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IN REPLY REFER TO:

March 31, 1992

Ansley Watson, Jr.
P. O. Box 1531
Tampa, FL 33601

VIA FEDERAL EXPRESS

Mr. Steven C. Tribble, Director
Division of Records & Reporting
Florida Public Service Commission
Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32301

920295-GU

Re: Petition of Peoples Gas System, Inc. for
Approval of Rate Schedule CG, City Gate Gas
Sales Agreement and Modifications to its
Purchased Gas Adjustment (PGA) Clause

G4608

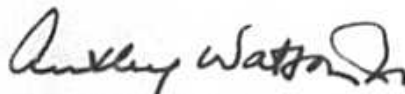
Dear Mr. Tribble:

Enclosed for filing with the Commission, please find the original and 12 copies of the petition of Peoples Gas System, Inc. referred to above.

I would appreciate your acknowledging your receipt, the date of filing, and the docket number assigned on the duplicate copy of this letter which is enclosed, and returning the same to me in the postage paid, preaddressed envelope which is also enclosed.

Thank you for your usual assistance.

Sincerely,



ANSLEY WATSON, JR.

AWjr/a
Enc.

DOCUMENT NUMBER-DATE
03198 APR-1 1992
PSC-RECORDS/REPORTING

Mr. Steven C. Tribble
March 31, 1992
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cc: Mr. Joseph W. McCormick
Mr. Dan R. Pountney
Mr. Jack E. Uhl
Mr. F. J. Sivard
Mr. Hugh M. Grey, III

T

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition of Peoples Gas :
System, Inc. for Approval of : DOCKET NO. 920295-GU
Rate Schedule CG, City Gate Gas :
Sales Agreement and : Submitted for Filing:
Modifications to its Purchased : 4-1-92
Gas Adjustment (PGA) Clause :

PETITION FOR APPROVAL OF RATE SCHEDULE CG,
CITY GATE GAS SALES AGREEMENT AND MODIFICATIONS
TO PURCHASED GAS ADJUSTMENT (PGA) CLAUSE

Petitioner, PEOPLES GAS SYSTEM, INC. ("PGS" or "Company"), by its undersigned attorneys, files this its petition for approval of its Rate Schedule CG, the form of a City Gate Agreement (as hereinafter described) and modifications to its purchased gas adjustment (PGA) clause (to become effective on one day's notice after publication), on the basis of "proposed agency action". This petition is not submitted pursuant to Section 366.06(4), Florida Statutes (the "file-and-suspend" law). In support of its petition, the Company states as follows:

1. The name and address of the Company is:

Peoples Gas System, Inc.
Post Office Box 2562
Tampa, Florida 33601-2562

2. The person to whom notices, orders and pleadings in this docket should be addressed is:

Ansley Watson, Jr., Esquire
Macfarlane Ferguson
Post Office Box 1531
Tampa, Florida 33601-1531

DOCUMENT NUMBER-DATE

03198 APR -1 1992

FPSC-RECORDS/REPORTING

BACKGROUND

3. PGS is a natural gas distribution company -- a "public utility" as defined in Section 366.02(1), Florida Statutes -- which is subject to the jurisdiction of the Commission. PGS provides natural gas service to approximately 200,000 residential, commercial, governmental and industrial customers in portions of Florida, and maintains division offices in North Miami, Miami, Tampa, St. Petersburg, Lakeland, Sarasota, Palm Beach Gardens, Avon Park, Daytona Beach, Eustis, Jacksonville and Orlando.

4. The throughput of gas through the Company's system for its fiscal year ended September 30, 1991 totaled 667,681,789 therms. Of this total, 409,690,764 therms were sold or transported to "interruptible" (as opposed to "firm") customers. Of this total interruptible throughput, 242,860,122 therms consisted of customer-owned gas which was delivered by customers to PGS at various receipt points on the interstate pipeline system of Florida Gas Transmission Company ("FGT"), shipped over the FGT system by PGS (acting as the "shipper") pursuant to its firm transportation service agreement with FGT, delivered by FGT to various PGS city gates, and transported and delivered by PGS to the customers at their gas-consuming facilities in PGS's service territory.

5. PGS began the above-described transportation of customer-owned gas on August 1, 1990, when FGT first commenced offering "open access" transportation pursuant to Federal Energy

Regulatory Commission ("FERC") Orders 436 and 500. Prior to FGT's becoming an open access pipeline, PGS had recognized that interruptible capacity on the FGT system would be limited in the future because major direct and electric-generating customers of FGT had made nominations for firm capacity during FGT's "open season" for nominations. In view of what PGS recognized as an obvious interruptible capacity shortfall, PGS nominated firm capacity rights for both sales (under FGT's Rate Schedule G) and transportation (under Rate Schedule FTS-1) in order to protect the capacity and supply which had historically been used by PGS's end-use customers (both firm and interruptible). PGS believes that its foresight in this regard has been confirmed inasmuch as interruptible service was not available during the first six months of open access on the FGT system. Had PGS not nominated full requirements on a firm basis to serve both its firm and interruptible customers, curtailment and interruption of service to interruptible customers would have occurred on a daily basis. During the first year of open access, interruptible service in limited amounts was available on only approximately 60 days.

6. When FGT became an open-access pipeline on August 1, 1990, only a limited amount of firm transportation service under Rate Schedule FTS-1 was available to FGT's customers. Over a five-year conversion opportunity period, FGT customers such as PGS will be able to convert more of their firm sales service under Rate Schedule G to firm transportation service. The fact that the FGT pipeline is capacity-constrained during most of the

year means that only firm sales, firm transportation, and some preferred service volumes can flow through the pipeline. Occasionally, during a few non-peak months (generally occurring some time between January and April), some interruptible transportation capacity under Rate Schedule ITS-1 is available. Several PGS customers have ITS contracts with FGT and some occasionally move their gas over the FGT system under Rate Schedule ITS-1. However, the only access to firm transportation on FGT which is available to most of PGS's end-use customers is through PGS's own FTS-1 capacity.

