 accumulated other comprehensive income through February 28, 2010. Column (d)
16 of Page 2 consists of an adjustment required to debt capital to reflect borrowings
17 or sinking fund and debt retirements as of February 28, 2010, and is from my
18 Exhibit No. FGT-10.

19 **Q. What is the capitalization FGT is proposing in this proceeding?**

20 A. The adjusted capitalization ratios as of February 28, 2010 are 39.26 percent debt
21 and 60.74 percent equity. The overall total cost of capital, as of February 28,
22 2010, is 11.58 percent, which FGT believes is the minimum return required to

1 allow FGT to attract capital on reasonable terms and thereby ensure continued
2 adequate and reliable service to FGT's customers. This return is computed based
3 on an embedded cost of debt of 8.02 percent, and a return on common equity of
4 13.88 percent. The Prepared Direct Testimony of both FGT Witness Mr. Robert
5 B. Hevert, Exhibit No. FGT-12, and FGT Witness Michael T. Langston, Exhibit
6 No. FGT-1, support this rate of return on common equity.

7 **Q. What is the basis of the 8.02 percent cost of debt?**

8 A. FGT's embedded cost of debt of 8.02 percent is based on the weighted average
9 cost of FGT's long-term debt of \$997,000,000, outstanding as of February 28,
10 2010. The calculation of the 8.02 percent cost of debt is set forth on Page 2 of
11 Exhibit No. FGT-10.

12 **Q. Please explain your Exhibit No. FGT-10.**

13 A. Exhibit No. FGT-10 includes Statement F-3 of this rate proceeding and
14 reflects the weighted average cost of debt capital for all of FGT's outstanding debt
15 instruments, which total five, as set forth in Columns (b) through (f) of the exhibit.
16 The cost of debt of 8.02 percent is shown on Column (i), Line 22 of Exhibit No.
17 FGT-10.

18 **Q. Does FGT have debt not guaranteed by FGT's parent, Citrus Corp.**
19 **("Citrus")?**

20 A. Yes. Only a small portion of FGT's debt is guaranteed by its parent, Citrus. Of
21 the \$997,000,000 of FGT debt outstanding, less than 5 percent is guaranteed by

1 Citrus. Only the oldest debt issuance, issued in 1991 with an outstanding balance
2 of \$42,000,000, is guaranteed by Citrus.

3 **Q. Does FGT have its own separate bond rating?**

4 A. Yes, FGT's ratings for its most recent debt offering are: BBB (by Standard &
5 Poor's) and Baa2 (by Moody's Investors Service).

6 **Q. Please explain Exhibit No. FGT-11.**

7 A. Exhibit No. FGT-11 includes Statement F-4 of this rate proceeding and shows that
8 FGT has no preferred stock outstanding as of May 31, 2009, nor does it anticipate
9 issuing any through the end of the Test Period, February 28, 2010.

10 **Q. Is the 39.26 percent debt/60.74 percent equity capital structure described**
11 **above the capital structure used for both the non-incremental system and the**
12 **incremental system?**

13 A. Yes. Consistent with the Stipulation and Agreement in FGT's last rate case
14 proceeding, as approved by the Federal Energy Regulatory Commission
15 ("Commission") in Docket Nos. RP04-12-000, *et al.* on December 21, 2004 (109
16 FERC ¶ 61,320), FGT has utilized the same capital structure for both its non-
17 incremental system and the incremental system.

18 **Q. Does this conclude your prepared direct testimony?**

19 A. Yes, it does.

FLORIDA GAS TRANSMISSION COMPANY, LLC

Rate of Return Claimed

The total return included in Florida Gas Transmission Company, LLC's ("FGT") cost of service shown in Schedules A and B herein are based on a rate of return of 11.58% applied to the net investment rate base for the period ending February 28, 2010, as adjusted (the end of the Test Period). FGT believes that the 11.58% rate of return is, at the time of this filing, the minimum required to allow FGT to attract capital commensurate with returns being earned on investments of comparable risks, with due consideration to present economic conditions.

FGT is a wholly-owned subsidiary of Citrus Corp., which in turn, is owned 50 percent by El Paso Citrus Holdings, Inc. (EPCH), a wholly-owned subsidiary of El Paso Corporation (El Paso) and 50 percent owned by CrossCountry Citrus, LLC (CCC), a wholly-owned subsidiary of Southern Union Company and certain of its subsidiary companies. In November 2007, Southern Natural Gas Company (Southern), whose parent is El Paso, distributed EPCH to El Paso. On September 1, 2006, Florida Gas converted its legal entity type from a corporation to a limited liability company, pursuant to the Delaware Limited Liability Company Act. As a result of the conversion, common stock, additional paid-in capital, and retained earnings at that date were reclassified to Member's Equity. The conversion did not have a material effect on FGT's results of operations (including income taxes), cash flows or financial position.

