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November 7, 1994

IN REPLY REFER TO:

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VIA FEDERAL EXPRESS

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Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32301

Re: Docket No. ~~940550~~-GU -- Petition to resolve territorial dispute with Clearwater Gas System, a Division of the City of Clearwater, by Peoples Gas System, Inc.

Dear Ms. Bayo:

Enclosed for filing in the above docket on behalf of Peoples Gas System, Inc., please find the original and 12 copies of the Rebuttal Testimony of Richard L. Firebaugh.

I also enclose the original and 12 copies of a certificate of service with respect to the enclosed testimony.

Please acknowledge your receipt and the date of filing of the enclosures on the duplicate copy of this letter enclosed for that purpose, and return the same to me in the enclosed preaddressed envelope.

Thank you for your assistance.

Sincerely,



ANSLEY WATSON, JR.

- ACK
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DOCUMENT NUMBER-DATE
11266 NOV-8 3
FPC-RECORDS/REPORTING

Blanca S. Bayo, Director
November 7, 1994
Page 2

cc: William J. Peebles, Esquire
Martha Carter Brown, Esquire
Mr. Dan R. Pountney
Mr. M. Lee Young
Mr. Hugh M. Grey, III
Mr. Richard L. Firebaugh

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition to resolve)
territorial dispute with Clearwater)
Gas System, a Division of the City)
of Clearwater, by Peoples Gas System,)
Inc.)
_____)

Docket No. 940660-GU

Submitted for Filing:
11-8-94

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the Rebuttal Testimony of Richard L. Firebaugh on Behalf of Peoples Gas System, Inc., has been furnished this 8th day of November, 1994, via Federal Express, to William J. Peebles, Esquire, Moore, Williams, Bryant, Peebles & Gautier, P.A., 306 East College Avenue, Tallahassee, Florida 32301, and Martha Carter Brown, Esquire, Division of Legal Services, Florida Public Service Commission, Fletcher Building, 101 East Gaines Street, Tallahassee, Florida 32301.



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Petitioner

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ORIGINAL
FILE COPY

In re: Petition to resolve)
territorial dispute with Clearwater)
Gas System, a Division of the City)
of Clearwater, by Peoples Gas System,)
Inc.)
_____)

Docket No. 940660-GU

Submitted for Filing:
11-8-94

REBUTTAL TESTIMONY OF RICHARD L. FIREBAUGH
On Behalf of Peoples Gas System, Inc.

DOCUMENT NUMBER-DATE

11266 NOV-8 94

FPSC-RECORDS/REPORTING

1 Q. Please state your name, business address, and
2 by whom you are employed.

3 A. My name is Richard L. Firebaugh. My business
4 address is 1800 Ninth Avenue North, St. Petersburg,
5 Florida 33713-7117. I am employed by Peoples Gas System,
6 Inc. ("Peoples") as Division Manager of Peoples' St.
7 Petersburg Division.

8 Q. Are you the same Richard L. Firebaugh who has
9 previously filed direct testimony on behalf of Peoples in
10 this proceeding?

11 A. Yes.

12 Q. What is the purpose of your rebuttal testimony?

13 A. My testimony is in rebuttal to portions of the
14 Testimony of Charles S. Warrington, Jr. on behalf of
15 Clearwater Gas System ("Clearwater Gas").

16 Q. Please summarize the portions of Mr.
17 Warrington's testimony with which you take issue.

18 A. My testimony will be directed to Mr.
19 Warrington's assertions (1) that Peoples does not intend
20 to provide natural gas service to potential customers in
21 existing residential neighborhoods in the disputed area,
22 (2) that Peoples' representatives have "told the Pasco
23 community" that existing neighborhoods will have to
24 continue to be served by LP gas, (3) that the addition of
25 a gate station by Clearwater in Pasco County at State

1 Road 52 is "critically important", (4) that Peoples'
2 policy regarding the conversion of LP gas customers to
3 natural gas is "vastly different" from that of Clearwater
4 Gas, and (5) that Peoples has indicated no interest in
5 building in the roadways of Port Richey. Finally, I will
6 address Mr. Warrington's statements regarding the
7 "aggressive" expansion policy of Clearwater Gas.

