

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

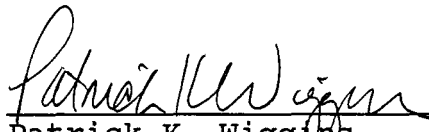
In re: Unbundling of Natural Gas Services)
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Docket No. 960725-GU
Filed: 1-27-97

ASSOCIATED GAS DISTRIBUTORS OF FLORIDA'S
CONSOLIDATED COMMENTS

Associated Gas Distributors of Florida hereby files the attached consolidated comments in response to staff's Unbundling Workshop Three.

Respectfully submitted this 27th day of January, 1997.



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01016 JAN 27 97

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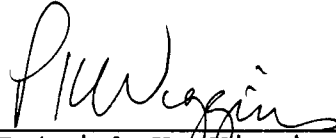
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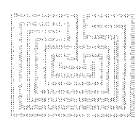
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**CONSOLIDATED COMMENTS OF
ASSOCIATED GAS DISTRIBUTORS OF FLORIDA
IN RESPONSE TO
FLORIDA PSC STAFF
UNBUNDLING WORKSHOP THREE**

January 24, 1997

REED

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617-270-0101

DOCUMENT NUMBER-DATE

01016 JAN 27 97

FPSC-RECORDS/REPORTING

**CONSOLIDATED COMMENTS OF ASSOCIATED GAS DISTRIBUTORS OF FLORIDA
IN RESPONSE TO FLORIDA PSC STAFF
UNBUNDLING WORKSHOP THREE**

Preface

The Associated Gas Distributors of Florida (AGDF) appreciates the opportunity for frank discussion that the Florida Public Service Commission (FPSC) Staff's Unbundling Workshop forum has provided. The issues dealing with the unbundling of the services traditionally provided by local distribution companies (LDCs) have been aired in significant detail. However, three fundamental issues remain. These topics are so important to the unbundling process that no further unbundling should take place in the State of Florida until these issues are resolved. The AGDF would like to take the opportunity in these final workshop comments to emphasize the importance of these three threshold issues, which are as follows:

1. It is not clear that further unbundling of the natural gas business in the State of Florida will produce fundamental economic benefits that outweigh their costs in the long run. The risk that future decisions regarding energy infrastructure in Florida could be in the hands of commercial interests outside of state borders must be included as a potential cost of the unbundling process.
2. If energy costs in Florida are thought to be excessive, tax avoidance, a key driver of the unbundling process thus far, needs to be addressed in a meaningful way. A major element in the reduced cost of transported gas to date is avoidance of taxes on gas provided by marketers. When Gross Receipts Tax, Sales and Use Tax, Regulatory Assessment Fees, Municipal Utility Tax and Local Franchise Fees are added to the price of LDC sales gas, the price of the commodity can be as much as 26% higher than the price of the same gas provided by unregulated marketers.* Clearly, savings to the consumer that arise because of tax differentials have nothing to do with the potential benefits of competition. As indicated in the AGDF's response to issue No. 63, the AGDF believes that the taxation on LDCs' sales gas should be reduced to be equal to the taxation on fuel oil dealers and other unregulated energy suppliers.
3. Finally, as the AGDF stressed in Workshop Number Two in response to issues 37 through 42, the AGDF is not convinced that the firm pipeline capacity, for which the LDCs' commitment was extracted in the past and which is required for long-run reliability in future, will be built without long-term contractual commitments. Assessing the cost of past firm long-term contracts to ratepayers in the form of stranded cost charges rather than firm transportation charges doesn't resolve the issue. The FPSC

* See comments of Peoples Gas in response to the Third Workshop in this docket.

should, in the opinion of the AGDF, satisfy itself on behalf of the ratepayers of Florida (firm sales and firm transporters alike) that the issue of the adequacy and continuing availability of firm long-term capacity is thoroughly examined. Gas customers in Florida must be assured that the firm capacity that they require will be available to them both now and in the future.

The AGDF requests that the FPSC critically evaluate and explore all available avenues to resolve these threshold issues before considering expansion of the unbundling that the LDCs have already undertaken. The important work of the FPSC Staff's Workshops on Unbundling would surely be undermined if the analysis of the individual issues discussed in those workshops are grafted onto a false premise or result in unsound long-term economic conditions for the citizens of Florida.

