

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Indiantown Gas)
Company for Authority to Convert) DOCKET NO. 02047 -GU
All Remaining Sales Customers to)
Transportation Service and to) FILED: MAY 24, 2002
Terminate Merchant Function)
_____)

PETITION FOR AUTHORITY TO CONVERT AND TRANSFER ALL
REMAINING SALES CUSTOMERS TO TRANSPORTATION SERVICE
AND TO TERMINATE MERCHANT FUNCTION

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Indiantown Gas Company (the "Company"), pursuant to Rule 28-106.201, Florida Administrative Code ("F.A.C."), Rules 29.004 and 29.005, F.A.C., and Chapter 366, Florida Statutes, hereby respectfully petitions the Florida Public Service Commission ("Commission" or "PSC") for authority to convert and transfer all of its remaining gas sales service customers to transportation service, for authority to terminate the commodity merchant function that the Company has historically provided, and for approval of certain tariff changes in connection therewith. In support of its Petition, the Company states as follows.

PROCEDURAL BACKGROUND AND INFORMATION

1. The name and address of the petitioner is:

Indiantown Gas Company
Post Office Box 8
16600 S.W. Warfield Boulevard
Indiantown, Florida 34956.
2. All pleadings, motions, orders, and other documents directed to the Company are to be served on the following:

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R.L.M.
FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE
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Robert Scheffel Wright
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with a courtesy copy to:

Brian J. Powers, General Manager
Indiantown Gas Company
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16600 S.W. Warfield Boulevard
Indiantown, Florida 34956.

3. The agency affected by this Petition is:

Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850.

FACTUAL BACKGROUND

4. Indiantown Gas Company is a public utility, and specifically a local distribution company ("LDC"), that supplies natural gas to the public within its service area in Indiantown, Florida, and the surrounding area. The Company is accordingly subject to the regulatory jurisdiction of this Commission under Chapter 366, Florida Statutes. The Company's substantial interests will be determined by the Commission's disposition of this petition in that the Company's authority to provide transportation service to its remaining sales service customers, and to terminate the Company's gas commodity merchant function will be thereby determined.

5. In April 2000, the Commission adopted Rule 25-7.0335, F.A.C. (hereinafter the "Gas Transportation Rule" or simply the

"Rule"). The Rule requires each LDC to offer transportation service for natural gas to all of the LDC's non-residential customers. The Rule further provides that each LDC "may offer the transportation of natural gas to residential customers when it is cost effective to do so."

6. At the time of the Commission's adoption of the new Gas Transportation Rule, the Company did not offer transportation service to any of its customers.

7. In accordance with the Rule, on July 20, 2000, the Company filed a proposed transportation service tariff in form and substance identical to the Commission's "pro forma" transportation tariff. By Order No. PSC-01-0070-TRF-GU, issued on January 9, 2001, the Commission approved the Company's proposals, and the Company's transportation service tariff became effective on January 1, 2001.

8. At present, only one customer, a large industrial user (a citrus plant), obtains gas transportation service from the Company pursuant to the Transportation Service Tariff. This customer's usage accounts for approximately 30 percent of the Company's total throughput on an annual basis.

9. At December 31, 2001, the remaining sales customers on the Company's system included approximately 600 residential customers, approximately 25 commercial customers, and a large cogeneration facility receiving interruptible gas sales service. The cogeneration facility, which accounts for approximately 65 percent of the Company's annual throughput, is planning to transfer

to the Company's Transportation Service Tariff in the near future. The Company's remaining residential and commercial customers account for approximately 5 percent of the Company's throughput. The Company's total system throughput in 2001 was 9,942,266 therms.

10. Given the dramatically reduced level of its system throughput associated with sales service, and the anticipated near-term transfer of the Company's other substantial industrial user to transportation service, the Company believes that if it were to remain in the merchant function, it would find it increasingly difficult to deliver gas to its customers at competitive prices. Based on the Company's experience, the number of producers and marketers interested in providing gas supply for such a diminished level of usage on a stand-alone basis is limited. Exacerbating this situation is the fact that the Company's remaining (primarily residential) sales customers have very low load factors, due, in substantial part, to their weather sensitivity. Suppliers typically charge a premium for quantities of gas sold above a base load amount, that is, "swing" gas, especially if the increase in consumption is hard to predict and generally short-lived, as is usually the case for residential and small commercial customers in Florida. Further, in order to ensure its ability to serve such customers, the Company would need to retain capacity at quantities capable of serving peak usage levels. In Florida, peak usage for residential and small commercial customers is typically very dramatic and of short duration, rarely occurring more than a few days each winter season. Capacity for new customers would also