8 Q. Is it true, as stated by Mr. Warrington on page
9 11, lines 23 - 24 of his testimony, that Peoples has
10 indicated that it does not plan to serve existing
11 residential neighborhoods in the disputed area?

12 A. Absolutely not.

13 Q. Are similar assertions made by Mr. Warrington
14 at other points in his testimony?

15 Q. Yes, aside from his statement that the policies
16 of Peoples and Clearwater Gas with respect to converting
17 LP gas customers to natural gas are "vastly different",
18 which I will address separately, Mr. Warrington makes a
19 similar assertion on page 20 (lines 4 - 7) of his
20 testimony.

21 Q. Is that assertion correct?

22 A. Absolutely not.

23 Q. What is Peoples' policy with respect to
24 providing natural gas service to customers in existing
25 residential neighborhoods in the disputed area?

1 A. Peoples' policy, which is the same throughout
2 all areas served by its natural gas distribution system,
3 is to provide natural gas service to as many customers as
4 possible, wherever located, to the extent the provision
5 of such service is feasible.

6 Q. Has this policy been communicated by Peoples'
7 representatives to representatives of the various
8 governments in the disputed area?

9 A. Yes, it has.

10 Q. Please explain what you mean when you say you
11 want to serve as many customers as possible with natural
12 gas, but only to the extent the provision of such service
13 is feasible.

14 A. I mean that Peoples does not intend to connect
15 customers to its distribution system without analyzing
16 whether the costs incurred to make the connection can be
17 recovered by the Company through the revenues derived as
18 a result of the expenditure. If a potential customer is
19 located adjacent to one of Peoples' existing natural gas
20 mains, it is usually "feasible" for the Company to
21 install a service line to provide the service the
22 potential customer desires. If, however, the potential
23 customer -- whether residential, commercial or industrial
24 -- is not located near one of the Company's existing
25 natural gas mains, and a main extension is required in

1 order to connect the customer to the Company's
2 distribution system, the cost of connecting the customer
3 may or may not be "feasible". Pursuant to its natural
4 gas tariff on file with the Commission, Peoples makes the
5 feasibility determination by making an estimate of the
6 cost of connecting the customer or customers, and
7 estimating the revenues (excluding the cost of gas) to be
8 derived from the customers who would be connected to the
9 extension. If the revenues for the first five years of
10 service are projected to exceed the projected cost, then
11 the extension is deemed feasible, and Peoples will make
12 the extension to connect the customer or customers at the
13 Company's cost. If revenues for the first five years of
14 service are less than the estimated cost of connection,
15 then Peoples requires a contribution of the shortfall by
16 the customer(s) being connected.

17 Q. Why does Peoples require that the connection of
18 new customers be feasible?

19 A. Because, to the extent the cost of connecting
20 a new customer cannot be recovered in a reasonable period
21 of time from the customer connected, it must be recovered
22 from Peoples' other ratepayers. It is possible, if not
23 likely, that the Commission might disallow recovery of
24 the "non-feasible" portion of the investment made by the
25 Company to connect the new customer(s) as being

1 imprudent. Peoples' management therefore deems it
2 imprudent to connect new customers if the revenue to be
3 derived from serving those customers during the first
4 five years is insufficient to cover the cost of their
5 connection. Even if Peoples was permitted to recover the
6 "non-feasible" portion of such connections from its other
7 ratepayers, Peoples' pursuit of such a policy would
8 eventually lead to higher rates for all customers on its
9 distribution system, thereby making the Company less
10 competitive with other competing sources of energy, and
11 less able to expand the number of customers to which it
12 is able to provide natural gas service.