7. When PGS developed its nominations to FGT in order to meet the needs of its customers, it offered its historic large volume interruptible customers a chance to "firm up" their requirements -- at least on the FGT system -- by entering into commitments to use specific portions of the firm service which PGS acquired the rights to use on the FGT system, in return for the customers' agreements to pay demand charges associated with that firm capacity. The commitments made by PGS's large volume customers were then used by PGS (along with other information relating to projected growth of the PGS system) to develop the Company's nominations to FGT.

8. Prior to FGT's commencement of open-access transportation, PGS entered into agreements (the "Capacity Agreements") with several of its large-volume interruptible customers, which provide for PGS's use of a portion of its firm transportation capacity on the FGT system "on behalf of" such

customers. Because conversions from sales service to transportation service under the FGT service agreements were required to be "phased in" over a five-year period, the Capacity Agreements also provide for PGS's use of a portion of its firm sales entitlement on FGT on behalf of the customers in an amount generally equal to the difference between the FTS-1 capacity committed to the customer and the customer's full gas requirements. These agreements are typically for terms of from three to five years, and require each customer to reimburse PGS for the demand charges associated with both the firm FTS-1 capacity and the firm G capacity which PGS commits to use on behalf of the customer, whether or not the full amount of such capacity is actually used. Although the Capacity Agreements provide that transportation of the customer's gas is firm on the FGT system, PGS also entered into transportation and supply agreements with these customers which provide that all service (whether interruptible transportation of customer-owned gas or delivery of gas purchased by the customer from PGS) is interruptible between PGS's city gates and the customers' facilities. These agreements further provide that PGS may appropriate the customer-owned gas during periods of pipeline capacity or gas supply shortage (with provisions for makeup following the shortage), thereby creating a form of storage available to PGS for its firm ratepayers during such periods.

9. Through the Capacity Agreements, PGS has provided its end-use customers with a means of obtaining more competitively

priced gas, which helps assure they will remain PGS customers, thereby maintaining or increasing system throughput to the ultimate benefit of all of PGS's other ratepayers. PGS refers to the customers with which it has entered into Capacity Agreements as "contract demand" customers.

10. That portion of PGS's FTS-1 capacity which is not used on behalf of contract demand customers is used by PGS to transport gas which it purchases from suppliers other than FGT to meet the gas requirements of its other customers. These other customers' requirements are also met in part by gas purchases which PGS makes from FGT under Rate Schedule G.

11. PGS recovers the cost of gas sold to its customers through its Commission-approved purchased gas adjustment ("PGA") clause, the operation of which is set forth in the Commission's Orders Nos. 24463, 24463-A and 25064. In essence, PGS (as do other Commission-regulated local distribution companies) projects its total cost of purchased gas for a six-month period, subtracts from the total all demand charges payable to FGT for the period, and divides the remaining amount by the total commitments of contract demand customers for G gas under the Capacity Agreements. This is the weighted average cost of gas ("WACOG") which is used as the PGA factor for sales of gas to contract demand customers (up to the level of G contract demand under the Capacity Agreements). The WACOG to be used as the PGA factor for all other customers (and for sales to contract demand customers in excess of the G commitments under the Capacity Agreements) is

determined by projecting PGS's total cost of purchased gas for the six-month period, subtracting from that total (A) an amount determined by multiplying the contract demand G commitments for the period by the sum of the contract demand WACOG and FGT's demand charge for G service and (B) FTS-1 demand charges payable by contract demand customers under the Capacity Agreements, and dividing the result by projected sales to all non contract demand customers for the six-month period. Over- or underrecoveries of PGS's costs of purchased gas which result from the use of this methodology are "trued-up" during the following six-month period, so that such costs are recovered by the Company on a "dollar-for-dollar" basis.

THE IMPETUS FOR THIS PETITION

12. Under the Capacity Agreements, PGS takes title as agent to the gas purchased from third parties by its contract demand customers because of requirements in FGT's FERC tariff requiring that the "shipper" (i.e., PGS) have title to the gas to be transported by FGT. Because of several ongoing proceedings before the FERC, it is possible that the FERC may limit, or seek to limit, the ability of PGS and other local distribution companies ("LDCs") to make their contracted-for capacity on interstate pipelines (such as FGT) available to customers (such as PGS's contract demand customers) behind the LDCs' city gates. More specifically:

A. The FERC in several orders has asserted that

the assignment of capacity on interstate natural gas pipelines is a jurisdictional activity under Section 1(b) of the Natural Gas Act. Texas Eastern Transmission Corporation, 37 FERC ¶ 61,260 (1986). However, the FERC has held that a firm sales customer of an interstate pipeline may use its priority to the pipeline's capacity to act as an agent or broker of gas, so long as the customer has title to the gas at the time the gas is delivered to the pipeline and while the gas is being transported on the pipeline. Id. at 61,685. The FERC has also held that sales customers of interstate pipelines who elect to convert to transportation service may use their firm capacity for their general system supply or "on behalf of" certain other entities pursuant to Section 311(a) of the Natural Gas Policy Act of 1978 (the "NGPA"), and that such latter activity does not constitute capacity brokering. Texas Gas Transmission Corporation, 49 FERC ¶ 61,237 (1989). On January 16, 1992, the FERC in Docket No. RP92-56-000 accepted tariff sheets filed by FGT that modified FGT's Rate

Schedule FTS-1 to incorporate the standards regarding "on behalf of" transportation set forth by FERC in its Order No. 537, FERC Statutes and Regulations ¶ 30,927 (1991), pursuant to Section 311(a) of the NGPA.