need to be retained. The Company's ability to mitigate such capacity costs, through temporary releases or off-system sales, is substantially less than that of a gas marketer actively transporting gas on multiple distribution systems across the state. Under these circumstances, the Company's fixed capacity costs would substantially increase on a per-unit-of-gas-sold basis. Ultimately, the Company firmly believes that if it were to remain in the merchant function, its delivered gas costs, recoverable from sales service customers through the Commission's purchased gas adjustment ("PGA") proceedings, would increase to a level significantly above the market price. Such an escalation in sales service gas prices could substantially impact the Company's ability to add and retain residential and small commercial customers.

11. It is not practical to extend the option of electing transportation service to the Company's remaining sales service customers on a voluntary basis. If the Company were to allow a slow migration of these customers from sales to transportation service, only the migrating customers would enjoy reduced gas supply costs. Any further diminution in the load served under the Company's sales service would likely lead to ever-spiraling gas costs for such service. In addition to increased fuel costs for such customers, the Company would bear a disproportionate burden to administer an optional program implemented over an extended period. The Company's current systems and capabilities are not sufficient to manage such a program for such a small number of customers with a correspondingly small level of throughput. Foremost of the many

concerns raised by a gradual migration of the remaining sales service customers to transportation service is the Company's inability to administer (including billing, tracking marketer relationships and managing multiple gas supply pricing mechanisms, and so on) several hundred accounts in multiple aggregated transportation pools with its current Customer Information System. Simply put, the combination of escalating fuel prices for non-transportation customers and the associated burdensome administrative costs and requirements for the Company warrant immediate conversion of its remaining sales service customers to transportation service.

12. Therefore, the Company has concluded that the only cost-effective approach for the Company and its remaining sales service customers is for the Company to completely terminate its gas sales or merchant function, and to require that all of these customers convert to transportation service. This proposal will establish an Aggregated Transportation Service ("ATS") Program through the Company's tariff designed to facilitate the conversion of the remaining sales service customers to a single aggregated customer pool. A qualified gas marketer will be retained to administer the pool. This "Pool Manager" would have the capability of combining the gas supply requirements of customers in the ATS pool with other customers served by the Pool Manager, both on and off the Company's distribution system. The Company believes its customers' gas supply needs are best served by a gas marketer with the ability to "rebundle" the Company's small volume gas users into a diversified,

statewide customer group consisting of industrial and commercial customers with different levels of weather sensitivity and peak usage. The increased "market power" of a larger overall customer group with greater gas volume requirements would result in a higher probability of obtaining lower gas costs than would be achievable by the diminished sales service volumes on the Company's system alone. Including the Company's sales service customers in a gas marketer's larger statewide pool of customers would result not only in greater commodity purchasing power, but also in an enhanced capability to mitigate excess capacity costs, to minimize the impact of interstate pipeline balancing and flow order penalties, and to provide additional capacity to support load growth.

13. The dilemma of diminished sales service load on the Company's system poses a serious challenge. The Company believes that many valuable lessons can be derived from the Georgia experience, where under State law, LDCs were allowed to transfer all residential and commercial customers from sales service to transportation service. The LDCs were allowed to simply step out of the middle of the transactions between marketers and customers, negating its ability to offer customers any measure of assistance or protection. One Georgia LDC, Atlanta Gas Light Company ("AGL"), required all of its customers to transfer from sales to transportation service on October 1, 1999, and all qualified marketers were able to compete for such customers in an open market environment. AGL not only terminated its merchant function, but also completely and permanently relinquished all interstate

pipeline capacity to gas marketers. The conversion to a complete open market environment was abrupt and not phased-in over time. The full unbundling of AGL's merchant function was completed over several months in a process that can be fairly characterized as confusing. Despite an enormous expenditure of money and time by marketers on advertising and solicitation, customers were not well informed about what their options were in arranging for the purchase of their own gas supply. Marketers were required to bill not only their gas supply charges directly to customers, but also the charges for the regulated utility. Most marketers were ill-equipped to perform this function. Many customers did not receive a bill for several months, and when they did, the accumulated billings were extraordinarily high. Given the level of customer confusion and anger, the environment was ripe for "slamming." A considerable number of customers had their marketer changed without their knowledge or consent. Customer complaints overwhelmed both the regulated utility's customer service capabilities and the Georgia Public Service Commission. Consequently, gas marketers who invested considerable dollars trying to remedy these issues are, apparently, today trying to recoup their early losses through higher margins. As such, customers in Georgia are not yet reaping the full benefits of open access.