13 Q. What factors generally affect whether the
14 connection of a new customer is feasible?

15 A. Obviously, the revenue to be derived from
16 providing service to the customer is important because it
17 establishes a ceiling on the amount of the investment the
18 Company will make without requiring a contribution toward
19 the cost of the extension from the customer. The other
20 side of the comparison is, of course, the cost of the
21 extension.

22 Q. What factors generally affect the cost of an
23 extension of facilities to serve a new customer?

24 A. In general, the diameter of the main and
25 service lines needed to provide service, the lengths of

1 those facilities, and the location in which the
2 facilities must be installed. The greater the diameter
3 of the pipe needed to provide service, and the longer the
4 extension needed to reach the customer, the greater the
5 cost of making the extension.

6 Q. Why is the location in which the new facilities
7 are to be installed important?

8 A. Because construction in areas which have
9 already been developed -- that is, in which streets,
10 sidewalks, buildings (whether commercial or residential),
11 landscaping and other improvements have already been
12 installed -- is generally more costly than is
13 construction in undeveloped areas. In an already
14 developed area, streets, sidewalks, landscaping and other
15 improvements have to be restored following the
16 installation of the new gas service facilities. Further,
17 some improvements may not be able to be disturbed, and
18 may thereby cause the extension to be longer than would
19 have been the case in an undeveloped area with no
20 preexisting improvements. Thus, construction of new
21 facilities in areas which have already been developed
22 (such as existing residential neighborhoods) is
23 inherently more costly than would be the same work in a
24 previously undeveloped area (such as a brand new
25 residential subdivision).

1 Q. Is it true, as stated by Mr. Warrington on page
2 19, lines 1 - 5 of his testimony, that Peoples's
3 representatives have "repeatedly told" the Pasco
4 community that existing neighborhoods will have to
5 continue to be served by LP gas as it is not economical
6 for Peoples to expand into already developed areas?

7 A. The statement is correct if considered in the
8 context of the comments I have just made regarding
9 feasibility. By this, I mean it is generally more costly
10 to install new gas service facilities in existing
11 residential neighborhoods. The fact that such
12 construction will be more costly, coupled with the fact
13 that the annual revenue derived from a residential
14 natural gas customer is typically a small amount, means
15 it is less likely the connection of such a customer will
16 be feasible financially. Peoples' representatives have
17 never told anyone that the Company will not serve
18 potential customers in any classification. We have only
19 stated that new connections must meet our feasibility
20 criteria, which I have previously discussed.

21 Q. Do you agree with Mr. Warrington's statement
22 that a customer who does not meet Peoples' feasibility
23 criteria for conversion from LP gas to natural gas will
24 be "held captive to higher, unregulated LP pricing"?

25 A. I agree that Peoples would not, without

1 obtaining a contribution from the customer for any non-
2 feasible portion of the cost of conversion, connect an
3 existing LP gas customer if the connection did not meet
4 the Company's feasibility criteria. I do not agree that
5 such a customer would thereby necessarily be "held
6 captive to higher, unregulated LP pricing". While LP
7 pricing is "unregulated" by any regulatory body such as
8 the Commission, it is regulated by the marketplace since
9 there are many propane suppliers in the disputed area.
10 Mr. Warrington's statement also assumes that LP prices
11 are higher than natural gas prices, which may or may not
12 be the case at any given point in time. In fact, the LP
13 gas rates of Peoples (and other LP gas suppliers in the
14 disputed area) are currently less than Clearwater Gas'
15 current natural gas rates for certain commercial
16 customers. It is also possible that if Clearwater Gas
17 increases its natural gas rates as a result of the
18 expansions of its system described in Mr. Warrington's
19 testimony and the rate study being performed by Coopers
20 & Lybrand, Peoples' residential LP rates will be less
21 than Clearwater Gas' residential natural gas rates.

22 Q. With regard to Mr. Warrington's statement that
23 LP gas customers in the disputed area may be subjected to
24 "unregulated" rates for LP gas, who will regulate
25 Clearwater Gas' rates for natural gas service in the

1 disputed area of Pasco County?