FGT's capitalization is 60.74 percent equity and 39.26 percent debt, as of February 28, 2010, as adjusted. FGT's rate of return of 11.58% includes a return on equity of 13.88%, as shown on Statement F-2. FGT has utilized the actual average cost of its own debt, which is 8.02%, as shown on Statement F-3.

FGT's allowed fair rate of return must reflect investor return requirements under current competitive market conditions. FGT's claimed rate of return of 11.58% falls within a range of composite cost of capital based on embedded costs and reflects a return on the common equity component, which is fully supported in Statement P.

FLORIDA GAS TRANSMISSION COMPANY, LLC

Resulting Return on Common Equity
From Overall Rate of Return Claimed
For the Period Ending May 31, 2009, As Adjusted

Line No.	Description (a)	Capitalization at May 31, 2009 (b)	Adjustments (c)	Capitalization at February 28, 2010, As Adjusted (d)	Ratio (e)	Cost (f)	Weighted Rate (g)	Return Component (h)	Rate of Return on Equity (i)
1	Overall Rate of Return Claimed								
2	Debt	\$ 1,351,000,000	\$ (354,000,000)	\$ 997,000,000	39.26%	8.02% ^{1/}	3.15%	11.58%	
3	Common Equity	1,394,204,000	148,392,000	1,542,596,000	60.74%	13.88%	8.43%	-	
4	Total	<u>\$ 2,745,204,000</u>	<u>\$ (205,608,000)</u>	<u>\$ 2,539,596,000</u>	<u>100.00%</u>				<u>13.88%</u>

^{1/} The cost of debt of 8.02% shown reflects the actual average cost of debt of Florida Gas Transmission Company, LLC, as of February 28, 2010, as adjusted. See Schedule F-3.

FLORIDA GAS TRANSMISSION COMPANY, LLC

Capitalization
For the Period Ending February 28, 2010, As Adjusted

Line No.	Description (a)	Capitalization at May 31, 2009 (b)	Adjustments				Capitalization at February 28, 2010, As Adjusted (i)
			Net Income (c)	Debt Payments (d)	Dividends (e)	Partner Equity Infusions (f)	
1	Debt	\$ 1,351,000,000	\$ -	\$ (354,000,000)	\$ -	\$ -	\$ 997,000,000
2	Common Equity	1,394,204,000	116,253,000	-	(44,183,000)	74,000,000	1,542,596,000
3	Total	<u>\$ 2,745,204,000</u>	<u>\$ 116,253,000</u>	<u>\$ (354,000,000)</u>	<u>\$ (44,183,000)</u>	<u>\$ 74,000,000</u>	<u>\$ 2,539,596,000</u>
							<u>\$ (205,608,000)</u>
							<u>\$ 148,392,000</u>
							<u>\$ (354,000,000)</u>

FLORIDA GAS TRANSMISSION COMPANY, LLC

Debt Capital

Florida Gas Transmission Company, LLC has utilized its actual average cost of long-term debt of 8.02% as of May 31, 2009, the latest data available, as adjusted to include known and measurable changes through the end of the test period, February 28, 2010.

FLORIDA GAS TRANSMISSION COMPANY, LLC

Weighted Average Cost of Debt Capital
As of May 31, 2009, As Adjusted

Line No.	Description (a)	Series C Due 4/1/2013 (b)	144A Due 11/01/2024 (c)	Series BB Due 12/01/2010 (d)	144A Series AA Due 07/17/2012 (e)	Senior Note Due 05/15/2019 (f)	Total (g)	Amortization of Gain/Loss on Reacquired Debt (h)	Net (i)
1	Nominal Date of Issue								
2	Date of Maturity	04-04-1991	11-07-1994	12-05-2000	07-17-2002	05-08-2009			
3	Interest Rate	10.110%	9.190%	7.625%	7.000%	7.900%			
4	Principal Amount of Issue (Gross Proceeds)	\$ 70,000,000	\$ 150,000,000	\$ 325,000,000	\$ 250,000,000	\$ 600,000,000	\$ 1,395,000,000		\$ 1,395,000,000
5	Underwriter's Discount or Commission	\$ -	\$ -	\$ 291,038	\$ 113,382	\$ 1,076,087	\$ 1,480,507		\$ 1,480,507
6	Underwriter's Costs as % of Gross Proceeds			0.09%	0.05%	0.18%			
7	Issuance Expense	\$ 86,992	\$ 1,332,105	\$ 368,743	\$ 922,313	\$ 4,317,845	\$ 7,027,998		\$ 7,027,998
8	Issuance Expense as % of Gross Proceeds	0.12%	0.89%	0.11%	0.37%	0.72%			
9	Net Proceeds (L4 - L5 - L7)	\$ 69,913,008	\$ 148,667,895	\$ 324,340,220	\$ 248,964,305	\$ 594,606,068	\$ 1,386,491,496	N/A	\$ 1,386,491,496
10	Net Proceeds Per Unit (\$100) (L9 / L4)	99.88	99.11	99.80	99.59	99.10			
11	Term of Issue (Years)	22	30	10	10	10			
12	Remaining Term for Debt Discounts/Expenses	3.08	14.67	0.75	2.38	9.21			
13	Cost of Money (Yield to Maturity)	10.18%	9.88%	7.90%	7.17%	8.00%			
14	Debt Outstanding at 05-31-2009	\$ 56,000,000	\$ 120,000,000	\$ 325,000,000	\$ 250,000,000	\$ 600,000,000	\$ 1,351,000,000		\$ 1,351,000,000
15	Debt Due Within One Year of 05-31-2009	\$ 14,000,000	\$ 7,500,000	\$ -	\$ -	\$ -	\$ 21,500,000		\$ 21,500,000
16	Debt Less Current Maturities (L15 - L16)	\$ 42,000,000	\$ 112,500,000	\$ 325,000,000	\$ 250,000,000	\$ 600,000,000	\$ 1,329,500,000		\$ 1,329,500,000
17	Annual Cost of Debt	\$ 4,274,444	\$ 11,118,805	\$ 25,660,957	\$ 17,935,166	\$ 47,985,660	\$ 106,975,032	N/A	\$ 106,975,032
18	Weighted Average Cost of Debt on Issuance Principal	10.18%	9.88%	7.90%	7.17%	8.00%	8.05%	N/A	8.05%
Sinking Fund and Debt Retirements due within									
19	One Year of 02-28-2010								
20	Estimated Debt Outstanding at 02-28-2010, As Adjusted	\$ 42,000,000	\$ 7,500,000	\$ 325,000,000	\$ 250,000,000	\$ 600,000,000	\$ 332,500,000		\$ 332,500,000
		\$ 42,000,000	\$ 105,000,000	\$ -	\$ 250,000,000	\$ 600,000,000	\$ 997,000,000		\$ 997,000,000
21	Annual Cost of Debt	\$ 4,274,444	\$ 9,740,305	\$ -	\$ 17,935,166	\$ 47,985,660	\$ 79,935,575	N/A	\$ 79,935,575
22	Weighted Average Cost of Debt on Issuance Principal	10.18%	9.28%	N/A	7.17%	8.00%	8.02%	N/A	8.02%

FLORIDA GAS TRANSMISSION COMPANY, LLC

Annual Sinking Fund Requirements and Debt Retirements for the Nine Months
Ended February 28, 2010 (Test Period) and by Year to Expiration

Line No.	Description (a)	Series C Due 4/1/2013 (b)	144A Due 11/01/2024 (c)	144A Series BB Due 12/01/2010 (d)	144A Series AA Due 07/17/2012 (e)	Senior Note Due 05/15/2019 (f)	Total (g)
1		10.110%	9.190%	7.625%	7.000%	7.900%	
2	2009	\$ -	\$ 7,500,000	\$ -	\$ -	\$ -	\$ 7,500,000
3	2010	14,000,000	7,500,000	325,000,000	-	-	346,500,000
4	2011	14,000,000	7,500,000	-	-	-	21,500,000
5	2012	14,000,000	7,500,000	-	250,000,000	-	271,500,000
6	2013	14,000,000	7,500,000	-	-	-	21,500,000
7	2014	-	7,500,000	-	-	-	7,500,000
8	2015-2024	-	75,000,000	-	-	600,000,000	675,000,000
9	Total Sinking Fund Payments and Debt Retirements	\$ 56,000,000	\$ 120,000,000	\$ 325,000,000	\$ 250,000,000	\$ 600,000,000	\$ 1,351,000,000
10	Due within one year of end of Test Period	14,000,000	15,000,000	325,000,000	-	-	354,000,000
11	LT Debt Principal at 02-28-2010, As Adjusted	\$ 42,000,000	\$ 105,000,000	\$ -	\$ 250,000,000	\$ 600,000,000	\$ 997,000,000

FLORIDA GAS TRANSMISSION COMPANY, LLC

Preferred Stock Capital

Not applicable. Florida Gas Transmission Company, LLC has no preferred stock outstanding as of May 31, 2009, nor does it anticipate having any preferred stock outstanding on February 28, 2010, the end of the test period.

The State of Texas}
 } SS.
County of Harris }

BEFORE ME, the undersigned authority, on this day personally appeared
Richard N. Marshall, who being by me first duly sworn, on oath deposes and says:

That he is the Richard N. Marshall, offering the foregoing prepared direct testimony
and that all statements of fact contained therein are true and correct to the best of his
knowledge, information and belief.

/s/ Richard N. Marshall
Richard N. Marshall

Subscribed and sworn to before me this 25th day of September, 2009.

/s/ Suzanne Samano
Notary Public

My Commission Expires:

April 6, 2010