- B. FGT does not currently have a FERC-approved program for its customers to broker or assign their firm capacity rights on FGT. However, since FGT commenced open-access transportation in August 1990 pursuant to the FERC's Order in Florida Gas Transmission Company, 51 FERC ¶ 61,309 (1990), FGT has used Rate Schedule FTS-1 to permit its LDC customers to utilize their firm transportation capacity on behalf of end users behind the city gate who have purchased their own gas supplies, provided that the LDC certifies that it holds title to the gas while in transit on FGT and, inter alia, identifies the ultimate end-user of the transported volumes if the gas is not destined for general system supply.
- C. FGT is currently engaged in proceedings in FERC Docket Nos. RP91-187-000 and CP91-2448-000 involving comprehensive restructuring of its rates and services,

pursuant to the FERC's order in Florida Gas Transmission Company, 56 FERC ¶ 61,182 (1991). The use by FGT's LDC customers of their capacity rights on FGT to serve their converting and new end-use transportation customers behind their city gates will be at issue in both these proceedings.

- D. The FERC is currently conducting a generic review of its policies regarding the use by LDCs of their firm capacity on interstate pipelines in In Re Pipeline Service Obligations and Revisions to Regulations Governing Self-Implementing Transportation under Part 284 of the Commission's Regulations, Docket No. RM91-11-000 (the so-called "Mega-NOPR"). The Mega-NOPR involves a proposed rulemaking that would, inter alia: (1) prescribe a right of first refusal that would require existing firm capacity holders on interstate pipelines to match competing bids for such capacity, both during individual pipeline proceedings to implement FERC's final rule and at the end of the contract term, in order to retain such capacity; and (2) replace unlimited capacity brokering with a non-discriminatory

capacity release and reallocation program administered through the pipeline.

- E. Also, in the Mega-NOPR and in El Paso Natural Gas Company, et al., Docket Nos. CP88-433-002, et al., the FERC is considering whether "buy/sell" arrangements under which LDCs in California (and possibly other jurisdictions) make their capacity rights on interstate pipelines available to customers behind their city gates comport with FERC's policies regarding open access transportation on interstate pipelines. While neither of these proceedings is directed specifically toward PGS, the outcome of these proceedings could prospectively affect use of interstate pipeline capacity by PGS and other LDCs on behalf of customers behind their city gates (such as the use made of such capacity by PGS under the Capacity Agreements).

Because of certain of the aforementioned FERC orders and proceedings, questions have arisen with respect to whether PGS's use of its firm transportation capacity on FGT in the manner contemplated by the Capacity Agreements will be permitted in the future.

RELIEF REQUESTED

13. By this Petition, PGS seeks approval for modifications to its PGA clause (attached hereto as Exhibit "A"), a new Rate Schedule CG (City Gate Service, attached hereto as Exhibit "B"), and the form of a City Gate Gas Sales Agreement which, in combination, will allow the Company to "target" specific gas purchases for any contract demand customer which uses 50 million therms or more annually. These customers have in the past (and/or would have in the future) received transportation service through FGT pursuant to the Capacity Agreements and from PGS under the transportation and supply agreements. The current and prospective customers of PGS who would presently qualify for service under Rate Schedule CG are Jacksonville Electric Authority, Tropicana Products, Inc., Pasco Cogen, Ltd., Lake Cogen, Ltd., and Orlando CoGen Fuel, Inc.

14. PGS proposes to enter into City Gate Gas Sales Agreements ("City Gate Agreements") pursuant to Rate Schedule CG with each of these customers providing for the purchase by PGS of gas from the customer's supplier(s) at the receipt point on the FGT system, the transportation of the gas over the FGT system to PGS's city gate (under PGS's firm transportation service agreement with FGT), and the resale of the gas to the customer, at the appropriate PGS city gate, at the price paid therefor by PGS plus (a) the contract demand charges formerly paid by the customer under the Capacity Agreement and (b) all variable charges payable by PGS to FGT for transportation of the gas on

the FGT system. The gas would then be transported by PGS over its distribution system (pursuant to a gas transportation agreement), and delivered to the customer at its facility. The customer would pay PGS's applicable transportation charge under its Commission-approved tariff (currently \$.0109 per therm under Rate Schedule ISLV) for this transportation service. PGS's gas transportation and supply agreement would also be modified to require (as is presently required by the Capacity Agreements) the customer's monthly reimbursement of PGS for FGT demand charges on the FTS-1 capacity required for the transportation of the gas over the FGT system (whether or not such capacity is used during any given month).

PGS would therefore recover its cost of the gas purchased from these customers' suppliers directly from the customers rather than under the current PGA clause, and the PGA clause would be modified so as not to apply to gas purchased from the Company pursuant to a City Gate Agreement. Likewise, the cost of gas purchased by PGS for resale under a City Gate Agreement would be excluded in calculating PGS's system WACOG. The general form of the proposed City Gate Agreement is attached hereto as Exhibit "C". It should be noted that under the proposed City Gate Agreement, PGS would be obligated to pay the customer's supplier(s) for gas delivered only to the extent the customer has paid PGS with respect to the resale of the gas to the customer pursuant to the Agreement, and that PGS would not be obligated with respect to any payments resulting from the customer's

failure to meet any "take-or-pay" or "minimum take" provisions of the agreement between the supplier(s) and the customer.

15. PGS submits that proposed Rate Schedule CG, and the proposed City Gate Agreements and modifications to its PGA clause should be approved by the Commission. The Commission has previously recognized the value of large-volume interruptible customers to PGS and its general body of ratepayers. The Commission has long recognized that loss of significant interruptible load by a utility would result in a request for relief by the utility that would seek to have the remaining investment (after reductions for any plant no longer used and useful) and costs borne by the remaining customers through higher rates.

The Commission has approved modifications to the Company's Rate Schedules CIS and CTS (Contract Transportation Service) in order to address the issue of the potential for bypass of the utility by its large-volume customers. In doing so, the Commission stated:

We agree with PGS that the special condition sought to be added to Rate Schedules CIS and CTS is necessary to enable it flexibility to retain customers accounting for substantial therm sales on the utility's distribution system, and is in the long-term best interest of both PGS and its ratepayers.