2 A. It is my understanding that those rates will be
3 regulated by the City Commission of the City of
4 Clearwater.

5 Q. Beginning on page 14, line 10, of his
6 testimony, and continuing through line 3 on page 15, Mr.
7 Warrington discusses what he characterizes as the
8 critical importance of the Pasco County gate station
9 Clearwater Gas proposes to install as part of its
10 expansion of facilities to serve the disputed area. Do
11 you agree with his statements regarding the proposed new
12 gate?

13 A. I find his discussion difficult to understand
14 for several reasons. First, neither of the points
15 mentioned by Mr. Warrington as being "critically
16 important" -- strengthening the northern end of Pinellas
17 County by providing a service from the north, and
18 providing a looped service for increased reliability --
19 is mentioned in Clearwater Gas' 1993 - 2000 Strategic
20 Plan & 1993 - 1994 Annual Operating and Capital Budget,
21 which is attached to Mr. Warrington's testimony as
22 Exhibit ____ (CSW-2). Second, if Clearwater Gas'
23 existing lines are of a size sufficient to allow the new
24 northern delivery point to "strengthen" the northern end
25 of Clearwater's existing system in Pinellas County, then

1 Clearwater Gas should be able to serve its proposed Pasco
2 County expansion with its existing gates in Pinellas
3 County. If the lines are not of sufficient size, then
4 the new gate in Pasco County will provide no
5 strengthening of the existing system in north Pinellas
6 County. Third, while looping is capable of providing
7 increased reliability, the cost of constructing a looped
8 system must be balanced against the need for the increase
9 in reliability. Most local distribution companies
10 ("LDCs") and municipal gas systems do not have one
11 hundred percent looping in their systems because of the
12 increased cost to their ratepayers. Further, many LDCs
13 and municipal systems are served by fewer than the three
14 gate stations by which Clearwater Gas is served. For
15 example, Peoples is served adequately by only two city
16 gates in its St. Petersburg Division, which provides
17 service to more than three times the customers currently
18 served by Clearwater Gas. In my opinion, particularly
19 since it appears not to have been brought to the
20 attention of the Clearwater City Commission when the
21 Clearwater Strategic Plan was approved, the new gate
22 station Clearwater Gas proposes to construct in Pasco
23 County is needed because its existing system cannot
24 adequately support the anticipated new load in west Pasco
25 County.

1 Q. Is it true, as stated by Mr. Warrington on page
2 18, beginning at line 20, of his testimony, that the
3 policies of Peoples and Clearwater Gas are "vastly
4 different" when it comes to converting LP gas customers
5 to natural gas?

6 A. It is difficult to tell from Mr. Warrington's
7 testimony. I say it is difficult to tell because Mr.
8 Warrington appears to suggest at page 24 (lines 21 - 22)
9 that Clearwater Gas will "serve all loads that are
10 feasible", while at other points in his testimony he
11 makes reference to Clearwater Gas' being very
12 "aggressive" in providing service to existing residential
13 neighborhoods, and appears to suggest that Peoples may be
14 less "aggressive" in connecting customers when it is not
15 financially feasible to do so. If the policy of
16 Clearwater Gas is to make only those extensions of its
17 facilities that are financially feasible, then the
18 policies of Peoples and Clearwater Gas are not "vastly
19 different" as stated by Mr. Warrington. They are, in
20 fact, identical. If, on the other hand, the policy of
21 Clearwater Gas is to connect customers to its system
22 regardless of the financial feasibility, I would agree
23 that our policies are vastly different.

24 Q. What is Peoples' policy regarding the
25 conversion of existing LP gas customers to natural gas?

1 A. Peoples' response to the request of any
2 applicant for natural gas service (whether or not an
3 existing LP gas customer of Peoples Gas Company, and
4 regardless of the energy source currently being used) is
5 governed by and communicated to the applicant in
6 accordance with Peoples' tariff on file with the
7 Commission. If the conversion requested is feasible, we
8 will definitely make the conversion from LP gas to
9 natural gas.