14. The Company believes that the overriding lesson from the Georgia experience is the necessity of a deliberate approach that allows all stakeholders adequate time to develop the knowledge and experience needed for a successful transition to a fully

competitive open market. An important feature of the Company's proposed ATS Program is that it would maintain a contractual relationship with the Pool Manager from the initial implementation of the ATS Program until the time at which all of the Company's customers are able to choose from any authorized gas marketer doing business in Florida. The Company's approach is designed to ensure reliable service at reasonable prices, while gradually introducing more options and choices (both of marketers and of services) to a better informed customer group. Accordingly, the Company's proposal establishes an Aggregated Transportation Service tariff with a flexible transition period. The length of the transition period would be dependent upon customer response to the first phase of the program, the improvement of the Company's administrative and system capabilities and the evolution of the competitive gas marketplace in Florida. The initial implementation phase would occur during a two-year period where all remaining residential and non-residential sales customers would receive gas supply service through one qualified Pool Manager, selected by the Company through a Request for Proposals (RFP) process. This Pool Manager would initially offer two fuel pricing options. Phase One would commence as soon as is practicable after Commission approval of the instant petition and the Company's proposed tariff revisions. Toward the end of the initial two-year period, the Company would evaluate customer acceptance of the program, assess its own capabilities to expand program options, and make a determination of the feasibility and timing for initiating the second phase. The Company would also

report to the Commission on the results of Phase One, and the customer education and implementation plan for Phase Two.

15. Phase Two would expand the choices available to customers. In Phase Two the Company would retain, through an RFP process similar to that used in Phase One, a minimum of two Pool Managers. Customers would have the ability to choose between the two Pool Managers, and to select the pricing option that best matched their individual circumstances. Residential customers would not be permitted to switch Pool Managers during Phase Two. Non-residential customers would be afforded the opportunity to switch Pool Managers only during an open enrollment period that would occur at the end of the first year of Phase Two, if this phase were to be extended by the Company beyond a one-year period. Prior to the initiation of Phase Three, the Company would report to the Commission on the results of Phase Two, and the Phase Three customer education and implementation plan.

16. Phase Three would completely transition customers to a fully competitive marketplace. With its customers being better informed and having several years' of experience with gas marketers and various pricing options, the Company would provide transportation service through its Aggregated Transportation Service Program and tariff. Customers would be free to choose any Pool Manager authorized to deliver gas on the Company's distribution system, and to negotiate price and other terms with no constraints imposed by the Company. Pool Managers would be authorized to directly solicit any and all customers for gas supply

services. The Company would also continue to provide standalone transportation service to individual customers with annual usage in excess of 25,000 therms.

17. The first step in the implementation of Phase One would involve the issuance by the Company of a joint RFP (with Chesapeake Utilities) to all gas marketers known by the Company to be active in the Florida market. The initial RFP would outline program requirements and establish minimum qualifications for bidders. The RFP would require that respondents submit bids to the Company containing specified pricing proposals along with information regarding their financial viability and experience. The Company has recently held a meeting for all potential ATS pool managers to introduce the program and distribute a draft RFP. Based on the discussions at the meeting, the Company expects to receive multiple responses to the initial RFP. The Company will evaluate the responses to the RFP, and select the ATS Pool Manager for Phase One.

18. The resulting ATS Agreement between the Company and the selected Pool Manager would be structured to provide customers the opportunity to select between two pricing options: a monthly indexed (floating) price alternative similar to the current PGA pricing mechanism, or a pricing option that enables customers to mitigate the potential price volatility of the monthly indexed price (through a fixed-price or other hedging method). All customers would initially be placed on the monthly indexed price. Such action would eliminate the administrative difficulties

associated with continuing to provide sales service while customers evaluate an alternative (fixed or hedged) price option. Within ninety (90) days of the program start date, all customers would be given the opportunity, through an open enrollment period, to elect the alternative price option.