16. Rate Schedules CIS and CTS as they presently exist were approved by the Commission in order to provide PGS with the flexibility needed to compete with the alternate fuels available to its interruptible customers as well as to address

the potential bypass of the Company by such customers. If PGS's ability to use its firm transportation capacity on FGT on behalf of customers using 50 million or more therms per year is eliminated or restricted by the FERC (pursuant to a final rule in the Mega-NOPR or otherwise), Jacksonville Electric Authority might be able to substitute No. 6 fuel oil for the gas which it would no longer be able to receive via the Capacity Agreement, or could purchase gas from PGS's system supply. In the event of an adverse FERC order, Tropicana Products and the three cogeneration customers named above would be required to purchase gas from PGS's system supply at its WACOG. The PGA factor applicable to such purchases from the Company's system supply might be higher or lower than the commodity cost (plus transportation on FGT) which would have been available under the Capacity Agreement. However, in all cases these customers would no longer be able to select their gas suppliers or structure their purchases to meet their own needs at any given time. Further, the cogeneration customers -- each of which was required to enter into long term gas purchase arrangements with suppliers in order to obtain financing for their projects -- could face financial difficulties since their projections for the feasibility of their projects were based on the long term gas supply contracts under which the purchase prices were tied to indices other than the cost of gas. If required to purchase gas from PGS's system supply, the purchase price

would rise or fall based on the price of gas rather than being based on the particular index underlying the projected feasibility of the project.

17. Approval of proposed Rate Schedule CG, the proposed City Gate Agreement and the modifications to the Company's PGA clause would permit these customers to purchase gas from suppliers selected by them as they have done in the past, and as they contemplated doing in the future. Furthermore, they would be able to do so with no impact on PGS's WACOG and the PGA factors charged by the Company from time to time to its other customers in order to recover its costs of purchased gas. On the other hand, if PGS lost the base rate revenues derived from providing service to these large-volume customers, the Company's remaining ratepayers would inevitably be called upon to make up the shortfall through higher base rates.

18. Although the FERC has asserted jurisdiction over the use by LDCs of their contracted-for capacity on interstate pipelines, PGS submits that the prudence of a Florida LDC's gas purchases and the manner in which it recovers from its ratepayers the costs of such purchases (including costs incurred in transporting such purchases over an interstate pipeline) are beyond the FERC's jurisdiction and clearly within that of this Commission. PGS also submits that this Commission has the power (which it has already exercised) to provide more than one method by which a Florida LDC may

recover its costs of purchased gas, just as it has the power to fix different rates for different classes of customers. The fact that the FERC may regulate the interstate transportation of a Florida LDC's gas into Florida and the LDC's use of its capacity on an interstate pipeline cannot divest the Commission of its proper jurisdiction.

19. To the extent the Commission requires information in addition to that set forth in this petition, PGS will endeavor to provide any information requested as promptly as possible.

WHEREFORE, Peoples Gas System, Inc., respectfully requests that the Commission will (1) approve the form of the proposed City Gate Agreement, Rate Schedule CG, and its purchased gas adjustment clause, as modified, for publication by the Company to become effective on one day's notice, and (2) expedite its consideration and disposition of this petition.

Respectfully submitted,



ANSLEY WATSON, JR., of
Macfarlane Ferguson
P. O. Box 1531
Tampa, Florida 33601
813-273-4321
Attorneys for Peoples Gas
System, Inc.

STATE OF FLORIDA

COUNTY OF HILLSBOROUGH

Before me, the undersigned authority, personally appeared Daniel R. Pountney who, being by me first duly sworn, says that he is Vice President - Marketing of Peoples Gas System, Inc.; that he is duly qualified and acting in that capacity; that he is authorized to execute the foregoing Petition and to make this oath thereto; that the matters and things stated in said Petition are, insofar as they come within his knowledge and belief, true; and that insofar as they are derived from or dependent upon the knowledge of others, he believes them to be true.



DANIEL R. POUNTNEY

Sworn to and subscribed before me this 31 day of March, 1992.



NOTARY PUBLIC
STATE OF FLORIDA


My Commission Expires:

2-26-94

GENERAL APPLICABILITY PROVISIONS (Continued)

B. PURCHASED GAS ADJUSTMENT CLAUSE.

Except for gas purchases by Customer at the initial point of Company's receipt of such gas on Company's distribution system pursuant to Rate Schedule CG, the energy charge of the Monthly Rate for gas supplied in any billing period shall be adjusted by the Company's expected weighted average cost of gas (WACOG). A standby sales customer shall not pay demand charges embedded in the WACOG unless its usage exceeds its contracted-for demand. The WACOG may not exceed the Commission-approved purchased gas cost recovery factor based on estimated gas purchases (excluding purchases made by Customers at the initial point of Company's receipt of such gas on Company's distribution system pursuant to Rate Schedule CG) for the six-month periods of April through September and October through March, in accordance with the methodology adopted by the Commission on May 2, 1991, in Order No. 24463, Docket No. 910003-GU, or as such methodology may be amended from time to time by further order of the Commission. The WACOG determined as set forth above shall be multiplied by 1.00376 for regulatory fees, rounded to the nearest \$.00001 per therm, and applied to the total number of therms (excluding purchases made by Customer at the initial point of Company's receipt of such gas on Company's distribution system pursuant to Rate Schedule CG) consumed by the customer during the billing period.

The purchased gas cost recovery factor approved by the Commission for bills rendered for meter readings taken from April 1, 1992 through September 30, 1992 is 24.639 cents per therm.