10 Q. Is it true, as stated by Mr. Warrington on page
11 21 of his testimony (lines 5 and 6), that Peoples has
12 indicated it has no interest in building in the roadways
13 of the City of Port Richey?

14 A. No. Peoples has, however, advised the City of
15 Port Richey that it would likely not be feasible to
16 provide natural gas service to all customers in the city
17 desiring such service. As I have previously indicated,
18 Peoples desires to add as many new natural gas customers
19 as it is possible to add so long as it is financially
20 feasible to do so. If coordinating the construction of
21 Peoples' natural gas facilities with a municipality's
22 roadway construction or renovation would enable Peoples
23 to connect new customers which would not otherwise be
24 feasible, we would obviously do so.

25 Q. At a number of places in his testimony, Mr.

1 Warrington characterizes Clearwater Gas as having a
2 philosophy of "aggressively marketing" service to, or
3 "aggressively pursuing" construction to, or "maximizing
4 service" to, existing neighborhoods. He also states that
5 Clearwater Gas is "committed to serving" existing
6 neighborhoods, as well as new growth areas, in the
7 disputed area. Is Clearwater Gas' philosophy on these
8 points any different from that of Peoples?

9 A. Again, it is difficult to give a yes or no
10 answer to that question based on Mr. Warrington's
11 testimony. I have already testified that Peoples desires
12 to connect customers in the disputed area whenever such
13 connections meet the Company's feasibility criteria.
14 While Clearwater Gas may consider itself "aggressive" in
15 marketing its services to existing neighborhoods and
16 other potential natural gas customers, Peoples is, I
17 believe, at least equally aggressive in its attempts to
18 "grow" the number of customers it serves with natural
19 gas. If there is a real difference between the
20 philosophies of Peoples and Clearwater Gas with respect
21 to the pursuit of new customers, it appears to be an
22 economic one. While Mr. Warrington does not come right
23 out and state that Clearwater Gas will extend its
24 facilities to serve any customer desiring natural gas
25 service regardless of economic feasibility, his testimony

1 at least gives the impression that is the case. If that
2 is in fact the case, that policy will eventually lead to
3 higher rates for all customers served by Clearwater Gas.
4 If it is not the case, then Mr. Warrington's testimony
5 fails to make the alleged distinction between the
6 philosophies of the two utilities.

7 Q. You have previously testified with respect to
8 the generally higher costs of construction in areas, such
9 as existing neighborhoods, which have been previously
10 developed. In addition to the higher cost of
11 construction in these areas, are there any other obstacles
12 Peoples faces in attempting to convince residential
13 customers to convert to natural gas from electricity, LP
14 gas, or another energy source?

15 A. There certainly are. The primary obstacle is
16 the fact that the customer already has his or her
17 appliances in place. Those appliances may well be in
18 perfect working order, but will have to be replaced with
19 new natural gas appliances in the event the customer
20 converts to the use of natural gas. This is a cost issue
21 separate and apart from the cost to Peoples of extending
22 its facilities, and would be an obstacle to making such
23 conversions even in the case of a customer located on an
24 existing main of the Company. In addition, the piping
25 and venting required for gas appliances is usually

1 considerably more expensive to install in an existing
2 residence than in a residence which is being initially
3 constructed. Similar considerations are also faced by
4 certain commercial customers. The point is that a
5 customer in an existing building generally incurs the
6 cost of replacing appliances he or she has already paid
7 for, as well as the cost of piping and venting those
8 appliances, when he or she considers switching to natural
9 gas from another energy source. Regardless of how
10 "aggressively" anyone markets natural gas service, the
11 simple fact is that many customers are unwilling to incur
12 those costs, and therefore are unwilling to make the
13 switch. Clearwater faces the same higher costs of
14 construction, and the same obstacles discussed above, as
15 does Peoples.

16 Q. Does this conclude your rebuttal testimony?

17 A. Yes, it does.