BILLING AND RATES

43. Which dollars would flow to PGA customers, and which services would remain subject to the PGA? (AGDF)

LDCs should continue to provide regulated sales services to customers that desire it. The costs associated with this regulated service would remain subject to PGA collection. The costs related to the purchase and re-sale of gas to system sales customers include the commodity cost of gas, the costs of pipeline capacity held by the LDC, as well as the costs associated with the procurement, scheduling, monitoring and balancing of both capacity and commodity.

The costs associated with balancing, metering and administering transportation of customer-owned or third-party-owned gas supplies should be paid by those customers or by their agents or suppliers. Balancing services could be unbundled, but initially, it should remain a cost based regulated monopoly service. Since some of the personnel and services associated with system supply procurement also provide balancing and transportation management, the appropriate allocation of costs between sales and transportation must be determined. If the total costs for resources used for balancing and transportation management are already included and recovered through the PGA, all revenues received from transportation balancing and penalty charges should be credited to the PGA.

44. Should the LDC's have the discretion to bill the customer in one of two ways? (a) Company bills distribution and commodity components. (b) Company bills distribution component, supplier bills commodity component. (AGDF)

Yes. LDCs and customers (including alternative suppliers) should have the discretion to develop different methods of billing and billing responsibility. At a minimum, the

LDC would continue to invoice its customers for distribution service. Under one option, third party suppliers would bill separately for the gas commodity component.

As a second option, LDCs should be allowed to offer billing services to third party suppliers that do not want to directly invoice customers for the gas component. Pricing for these billing services would result from negotiated transactions between the LDC and third party suppliers. LDCs should not be required to provide billing services to third party suppliers without just compensation for the administration, postage and systems costs required to provide such services.

45. Should the PSC adjust rates to parity before requiring further unbundling of LDC's? (AGDF)

No, not necessarily. The Commission should not require all utilities to simultaneously file rate cases in order to bring rates to parity. However, LDCs should be allowed to make such filings if they determine rate redesign is appropriate, necessary, and timely. If an LDC decides to align its rates among classes, it should be permitted to file a rate proceeding before unbundling. Complete rate parity may not be possible in all circumstances or may require transition or mitigation measures to limit severe rate impacts.

OTHER ISSUES

46. Should the LDC be required to unbundle meter reading, billing, and collections services? (Staff)

No. Decisions regarding the unbundling of distribution services such as billing, collection and meter reading are premature. The LDC continues to be responsible for retail services for the majority of its customers. In Florida, it may make sense for LDCs to continue to provide the majority of the traditional sales functions to small core customers.

[Distribution unbundling may take the form of outsourcing some functions versus continuing to perform these services in-house. Each utility should determine its needs and the benefits, if any, of outsourcing.]

By way of example, meter reading typically serves multiple requirements of the utility in addition to the administrative/billing service it supports. Meter readers may identify dying foliage resulting from a potential gas leak, report damage to the meter, check for tampering with the meter and perform general maintenance. To unbundle the safety and maintenance function from meter reading in this example may be cost prohibitive.

47. Should the LDC be required to file unbundled tariffs within 90 days of the issuance of a Commission order on unbundling? (Staff)

If the Commission decides to require LDCs to file unbundled tariffs, the time required for preparation of unbundled tariffs will be directly related to the extent of service unbundling required. LDCs should have a minimum of 180 days from any final order in this docket in which to file new tariffs and additional time to prepare for new service implementation.

48. Who is responsible for tax collection remittance, who is responsible for bad debts and collection costs, etc.? (AGDF)

The State should clarify that the provider of a service is responsible for collection and remittance of taxes and fees on those services. Therefore, LDCs would continue to be responsible for the collection and remittance of taxes on local distribution services and on any retail gas sale through its regulated merchant function. However, the LDC should not be responsible for serving as State and local tax collector for products or services provided by alternative suppliers.

Bad debts are a function of receivables, and their responsibility rests with the service provider. The regulated LDC should continue to collect an allowance for bad debts related to revenues associated with its distribution service and any regulated sales service. If an LDC provides a joint billing function, the contract between the LDC and the competitive supplier would specify how to deal with uncollected revenues, bad debt, or partial payments for combined services.