The purchased gas cost recovery factor shall serve as a cap or maximum recovery factor. If re-projected expenses for the remaining period exceed projected recoveries by at least 10% for the six month period, a mid-course correction may formally be requested by the Company. For changes in market conditions and costs, the Company, upon one day's notice to the Commission, may increase or decrease the WACOG as long as any increase does not exceed the authorized cap. The current month WACOG may be adjusted for prior months' differences between projected and actual costs of gas purchased, but may not exceed the approved cap for the period.

Issued By: J. A. Brabson, Jr., President
Issued On:

Effective:

EXHIBIT "A"

CITY GATE SERVICE
Rate Schedule CG

Availability:

Throughout the service areas of the Company.

Applicability:

Gas delivered to any commercial or industrial Customer using more than 50,000,000 therms per year which has entered into both a City Gate Gas Sales Agreement and a Gas Transportation Agreement with the Company.

Monthly Rate:

Energy Charge: As provided in the City Gate Gas Sales Agreement between Customer and Company.

Company's Purchased Gas Adjustment Clause set forth on Sheet No. 7.102 shall not apply to purchases of gas made by Customer under this schedule.

Minimum Bill: As provided in the City Gate Gas Sales Agreement between Customer and Company.

Special Conditions:

1. A City Gate Gas Sales Agreement accepted by the Company, in substantially the form set forth on Sheets Nos. 8. through 8. is a condition precedent for service under this schedule.
2. Each prospective customer must submit a written application, in a form acceptable to the Company, prior to the initiation of service under this schedule. After the Company's receipt of a properly completed application, if the Company determines it is able to provide the service requested, the applicant and the Company will enter into a City Gate Gas Sales Agreement and a gas transportation agreement.
3. The rates set forth in this schedule shall be subject to the operation of the Company's Tax and Fee Adjustment Clause set forth on Sheet No. 7.103.

Issued By: J. A. Brabson, Jr., President Effective:
Issued On:

CITY GATE GAS SALES AGREEMENT

This City Gate Gas Sales Agreement (this "Agreement") is made and entered into as of _____, 19____, by and between Peoples Gas System, Inc., a Florida corporation ("PGS"), and _____, a _____ ("Customer"). PGS and Customer are sometimes referred to herein as "the parties".

WHEREAS, Customer has entered into a Gas Purchase Agreement with _____, a _____ ("Supplier") (the "Supplier Agreement"), pursuant to which Customer will have the right to purchase up to _____ MMBtu of gas per day from Supplier and have such gas delivered to certain points on the pipeline system of Florida Gas Transmission Company ("FGT");

WHEREAS, PGS has entered into an agreement with FGT (said agreement and any amendatory or superseding agreements being hereinafter referred to collectively as the "FGT Agreement") granting PGS certain rights to firm gas transportation service on the FGT pipeline system for a period of up to twenty (20) years by conversion over a period of five (5) years commencing on August 1, 1990, of certain existing rights of PGS to purchase gas from FGT, the FGT Agreement is a condition precedent to PGS's obligations hereunder in the manner set forth herein;

WHEREAS, PGS desires to obtain, and Customer desires to grant to PGS, certain rights (i) to purchase gas available to Customer under the Supplier Agreement and (ii) to resell such gas to Customer at the Receipt Point (as defined in the PGS Transportation Agreement (as hereinafter defined)) of PGS; and

WHEREAS, PGS and Customer have entered into a Gas Transportation Agreement (the "PGS Transportation Agreement") pursuant to which PGS has agreed to transport such gas across PGS's distribution system from the Receipt Point to Customer's facility located at _____, Florida (the "Facility");

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements included herein, the parties hereby agree as follows:

1. Grant of and Conditions to the Gas Purchase Right.

1.1 Grant of Gas Purchase Right. Subject to the provisions of this Agreement, Customer hereby grants, conveys, assigns and transfers to PGS the right (the "Gas Purchase Right") at any time and from time to time during each year to acquire from Supplier for resale to Customer all, or any portion of, the gas available to Customer under the Supplier Agreement. For purposes of this Agreement, the term "Supplier Agreement" shall mean the Supplier Agreement as the same may

Issued By: John A. Brabson, Jr., President
Issued On:

Effective:

CITY GATE GAS SALES AGREEMENT (continued)

be modified, amended, supplemented or substituted hereafter by one or more agreements entered into by Customer in form and substance substantially similar to the corresponding original of the Supplier Agreement with such changes as do not, individually or in the aggregate, have an adverse effect on PGS.

1.2 Certain Conditions to Gas Purchase Right. During the term of this Agreement, PGS agrees to exercise the Gas Purchase Right solely at the direction of Customer. PGS shall have no obligation to follow any direction from Customer with respect to the exercise of the Gas Purchase Right unless, and only to the extent that (a) the Supplier Agreement is substantially in the form thereof executed by and between Customer and Supplier with only such changes as shall not adversely affect PGS under this Agreement or its agreements with Supplier, (b) such direction is communicated to PGS not less than two (2) hours before PGS must notify Supplier pursuant to Section 2 of this Agreement to exercise such rights, (c) the direction is for a purchase of gas only during the term of the Supplier Agreement and (d) the FGT Agreement is in effect and firm transportation service for the amount of gas that PGS is directed to purchase is available thereunder to PGS. PGS agrees to use diligent efforts to cooperate with Customer in maintaining the firm transportation service under the FGT Agreement. Customer agrees to reimburse PGS for any costs incurred by PGS at Customer's request, other than in the ordinary course of PGS's business, in connection with such maintenance of the FGT Agreement, including without limitation any out-of-pocket expenses and the value of management time in such efforts as reasonably determined in accordance with PGS's customary practices.