19. All residential customers would be transferred into the ATS pool on the effective date of the restructured tariff. (The Company has filed its petition for approval of the restructured tariff, together with the tariff, on the same date as this petition, May 24, 2002.) The remaining non-residential sales customers would also be transferred to the ATS pool at the same time. Since these non-residential sales customers are currently eligible for the Company's existing Firm Local Transportation Service tariff, a notice would be sent to each of them providing a sixty (60) day period from the ATS program initiation date, within which they could elect to convert to the Company's existing Transportation Service tariff and choose any currently authorized gas marketer to supply their gas (commodity). If that election were made, the customers would be authorized to transfer the gas merchant function to their newly selected gas marketer in accordance with the Company's existing Transportation Service tariff. Any such non-residential customer not electing Aggregated Transportation Service within that sixty (60) day period would remain in the ATS customer pool through the end of the first year of the program. At the end of the first year, all customers with usage greater than 25,000 therms per year would again be afforded

the opportunity, through a second open enrollment period, to select between receiving service under the Company's Firm Local Transportation Service tariff or of continuing in the ATS pool.

20. The Pool Manager would be required to provide gas sales and management services to all of the Company's residential customers and those non-residential accounts initially transferred into the ATS pool, as well as other accounts that may be added to the Customer Pool during the term of the ATS Agreement with the Company. Subsequent to the initial transfer of customers into the ATS pool as described above, customers would be added to the ATS pool as follows: (i) all residential customers receiving a new service connection for the purpose of initiating transportation service; (ii) all residential customers reactivating an existing disconnected service; (iii) non-residential customers, upon request, with the prior approval of the Pool Manager; and (iv) non-residential customers unable to receive service from another Pool Manager under the Company's Aggregated Transportation Service program, with the added stipulation that such customers would be able to select another Pool Manager or gas marketer and exit the ATS pool at the beginning of any month.

21. In order to facilitate the transition of all customers to transportation service, the Company would temporarily relinquish all contracted quantities of interstate pipeline capacity directly to customers or the ATS Pool Manager. A significant portion of the Company's capacity holdings have been relinquished to the citrus plant. To ensure that ATS customers receive an appropriate share

of capacity, the Company would allocate its capacity holdings based on existing contract specifications and an assessment of the capacity requirements of each rate classification in a manner that does not unduly discriminate between like customers.

22. If, after all the Company's capacity has been allocated during either Phase One or Phase Two, either an individual transportation customer or an Aggregated Transportation Service Pool Manager requires additional capacity to serve its respective individual or customer needs, it would be the Pool Manager's responsibility to obtain such capacity from market sources. The ATS Pool Manager would be required to provide sufficient capacity to serve all new customers and existing customer load additions during the term of its agreement with the Company.

23. The Company's proposal is carefully designed to avoid exposure of its customers to the risk of service disruption. The ATS Agreement would provide for severe financial penalties and potential termination of the ATS Agreement in the event that the ATS Pool Manager fails to deliver gas. For delivery failures of short duration, no service interruption to customers on the Company's distribution system would occur. The Pool Manager would be subject to balancing and penalty charges at the end of the month for the under-delivery.

24. The Company will be prepared to act as the Supplier of Last Resort in case of longer term problems. The ATS Agreement would specifically delineate Pool Manager actions or omissions constituting defaults, including failure to observe the terms and

conditions of the ATS Agreement in the performance of essential duties and obligations, such as failing to deliver gas for an extended period without prior approval or force majeure, or re-relinquishing capacity outside the contract limits; breaching the obligation of good faith, by engaging in price gouging, slamming or other improper or unlawful activities; and the failure to maintain financial viability, through insolvency, bankruptcy and the like.

25. With the proper procedures and oversight in place, Pool Manager defaults can be quickly resolved without significant impacts to pool customers. For example, when Enron's gas marketing subsidiary recently declared bankruptcy it left the State of Florida's Department of Management Services (DMS) with no gas supplier for several days. The prisons, hospitals and schools served by the Enron subsidiary under contract with DMS continued to receive gas service. A new supplier was retained within a week and the daily under-deliveries were accounted for as part of the normal end-of-the-month imbalance resolution process. The Company would implement procedures and provide the oversight necessary to ensure continuity of service to pool customers, in a default situation.

26. In the event of Pool Manager default during Phase One, the Company would act to terminate the ATS Pool Manager and, as the Supplier of Last Resort, would recall the interstate pipeline capacity, arrange for gas supply, and perform all other necessary functions to ensure delivery to affected customers. If, during Phase Two, either of the two ATS Pool Managers were to default, the non-defaulting Pool Manager would assume gas delivery

responsibilities for all customers until arrangements to qualify a replacement Pool Manager could be made. The Company would always stand ready to provide temporary emergency service if required as the Supplier of Last Resort. Should the Company be required to provide such temporary emergency back-up service, the cost of gas charges would be allocated to customers through the proposed Operational Balancing Account mechanism proposed in the Company's restructured transportation tariff.