49. Who is responsible for the costs of educating customers about transportation: LDC's, marketers, state government? (AGDF)

LDCs, marketers, and state government should jointly work to develop fair, reasonable, and accurate education programs on supplier choice and the changing nature of regulated utility service. LDCs should be allowed to accrue the cost associated with education and evaluation efforts for new supplier choice and aggregation programs to the extent required by regulators.

50. Should LDC's be permitted to recover costs of educating customers, if they are required to perform that service? (AGDF)

Yes, LDCs should be permitted to recover costs of mandatory customer education programs on service unbundling as well as the prudently incurred cost of education programs undertaken voluntarily.

51. Should the FERC Gas Tariff of Florida Gas Transmission (FGT) be used as an unbundled tariff model? (CNB Olympic)

No. Certain elements from the FGT tariff provide a reasonable guide for FPSC-regulated utilities. However, LDCs should not be required to use the FGT model as the appropriate structure for developing new transportation tariffs. The operational circumstances of FGT and a typical LDC are quite different, and tariffs must be designed that recognize each LDC's unique circumstances. LDC tariffs should reflect the needs and the circumstances of Florida's distribution utilities, their customers and the third party suppliers that serve them.

52. Should the LDC's start-up issues allow for implementation of procedural requirements (such as paperwork, metering, initial eligibility limitations, access fees, and mandatory agreements) if they act as barriers to service? (CNB Olympic)

LDCs would not likely be allowed to impose unreasonable procedures that act as a barrier to customer conversion to transportation service. However, LDCs must be allowed to establish fair and reasonable procedures for the process of converting customers from sales to transportation service. LDCs have a business interest in reducing costs to their customers, and thus, would not be likely to establish unnecessary barriers to service.

53. Should supplier/s competitively sensitive information, such as upstream contracts, remain confidential? (CNB Olympic)

Such information should generally remain confidential. Some elements should be subject to disclosure to the LDC, under a confidentiality agreement, if needed for operational integrity and balancing purposes. If contract information is provided, pricing information could be redacted from any documents provided to the LDC.

54. Should LDC unbundled rates be held confidential to prevent the marketer/broker a competitive advantage? (Staff)

Unbundled rates consist of two general types: rates for regulated monopoly services and prices for services that Commission determines are competitive. Rates for regulated services will continue to be a part of the LDC tariff, and open to the public.

Prices for unregulated services provided by the utility or by its affiliates should be treated with the same degree of confidentiality as prices of any other unregulated service provider.

55. What types of alternative regulation of unbundled rates should take place to allow unbundled service to "stand alone" from continued regulation of bundled customer services? (Staff)

Unbundled services should not be confused with deregulated services. Unbundled services include such services as transportation, balancing, storage and ancillary services. Deregulated services are those for which the utility has no natural monopoly. LDC rates today include, in a single charge, the full spectrum of services used by the utility to deliver gas to the customer's meter. Unbundling breaks that full spectrum into all of its components and allows the customer to choose which services to buy, and from whom to buy, in the case of competitive services. Some of those unbundled services will still be regulated because they are monopoly services and others will become unregulated because they are considered sufficiently competitive.

Unregulated competitive services should be free of any regulation. Regulated monopoly services can still be regulated under rate of return, cost based regulation, or subject to performance-based/incentive regulation. Revenue caps, index formulas, and performance incentive measures may provide LDCs with the appropriate incentives to operate efficiently and maintain customer satisfaction standards for their regulated monopoly services.

Unbundling of LDC services will result in a smaller piece of total LDC revenues remaining subject to Commission jurisdiction. Consequently, there should be less need for regulatory protections. LDCs should be encouraged to develop alternative regulatory strategies, as part of, or in addition to, service and rate unbundling filings.

56. Should the commission mandate intensive technical conferences on each LDC's unbundling proposal: involving all interested parties? (CNB Olympic)

No. Many of the technical issues associated with LDC unbundling have been discussed as part of this generic proceeding. It is not necessary to go through these details in each individual LDC proceeding. LDC should be encouraged to conduct meetings with interested stakeholders to discuss their unbundling filings and the potential for settlement in these proceedings.

57. Should there be mandatory review of unbundled tariffs: Should there be a plan to come back and fine-tune tariffs implemented? (CNB Olympic)

Review of tariffs by the Commission is mandated under state law. No additional formalized plan to reopen all tariffs for review is necessary. LDCs may refile any tariff, at any time, for modifications. In addition, customers and third party suppliers may petition the Commission for resolution of any problems they encounter. The Commission has authority to resolve problems that may arise.