2. Exercise of Gas Purchase Right.

2.1 Notice of Exercise. PGS shall exercise its Gas Purchase Right by giving notice (a "PGS Notice") to Supplier, with confirmation to Customer, of the Nomination (as such term is defined or used in the Supplier Agreement) in compliance with the provisions of the Supplier Agreement. In no event shall PGS be entitled to give any notice to Supplier, nor shall Supplier be obligated to comply with any notice from PGS under the Supplier Agreement except for a PGS Notice pursuant to the Supplier Agreement; provided, however, that nothing herein shall limit notice by PGS to Supplier in the event of an emergency. Nothing in this Agreement shall be construed to entitle PGS (i) to exercise any rights of Customer under the Supplier Agreement except the Gas Purchase Right on the terms set forth herein or (ii) to exercise any rights Customer may have to enforce, amend or terminate the Supplier Agreement. The parties agree that Supplier shall be entitled to rely conclusively on any PGS Notice received from PGS unless and until such notice is rescinded by notice from both PGS and Customer.

2.2 Purchase of Gas. Upon the exercise of its Gas Purchase Right, PGS shall purchase directly from Supplier the gas to be delivered under such right at the "Delivery Point" defined in the Supplier

Issued By: John A. Brabson, Jr., President
Issued On:

Effective:

CITY GATE GAS SALES AGREEMENT (continued)

Agreement (the "Supplier Delivery Point"), and shall pay Supplier directly for gas so delivered as follows:

(a) Commodity Charges. PGS shall pay Supplier (on the same terms and conditions set forth in the Supplier Agreement) the purchase price (excluding any charges imposed as a result of any failure to take or purchase any minimum quantity of gas) for all gas so purchased and shall reimburse Suppliers for all taxes corresponding to such sales pursuant to the Supplier Agreement; provided, however, that PGS shall be obligated to pay Supplier such amounts only to the extent Customer has paid PGS with respect to the resale of such gas in accordance with Section 3 of this Agreement.

(b) Non-Commodity Charges. PGS shall not be liable to Supplier for any other charges under the Supplier Agreement, including without limitation any charges imposed as a result of any failure to take or purchase any minimum quantity of gas, all of which shall remain the sole obligation of Customer.

2.3 Suppliers Billing and Payment. Amounts due by PGS pursuant to the terms hereof shall be billed by Supplier to PGS, with a copy to Customer, and shall be payable in accordance with the terms of the Supplier Agreement. All amounts due and payments made hereunder by PGS shall be paid directly by PGS or, at Customer's sole option upon reasonable prior notice to PGS, by Customer to Supplier, and in either case shall be credited by Supplier against amounts otherwise due and payable by Customer under the Supplier Agreement. No exercise by PGS of the Gas Purchase Right nor any other action of PGS hereunder shall cause it to be liable to Supplier for any obligation of Customer under the Supplier Agreement and PGS's sole obligation shall be to pay Supplier for gas delivered for the account of PGS pursuant to its exercise of the Gas Purchase Right in accordance with the terms of this Agreement when and to the extent Customer has paid for the Resold Gas.

2.4 No Modification of the Supplier Agreement. Nothing in this Agreement shall relieve Customer of its obligations, nor modify any of Supplier's rights, under the Supplier Agreement, including any amendments thereto entered into by Customer and Supplier, regardless of whether such changes are not agreed to by PGS because they have an adverse effect on PGS. Customer shall continue to be the primary obligor under the Supplier Agreement and shall remain obligated to pay for all amounts due thereunder.

3. Resale of Gas Purchased by PGS.

3.1 Resale. Upon delivery from Supplier at the Supplier Delivery Point of gas purchased by PGS under the Gas Purchase Right (the "Purchased Gas"), PGS shall cause the Purchased Gas to be transported to the Receipt Point (as defined in the PGS Transportation Agreement) pursuant to PGS's rights under the FGT Agreement and shall resell the

CITY GATE GAS SALES AGREEMENT (continued)

Purchased Gas to Customer at the Receipt Point. PGS shall have no liability hereunder for any failure of delivery of gas to the Supplier Delivery Point. PGS shall also have no liability for any failure of delivery of the Purchased Gas to the Receipt Point; provided that PGS agrees to comply with all terms of the FGT Agreement in effect from time to time with respect to such gas, and to use reasonable efforts to enforce any rights it may have under such agreement to cause such delivery for resale hereunder to Customer. Customer shall purchase from PGS the total net amount of Purchased Gas delivered to the Receipt Point (the "Resold Gas"). The purchase price for the Resold Gas shall be the sum of (a) all charges incurred by PGS pursuant to Section 2 of this Agreement in purchasing the Purchased Gas (including all interest and penalties) and (b) all variable charges payable by PGS under the FGT Agreement with respect to Purchased Gas, including without limitation all interest and penalties and any commodity or similar charges, whether now existing or hereafter arising under the FGT Agreement, including without limitation all charges for reimbursement for gas required for losses and fuel on the FGT system, but not including any charges payable by Customer under the PGS Transportation Agreement. Customer shall also be responsible for any taxes due on the sale of the Resold Gas, the Florida gross receipts tax and the Florida Public Service Commission ("FPSC") regulatory assessment fee, and agrees to pay the same to PGS at its request if PGS reasonably determines under applicable law that such taxes or fees are payable.

3.2 Customer Billing and Payment. PGS shall deliver to Customer monthly (typically within seven days after the end of the month) a bill for the Resold Gas delivered to Customer during the preceding month, which bill shall include in a separate item (the "Supplier Portion") all amounts due to Supplier for PGS's purchase of such Resold Gas and shall be transmitted by facsimile transmission. In the event actual purchases of Resold Gas during the preceding month are not known at the time of such billing, PGS may bill on estimated quantities, subject to later adjustment when actual purchases become known. The Supplier Portion of such bills shall be due as provided under the applicable provisions of the Supplier Agreement, and the remaining amounts shall be due ten (10) days after the bill is rendered. Customer may at its option make full payment of the Supplier Portion to PGS or directly to Supplier for the account of PGS with notice of such payment to PGS. All payments by Customer to PGS hereunder shall be by wire transfer in immediately available funds to an account designated by PGS. If Customer fails to pay any amount with respect to the Supplier Portion when due, Customer agrees to pay all late payment charges and similar charges imposed on PGS and Customer under the Supplier Agreement. If Customer fails to pay any other amounts when due hereunder, a late payment charge at the rate of one and one-half percent (1.5%) per month, measured from the due date and prorated for any portion of a month on the basis of a 30-day month, on any unpaid balance until paid in full shall be billed by PGS to Customer and Customer agrees to pay such charge.