27. The Company proposes to require ATS Pool Managers to subscribe to a Customer Account Administration Service, under which the Company would perform certain key functions. The Company would maintain the customer service function, maintain customer account transaction records, and provide gas supply billing and collections. In addition, the Company would follow a prescribed hierarchy in applying customer payments. All payments would first be applied to any taxes and fees imposed by government; second, to Pool Managers' charges for gas supply; and third, to the Company's regulated transportation charges. This payment hierarchy would enable the Company to retain the capability to disconnect customers for non-payment in the event of a partial payment. Applying the payment to the Pool Manager's gas supply cost prior to the Company's regulated charges would prevent customers from taking advantage of the absence of the Pool Manager's service disconnect authority by paying only the regulated charges. This is an important consideration, since under Florida law, the Commission has no jurisdiction over gas marketers, and therefore cannot

authorize them to discontinue service for non-payment of gas supply charges. Under the proposed hierarchy of payment, the Company would retain "the power of the wrench," and the Pool Manager would be appropriately protected from customers attempting to "game the system" by making partial payments. However, this arrangement would not provide protection to the Pool Manager in the event that the customer failed to pay at all. The Pool Manager would, of course, have the authority to appropriately secure customer accounts through cash deposits or similar means.

28. Under the ATS Program and the Company's tariff, customers would continue to receive only one monthly bill, since the Pool Managers' charges would appear in lieu of the Company's fuel charges. The potential for customer slamming during the transition period would be essentially eliminated. Pool Managers would be able to focus their efforts on gas supply procurement, without the financial and administrative burdens of maintaining a customer data base, a billing system, and a customer service support staff. The potential for errors and customer confusion would be minimized during the transition period, enhancing the likelihood that the customers would achieve savings from transportation service.

29. Accommodating a robust customer transportation service environment requires effective administration. These functions include processing inter-pool customer migration, ensuring that the correct gas supply pricing is applied to each customer, tracking customer payments according to the established hierarchy of payment, remitting collections from customers to Pool Managers,

tracking scheduled and delivered gas supply quantities, monthly imbalance resolutions, interstate pipeline operational order administration, and the like. The Company will recover its actual costs for such administrative functions through a monthly Customer Account Administrative Service charge to the ATS Pool Manager.

30. The Company plans and expects to continue to provide billing and Customer Account Administration Services to Pool Managers for all residential accounts on a mandatory basis. Pool Managers and gas marketers providing services to individual transportation service customers would have the option of subscribing to the Company's billing and account administration service for non-residential accounts. The Company intends to address the need for any tariff modifications associated with the provision of such continuing services, perhaps through incentive ratemaking measures, at the appropriate time.

31. Under its proposal, the Company would still be the Delivery Point Operator ("DPO") and would, accordingly, continue to perform all duties required of a Delivery Point Operator as the manager of the interconnections between the Company's distribution facilities and the interstate pipeline(s) that provide service to such facilities. In such capacity, the Company would continue to bear full responsibility to resolve all imbalances between scheduled and actual deliveries at each delivery point. As the DPO, the Company would continue to receive all operational orders issued by the interstate pipelines and notify Pool Managers and individual transportation customers accordingly. As the DPO, the

Company would continue to be charged any penalties associated with non-compliance with operational orders, and would attempt to determine the responsible parties and assign such penalties in an appropriate manner. The Company proposes that net over- or under-recoveries of costs associated with its performance of the DPO function would be periodically refunded or collected from each Pool Manager on its system through a modified Operational Balancing Account mechanism as set forth in the proposed tariff.

32. Under the Company's proposal, the ATS Pool Manager(s) would be responsible for several activities, including acquiring, nominating, scheduling and otherwise arranging for the delivery of natural gas to the Company and the proper billing of its gas supply charges. The Pool Manager(s) would be responsible for providing all gas quantities required by the ATS pool on a firm basis. Although the Company would provide actual customer usage information throughout the month so that the quantities of Gas scheduled and delivered to the ATS pool customers may be adjusted accordingly, the Pool Manager(s) would remain responsible for all monthly imbalances related to its customer pool on both the interstate pipelines and the Company's distribution system. In addition, the ATS Pool Manager(s) would also play an important role in coordinating with the Company to ensure its various gas supply pricing options are properly transmitted to the Company for customer billing purposes.

33. The Company's proposed transitional approach would provide sufficient time for all stakeholders to obtain a comfort

level with a broad open access program. The Company's retention of administrative responsibilities is designed to maximize responsible marketer participation, thereby facilitating the development of a fully robust natural gas transportation market in the Company's service area.

34. The Company is planning to implement programs to educate and inform its residential customers about transportation service, and to provide training to its customer service staff. The Company plans a mass mailing to all residential customers to inform them of the ATS Program and the proposed revised tariff. The Company has also made personal calls on the Company's three largest commercial customers to advise them of the Company's plans to terminate its merchant function and begin providing only local gas transportation service (except as a Supplier of Last Resort), and plans to make similar personal calls on all of the Company's other commercial customers. Additional mailings would follow Commission approval of the Company's proposal and the award of a contract to the Phase One Pool Manager.

35. As the Company prepares to terminate the merchant function, it would be appropriate to address its continued participation in the ongoing purchased gas cost recovery proceedings. The Company intends to submit its final true-up data for calendar year 2002 in the PGA docket, with an anticipated filing in September 2002. Upon the activation of service by the Phase One ATS Pool Manager, there would cease to be any need for the Company to have an active PGA mechanism. Obviously, whatever

over- or under-recovery may have accrued at that time would have to be reviewed by the Commission for appropriate disposition by the Company. The Company proposes to address that matter in a subsequent filing within ninety (90) days of the termination of its gas sales merchant function.

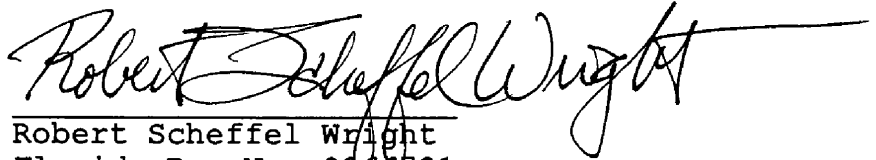
36. Contemporaneously with this petition for authority to transfer its remaining sales customers to transportation service and to terminate its merchant function, the Company has also filed its petition for approval of its proposed Natural Gas Tariff, Original Volume No. 2 (the "New Tariff"), which will implement the Company's proposed restructured rates and will also incorporate the changes necessary to implement transportation service to all of the Company's remaining sales customers. The New Tariff is included as Exhibit A to the petition for approval thereof.

37. The Company requests that the Commission's approval of the proposed Aggregated Transportation Service program, of the Company's proposal to terminate its gas merchant function, and of the Company's proposal to transfer its remaining sales service customers to transportation service be effective as of September 1, 2002.

CONCLUSION AND PRAYER FOR RELIEF

WHEREFORE, for the reasons set forth above, Indiantown Gas Company requests that the Commission GRANT this petition and APPROVE the Company's proposals to implement its Aggregated Transportation Service program, to transfer all of its remaining sales service customers to transportation service, and to terminate its gas merchant function, effective as of September 1, 2002.

Respectfully submitted this 24th day of May, 2002.



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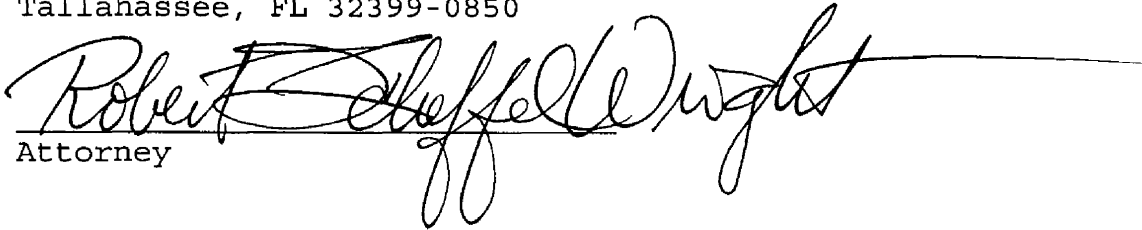
Attorneys for Indiantown Gas Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by hand delivery on this 24th day of May 2002, to the following:

Martha Carter Brown, Esq.
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Tallahassee, FL 32399-0850

Mr. Wayne Makin
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2540 Shumard Oak Boulevard
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A handwritten signature in cursive script, reading "Robert Jeffrey Wright", is written over a horizontal line. The signature is written in black ink and extends to the right of the line.

Attorney