58. Should the large customers simply be deregulated? (AGDF)

No. Deregulation and unbundling are two different concepts. The utility will continue to provide some type of unbundled distribution service. This service, in most cases, will be regulated as a natural monopoly. Gas commodity, balancing, storage, and ancillary services are competitive and could be deregulated for different customer classes.

Deregulation of the gas commodity services for large customers is reasonable as long as the market for those services is sufficiently competitive. Distribution services may be competitive for large customers that can physically bypass the LDC by going to the pipeline, economically bypass the LDC by switching to oil or electricity, or move out of the service territory. Consequently, flexible rates are useful for addressing these competitive circumstances.

59. What issues are involved with total deregulation; cost allocation, tax collection and remittance, conflict resolution, etc.? (AGDF)

The AGDF introduced this question as follow-up to question number 58. To the extent that deregulation of the distribution plant is not practical and that deregulation addresses only the commodity or merchant service, previous answers have addressed the issue. Intermingling of regulated and unregulated assets would create significant conflicts. The flexible regulated transportation service together with deregulated commodity service described in response to question 58 appears to be a reasonable option.

60. Should the PSC use a different, lighter-handed regulation for small LDC's as they move to unbundle services and to increase transportation? (AGDF)

Lighter handed regulation, meaning performance based or incentive ratemaking, is a beneficial approach for LDCs and customer alike. However, to the extent that unbundling or PBR plans require significant filings, the AGDF believes that smaller LDCs should be allowed to seek waivers for complying with requirements that may

be unduly burdensome given the limited number of customers that may be impacted by the requirement.

61. Should the PSC permit greater discretion to LDC's in setting rates for commercial and industrial customers? (AGDF)

Yes. LDCs should continue to have the ability to use flexible rates and should be permitted to establish rate ranges in the development of rates for customers with alternate fuel and locational flexibility. Flexible rates are appropriate and reasonable if shown to have a net benefit to system customers. LDCs should have the ability to use flexible tariffs or special discounts for customer retention.

62. Should the PSC allow LDC's greater flexibility in setting unbundled transportation rates?

Yes. See response to question 61.

63. Should the Legislature equalize tax levies on all suppliers? (AGDF)

Yes. This should be done by reducing taxation on the sale and delivery of natural gas to be equal with oil and other unregulated energy suppliers. Currently third party suppliers have a competitive advantage over LDCs as a result of the tax avoidance on the commodity portion of retail gas service. If the Legislature were to equalize tax levies by increasing taxes to third party suppliers, these taxes would likely be passed on to gas consumers. While this change would level the playing field between LDC's and third party gas suppliers, it could increase the difficulty for gas to compete with alternate fuels. The AGDF realizes that this is a legislative issue that cannot be directly resolved by the FPSC.

64. Should municipals with their different state and federal tax treatments, be scrutinized when acting as a marketer outside of their municipal territory and competing with unbundled, FPSC-regulated LDC market affiliates and independent natural gas marketers? (CNB Olympic)

The FPSC does not have jurisdiction over municipal utility systems nor unregulated marketers. The AGDF does not support the regulation of competitive suppliers by state regulators. LDCs should be allowed to establish marketer qualifications, including creditworthiness requirements and other tariff policies for supplier non-performance on their systems. The Commission should not pursue regulation of these suppliers.

65. Should the Legislature (or perhaps PSC) set requirements for financial capability of suppliers, marketers and brokers? (AGDF)

Neither the Legislature nor the Commission should burden Florida's natural gas customers with the cost of another layer of regulation. LDCs should have the flexibility to set requirements for financial capability of all users of their systems, much like LDCs are now required to establish uniform credit worthiness standards for customers through deposits or other means. The Commission should serve only as a channel for complaints. The Commission's authority with regard to customer deposits should serve a model for the issue of supplier creditworthiness.

66. Should the Legislature give the PSC authority to pre-qualify suppliers, marketers and brokers? (AGDF)

No. See response to AGDF No. 65. Each LDC should establish marketer qualifications provisions in their tariffs. The Commission should not impose an new layer of regulation on a developing competitive market.