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CITY GATE GAS SALES AGREEMENT (continued)

4. Transportation of the Resold Gas. Upon Customer's purchase of the Resold Gas from PGS, PGS shall transport the such gas from the Receipt Point to the Facility in accordance with the PGS Transportation Agreement, a copy of which is attached hereto and incorporated herein by reference.

5. No Resale of Resold Gas. Customer agrees not to resell the Resold Gas or the rights under this Agreement to the Resold Gas except by assignment in accordance with the terms hereof.

6. Regulatory Jurisdiction Over Transactions.

6.1 FPSC Jurisdiction. PGS is a public utility subject to regulation by the FPSC. This Agreement (or the form thereof) shall be filed with the FPSC and shall, subject to any disapproval or limitations imposed by the FPSC, become effective on the date on which the FPSC's order approving this Agreement (or the form thereof) becomes effective and final and no longer subject to appeal. Compliance by PGS with any order of the FPSC or any other federal, state or local governmental authority acting under claim of jurisdiction issued before or after the effective date of this Agreement shall not be deemed to be a breach hereof.

6.2 FERC. In the event that (i) the Federal Energy Regulatory Commission ("FERC") or any other regulatory authority of the United States asserts jurisdiction over the transactions provided for herein or (ii) such jurisdiction results from any amendment to the Natural Gas Act or the Natural Gas Policy Act or any enactment or amendment of any other statute or regulation of any jurisdiction in the United States, and in order that PGS may purchase the quantities of gas provided herein on the terms and conditions herein specified, each party shall use commercially reasonable efforts and shall cooperate with the other to pursue all necessary approvals and authorizations, if any, of FERC or any other regulatory authority of the United States or to amend the terms and condition of this Agreement as may reasonably be required to avoid such jurisdiction; provided that in either case no party shall be required to take any action which shall have any adverse effect on such party's rights and benefits under this Agreement. Notwithstanding the foregoing, but without limiting PGS's right to terminate this Agreement pursuant to subsection 7.2 below, nothing herein shall impose on Customer any obligation to take any action hereunder which will cause PGS, in the opinion of counsel reasonably satisfactory to PGS, to be a "natural gas company".

6.3 Consequences of Jurisdiction. In the event of (i) the issuance of any order of the FPSC which modifies the provisions of this Agreement (ii) assertion of jurisdiction contemplated by subsection 6.2 or (iii) receipt by either party of any approval or authorization described in subsection 6.2 above, the party receiving such order,

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assertion, approval or authorization shall promptly transmit to the other party a copy or notice thereof as appropriate, and either party shall, within thirty (30) days after delivery of such notice, give notice to the other party whether the terms and conditions of such order, assertion, approval, authorization or decision may have an adverse effect on such party or its rights and obligations under this Agreement, and as a result, are unsatisfactory to such party, setting forth the reasons therefor.

7. Term and Early Termination.

7.1 Term. The term of this Agreement shall commence on the date hereinabove first written and shall remain in full force and effect, unless earlier terminated under the terms of this Agreement, until the termination of the FGT Agreement or the PGS Transportation Agreement, whichever is earlier.

7.2 Early Termination. In the event of notice by either PGS or Customer to the other party of dissatisfaction with any order, assertion, approval, authorization or decision pursuant to subsection 6.3, each party shall have the option to terminate this Agreement by giving thirty (30) days notice of termination to the other. No such termination shall occur, if, within such thirty (30) day period, the party receiving such notice of termination agrees to amend this Agreement as reasonably required to eliminate the adverse effect on the party seeking such termination or to provide indemnity to such party against such adverse effect in form and with adequate security therefor satisfactory to such party. Neither party shall expressly request administrative or judicial modification of any term of this Agreement without the other party's consent. In the event that the Facility has been destroyed or suffered substantial damage and for a period of at least eighteen (18) consecutive months (i) neither Customer nor its successors or assigns has directed PGS to purchase gas hereunder and (ii) neither Customer nor its successors or assigns has promptly sought and is diligently pursuing the rebuilding of the Facility, either party shall have the option to terminate this Agreement immediately upon notice to the other party.

8. Limitation of Liability and Force Majeure. Neither PGS nor Customer shall be liable to the other for any failure of performance under this Agreement if such failure results from strikes, lockouts, transportation delays, governmental restrictions or regulations, acts of God or the public enemy, action or inaction of suppliers or other third parties or any causes whatsoever which PGS nor Customer, as the case may be, is unable to prevent by the exercise of reasonable diligence. Customer, however, shall not be relieved of any obligation to pay for gas pursuant to this Agreement. Neither PGS nor Customer shall be liable to the other or to any party claiming through the other for special, indirect or consequential damages relating to any matter covered by this

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Agreement.

9. Default. If either party shall fail to perform or shall otherwise be in default of any of its material obligations under this Agreement other than an obligation to make a payment required hereunder, the non-defaulting party may, subject to the defaulting party's right to cure such default as provided herein, terminate this Agreement by giving the defaulting party written notice stating specifically the nature of the default and the notice of termination. Any party in default of any of its obligations other than a payment obligation shall have ninety (90) days after such notice is given in which to remedy or remove the default. Any party in default of a payment obligation hereunder (excluding for this purpose any payment with respect to the Supplier Portion the non-payment of which does not give rise to any liability against PGS) shall have forty-five (45) days after such notice is given in which to remedy such default, including without limitation the payment of any late charges incurred with respect thereto. If within the applicable cure period the default is remedied or removed and the notifying party is made whole and fully indemnified for any and all consequences of such default to the extent required under this Agreement, then the notice of termination shall be withdrawn, and this Agreement shall continue in full force and effect. If within the applicable cure period the default is not remedied or removed, and the notifying party is not made whole and indemnified for any and all consequences of such default to the extent required under this Agreement, the notifying party shall have the right to terminate this Agreement immediately, effective upon giving notice thereof to the defaulting party, and to exercise any other remedy it may have at law or in equity. No waiver by either party of any default of the other party under this Agreement shall operate as a waiver of any future default, whether of like or different character or nature.

