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September 29, 1997

IN REPLY REFER TO

Ansley Watson, Jr.  
P. O. Box 1531  
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VIA FEDERAL EXPRESS

Blanca S. Bayo, Director  
Division of Records & Reporting  
Florida Public Service Commission  
Capital Circle Office Center  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

Re: Docket No. ~~970003~~-EG -- Purchased Gas Adjustment (PGA) True-Up --  
Petition of Peoples Gas System, etc.

Dear Ms. Bayo:

Enclosed for filing with the Commission in the above docket on behalf of Peoples Gas System, a division of Tampa Electric Company, please find the original and 15 copies of Peoples' petition for an order approving Peoples' methodology for cost allocation used in calculating multiple purchased gas adjustment factors effective with bills rendered for cycle 1 meter readings to be taken on or about November 1, 1997.

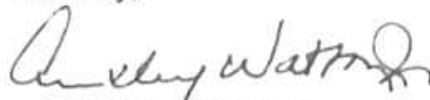
ACK   
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I also enclose a diskette containing the petition in Wordperfect 5.1 format.

Please acknowledge your receipt and the date of filing of the enclosures on the duplicate copy of this letter and return the same to the undersigned in the enclosed preaddressed envelope.

Thank you for your usual assistance.

Sincerely,



ANSLEY WATSON, JR.

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AWjr/a  
Enclosures

RECEIVED  
  
FLORIDA PUBLIC SERVICE COMMISSION

DOCUMENT NUMBER-DATE  
10054 OCT-15  
FPSC-RECORDS/REPORTING

Blanca S. Bayo, Director  
September 29, 1997  
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cc: Mr. Wayne R. Makin  
Mr. Michael R. Schuyler  
Mr. Joseph W. McCormick  
Mr. J. Brent Caldwell  
All Parties of Record

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Purchased gas :  
adjustment (PGA) true-up. :  
\_\_\_\_\_ :

DOCKET NO. 970003-GU

Submitted for Filing: 9-30-97

P E T I T I O N

Peoples Gas System, a division of Tampa Electric Company ("Peoples"), by its undersigned attorneys, files its petition for an order approving Peoples' methodology for cost allocation used in calculating multiple purchased gas adjustment ("PGA") factors effective with bills rendered for cycle 1 meter readings to be taken on or about November 1, 1997, and in support thereof says:

1. The name of the petitioner and the mailing address of its principal office is:

Peoples Gas System, a division of  
Tampa Electric Company  
P. O. Box 2562  
Tampa, Florida 33601-2562

2. The names and mailing address of the persons authorized to receive notices and communications with respect to this petition are:

Ansley Watson, Jr., Esq.  
Macfarlane Ferguson & McMullen  
P. O. Box 1531  
Tampa, Florida 33601-1531

B A C K G R O U N D

3. By its Orders Nos. 24463 and 24463-A in Docket No. 910003-GU, the Commission adopted a revised method for the recovery of purchased gas costs by regulated natural gas utilities, to be used for the recovery of such costs commencing October 1, 1991. These orders provide that a natural gas utility's purchased gas costs are to be recovered through

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a levelized PGA factor for the period from April of one year, through March of the following year, with the levelized PGA factor to serve as a cap, or maximum recovery factor. A "true-up" of the actual PGA revenues and expenses against the utility's original projections of such amounts is also a key feature of this cost recovery mechanism.

4. The revised methodology was precipitated by the advent of "open access" on the Florida Gas Transmission Co. ("FGT") interstate pipeline system. The first cost recovery hearings following adoption of the revised methodology were held in August 1991. In those hearings, the Florida Division of Chesapeake Utilities Corporation ("Chesapeake") petitioned the Commission for approval of two distinct PGA factors recognizing the different costs involved in serving different customer classes. In its Order No. 25064, issued in the Commission's continuing purchased gas cost recovery docket on September 13, 1991, and in response to Chesapeake's petition, the Commission stated:

"We find no reason to establish different factors for firm and interruptible rate classes. To the extent large volume interruptible customers contract for maximum daily demand requirements, the cost will be less than the levelized factor (cap) for the projected period, primarily due to individual load factors. Therefore, separate purchased gas cost recovery factors for firm and interruptible rate classes are not necessary.

"This does not preclude a utility from charging different customers different Purchased Gas Cost Recovery Factors beneath the approved cap for valid reasons. Examples of valid reasons include different methods of allocating or billing demand costs or the applicability of taxes or fees." (emphasis supplied)

The Commission has recognized the differences in PGA cost incurrence for different customer classes and, thus, has permitted natural gas utilities to charge different PGA factors to different customers or classes of customers. Since the issuance of Order No. 25064, Chesapeake has routinely used separate PGA factors for its firm and interruptible rate classes.

### PEOPLES' MULTIPLE PGA FACTORS

5. Peoples has historically used only a single PGA factor for the purpose of recovering its costs of purchased gas and upstream transportation. However, commencing with bills rendered for meter readings taken on or about November 1, 1997, and thereafter, Peoples will begin using multiple PGA factors -- each applicable to different classes of customers -- to recover such costs. Each of these factors would remain subject to Peoples' PGA "cap" of 42.301 cents per therm, approved in March 1997 (and to the caps approved for future periods).

6. Peoples' PGA factors to become effective in November 1997, and the customer classes to which each will apply, are as follows:

<u>PGA Factor</u>	<u>Rate Classes to Which Applicable</u>
Small Firm	Customers served under Rate Schedules RS, SGS, GS, GSLV-1, CSL, WHS and NGV
Large Firm	Customers served under Rate Schedule GSLV-2
Interruptible	Customers served under Rate Schedules SIS, IS, ISLV, CIS and OSS

7. Peoples is changing the manner in which it recovers its costs of purchased gas in order to more closely align the level of each PGA factor with the costs incurred by Peoples to provide gas supply to each group of customers. This realignment between cost and price will represent a more equitable allocation of costs and send a more accurate price signal to each customer class.

8. Peoples' methodology for allocating costs, by type, among the multiple PGA factors is shown in Table 1. The methodology assigns gas supply commodity costs (the bulk of the total PGA costs) proportionately to each PGA factor on a volumetric basis (the same as is

done under the current single PGA factor). The difference from the current method is the identification of additional PGA factors reflecting primarily the allocation of fixed, demand-related transportation costs. Interstate pipeline transportation usage and reservation costs are assigned to the Large Firm and Interruptible customer classes at the Florida Gas Transmission FTS-1 tariff rates. Florida Gas Transmission No Notice Transportation Service and pipeline penalties are assigned to firm sales service customer classes proportionately on a volumetric basis. True-up of projected versus actual costs is allocated proportionately on a volumetric basis just like the allocation of gas supply cost since gas supply cost is the primary driver of the level of true-up.

Table 1

Purchased Gas Adjustment  
Cost Allocation By Cost Type

Line No.	Cost Type	Allocation Method		
		Small Firm	Large Firm	Interruptible
1	Gas Supply	Volumetric	Volumetric	Volumetric
2	Transportation Usage	Direct Assignment	FTS-1 Volumetric Rates	FTS-1 Volumetric Rates
3	Transportation Demand	Direct Assignment	FTS-1 Demand Rates/Seasonal Load Factor	FTS-1 Demand Rates
4	Transportation End-Use Credit	Direct Assignment	Not Applicable	Not Applicable
5	Penalties and No Notice	Volumetric	Volumetric	Not Applicable
6	True-up, Reg. Assessment & Other*	Volumetric	Volumetric	Volumetric

\* Includes odorant, legal fees and administrative costs associated with gas supply and transportation.

The bulk of pipeline transportation costs are demand charges. These charges are driven by the amount of transportation capacity, which is contracted seasonally on a long-term, peak throughput basis. Thus, load factor is a key component in the level of cost incurred. To reflect this cost causation, the Peoples methodology uses the class seasonal load factor as a basis for allocating its transportation demand charges. More specifically, the FTS-1 demand costs assigned to the Large Firm and Interruptible PGAs are adjusted to account for the class load factors. Since the interruptible sales service classes have a load factor of nearly 100% and Peoples has the ability to curtail service to these customers to maintain system integrity, the Interruptible PGA is assigned FTS-1 transportation demand costs at a 100% rate. The Large Firm class also has a very high load factor, much higher than the system in general, but Peoples does not have the option of curtailing during system peak. Therefore, the FTS-1 demand costs are assigned based on the reciprocal of the seasonal load factor. For example, if the Large Firm class has a load factor of 80%, the Large Firm PGA factor will have FTS-1 demand costs assigned at 125% ( $1/0.80 = 1.25$ ) of the FTS-1 rate. This reflects the need to carry enough capacity all season to cover the highest month peak usage. After assigning the appropriate level of transportation costs to the Large Firm and Interruptible PGAs, all other transportation related costs and end-use transportation credits are assigned to the Small Firm PGA.

Peoples believes the methodology it has developed to establish its multiple PGA factors is an appropriate method by which to allocate the total costs it incurs in providing efficient and reliable supplies of gas to its customers. This method reflects sound cost-based allocation principles by assigning costs to rate classes according to load factor and reliability

which drives the incurrence of costs to serve each customer class.

9. The exact levels of the factors which will be in effect for November 1997 are presently unknown due to the uncertainty in the price of gas. However, Peoples' single, system-average factor for the month of September is 37.469 cents per therm. Had Peoples used the methodology described above, the separate factors would have been as follows: Small Firm, 38.407 cents per therm; Large Firm, 34.375 cents per therm; and Interruptible, 33.131 cents per therm. Peoples would expect the relationship among these factors to be similar in future months.

10. Peoples believes that the customers involved in the Large Firm and Interruptible PGAs are also candidates to bypass Peoples' service. Due to their large volume of consumption, and their high load factor, most of these customers have the ability to switch to alternative fuels or to physically bypass Peoples' system by directly connecting to the FGT pipeline. By providing more accurate price signals, the use of multiple PGA factors reduces the economic incentive for these customers to bypass Peoples' system. Retention of these customers will benefit the general body of ratepayers by spreading fixed costs across a greater volume of sales.

11. The three separate PGA factors will initially be applicable only to customers served under Peoples' Natural Gas Tariff, Original Volume No. 1 (*i.e.*, those customers located within the areas served by Peoples Gas System, Inc., prior to its merger into Tampa Electric Company). Peoples' customers located within the areas formerly served by West Florida Natural Gas Company, prior to its merger into the Peoples Division of Tampa Electric Company, will continue in the immediate future to be served by Peoples using a single PGA

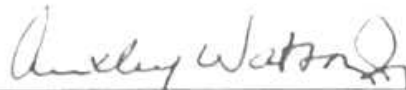


factor applicable to those customers. Thus, no customers in Peoples' West Florida Region will be affected by the new PGA factors.

12. In summary, Peoples has decided to join other Florida natural gas utilities in moving to separate PGA factors for application to different customer classes, as permitted by the Commission's Order No. 25064, and seeks an order of the Commission approving the methodology Peoples has used to develop its multiple PGA factors.

WHEREFORE, Peoples respectfully requests that the Commission enter its order approving the Company's methodology, and further requests that the Commission expedite its review of this request in order that Peoples' multiple PGA factors may become effective for bills rendered for cycle or meter readings taken on or about November 1, 1997.

Respectfully submitted,

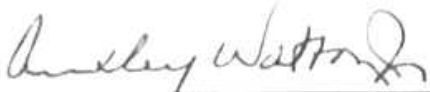


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MacFarlane Ferguson & McMullen  
P. O. Box 1531, Tampa, Florida 33601  
(813) 273-4200  
Attorneys for Peoples Gas System, a  
division of Tampa Electric Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Petition has been furnished by regular U.S. Mail this 29th day of September, 1997, to all known parties of record in Docket No. 970003-GU.

  
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Ansley Watson, Jr.