10. Warranties of Title. PGS warrants that it will, upon delivery of gas to Customer at the Receipt Point, have title commensurate with the title conveyed to PGS by Supplier at the Supplier Delivery Point to all gas so delivered to Customer, free and clear of any liens, encumbrances and claims arising from PGS's ownership thereof. PGS will indemnify Customer and save it harmless from all suits, actions, debts, accounts damages, costs, losses and expenses (collectively "Claims") arising out of the adverse claims to said gas and/or to royalties, licenses, or similar charges thereon which are applicable to such gas and/or the delivery of such gas to PGS for transportation hereunder, in each case only if such Claims are made by any persons claiming by or through PGS. Title to the gas from the time it is received at the Supplier Delivery Point until it is delivered to the Receipt Point shall remain with PGS and shall not pass to Customer until it is delivered at the Receipt Point.

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11. Notices. All notices required or permitted to be given hereunder shall be in writing and shall be deemed given to a party at its address set forth below, or to such other address as any party may designate from time to time by notice to the other party given in accordance herewith, (i) upon delivery in person, (ii) on the third business day after mailing by registered or certified mail, postage prepaid, (iii) on the next business day after timely delivery to an overnight common carrier service, service fee payable by the sending party, for next-day delivery or (iv) on the date of facsimile transmission by telephone line provided such transmission is followed by delivery of a copy of such notice within twenty-four hours pursuant to clauses (i) or (iii):

PGS:Administrative Matters:

Peoples Gas System, Inc.
 111 East Madison Street, 17th Floor
 P. O. Box 2562
 Tampa, Florida 33601-2562
 Attention: Vice President - Marketing
 Telephone: (813) 272-0092
 Facsimile: (813) 272-0062

Payment:

Peoples Gas System, Inc.
 111 East Madison Street, 17th Floor
 P. O. Box 2562
 Tampa, Florida 33601-2562
 Attention: Vice President - Accounting
 Telephone: (813) 272-0087
 Facsimile: (813) 272-0062

Customer:Administrative Matters:

Attention: _____
 Telephone: _____
 Facsimile: _____

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CITY GATE GAS SALES AGREEMENT (continued)

Invoices:

Attention: _____
 Telephone: _____
 Facsimile: _____

Supplier:Invoices:

Attention: _____
 Telephone: _____
 Facsimile: _____

Payments:

Attention: _____
 Telephone: _____
 Facsimile: _____

or such other address as such party may hereafter specify for the purposes by notice to the other parties hereto.

12. Miscellaneous.

12.1 No Waiver. No failure or delay by either party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

12.2 Amendments. Any provision of this Agreement may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by both of the parties hereto. In the event of the termination or expiration of, or reduction in the quantities of gas deliverable under, the Supplier Agreement, upon Customer's request and subject to necessary regulatory approvals, PGS agrees to enter into a substitute or supplemental gas sale agreement, as the case may be, with Customer, on substantially the same terms provided herein, to provide

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CITY GATE GAS SALES AGREEMENT (continued)

for PGS's exercise of Customer's gas purchase rights under any gas purchase contract Customer may enter into in substitution or supplementation of the Supplier Agreement, provided, however, without limiting the foregoing, PGS does not hereby agree to enter into any such new or supplemental agreement which would increase the quantity of gas to be purchased hereunder, which has delivery points that are different from the Supplier Delivery Point under the Supplier Agreement (unless the addition, deletion or change in such delivery points shall not have an adverse effect on PGS), whether under the FGT Agreement or otherwise, or which has a term that extends beyond the stated term of the FGT Agreement then in effect.

12.3 Entire Agreement. This Agreement, together with the PGS Transportation Agreement, constitutes the entire agreement between the parties with respect to the delivery of gas to the Facility by PGS, and such agreements supersede all prior agreements and understandings among the parties.

12.4 Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that Customer may not assign or otherwise transfer any of its rights under this Agreement except by an assignment of this Agreement (i) as security in connection with the construction or permanent financing of the Facility (ii) to an entity owned or controlled by Customer or its owners that is formed to own and operate the Facility, or (iii) with PGS's prior written consent, which shall not be unreasonably withheld, to any successor to substantially all of Customer's interest in the Facility.

12.5 Defined Terms. Any term used herein shall have the same meaning as defined in the PGS Transportation Agreement unless expressly defined otherwise in this Agreement.

12.6 Governing Law. This Agreement shall be construed in accordance with the laws of the State of Florida.

12.7 Applicable Law. This Agreement and each party's performance thereunder shall be subject to all applicable laws, rules, orders and regulations of any federal, state, or local governmental authority having jurisdiction over the parties, their facilities, or the transactions contemplated.

12.8 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

CITY GATE GAS SALES AGREEMENT (continued)

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their authorized officers as of the date first written above.

PEOPLES GAS SYSTEM, INC.

By: _____
Title: _____

By: _____
Title: _____

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Issued On:

CITY GATE GAS SALES AGREEMENT (continued)

The undersigned acknowledges receipt of the foregoing Agreement and agrees to be bound by the provisions of Section 2 hereof.

For the purposes of this Agreement notices may be given to the undersigned in accordance with Section 11 and otherwise in accordance with the terms hereof. This Agreement has been executed on behalf of the undersigned by a duly authorized officer and is a valid and binding obligation of the undersigned.

By: _____
Title:

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Issued On: