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August 6, 1996

HAND-DELIVERED

Blanca S. Bayo, Director
Division of Records and Reporting
Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0870

Re: Application for rate increase by City Gas Company of Florida
Docket No.: 960502-GU

960920-GU

Dear Ms. Bayo:

Enclosed for filing and distribution are the original and fifteen copies of City Gas Company of Florida's Petition for Authority to Implement Proposed Flexible Gas Service Tariff in the above docket.

- ACK
- AFA 3
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG 1
- LIN 5
- OPC _____
- RCH _____
- SEC 1
- WAS _____
- OTH _____

Please acknowledge receipt of the above on the extra copy enclosed herein and return it to me. Thank you for your assistance.

Yours truly,

Joseph A. McGlothlin

JAM/pw
Encl.

RECEIVED & FILED

LCW
FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

08237 AUG-6 96

FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: City Gas Company's petition)
for authority to implement city Gas')
proposed flexible gas service rate.)

Docket No. 960502-GU
Filed: AUGUST 6, 1996

ORIGINAL
FILE COPY

**PETITION FOR AUTHORITY TO IMPLEMENT
PROPOSED FLEXIBLE GAS SERVICE TARIFF**

Pursuant to §366.07, Florida Statutes (1995) and Rule 25-9.005(4)-(5), Florida Administrative Code, City Gas Company of Florida ("City Gas" or the "Company"), the Florida operating system of the Southern division of NUI Corporation ("NUI"), by and through its undersigned counsel, hereby petitions the Florida Public Service Commission ("the Commission") for approval of City Gas' proposed Flexible Gas Service ("FGS") tariff.

In support of this petition, City Gas states:

1. City Gas was incorporated under the laws of Florida in 1949. Its headquarters are located at 955 East 25th Street, Hialeah, Florida 33013-3498. City Gas began its operations as a distributor of liquid petroleum gas ("LPG") through underground pipelines in Florida. In 1960, City Gas began to purchase natural gas for distribution and thus became regulated by the Florida Public Service Commission.

2. In 1988, City Gas was acquired by NUI. City Gas became a division of Elizabethtown Gas Company, which was then a subsidiary of NUI.

3. When NUI merged with Pennsylvania and Southern Gas Company (a natural gas distribution company with service areas in four states), it also merged with its subsidiary Elizabethtown. NUI is now a single entity with two operating divisions conducting business in six states. City Gas is part of the Southern operating division of NUI. The principle offices of

DOCUMENT NUMBER-DATE

08237 AUG-6 96

FPSC-RECORDS/REPORTING

NUI, a New Jersey corporation, are located at 550 Route 202-206, Bedminster, New Jersey.

4. City Gas currently serves nearly 100,000 customers in parts of Dade, Broward, Brevard, and St. Lucie Counties, Florida. The Company intends to initiate service to customers in Indian River County in 1996.

5. As the Commission is aware, federal initiatives have transformed the distribution of natural gas from what was traditionally a monopoly enterprise to one of multiple providers who participate in a competitive market. Whereas City Gas was at one time the sole source of natural gas to an exclusive customer base, those customers now have options. In addition, customers are becoming increasingly aware of their ability to meet their energy requirements with alternative sources of energy. The customers' options may include purchasing natural gas directly from a producer or through a broker, bypassing City Gas' distribution system by connecting directly to the interstate pipeline, or accessing viable fuel alternatives, such as propane, fuel oil, and/or electric energy.

6. Over time, the Commission has recognized the changing markets City Gas faces by providing the Company with a degree of flexibility in certain situations. However, particularly with respect to its ability to attract new customers and to compete in new markets, the Company requires more flexibility to compete effectively for customers who have viable energy alternatives.

7. By this petition, City Gas seeks authority to implement a new Flexible Gas Service tariff. The tariff is designed to meet the Company's need to compete for potential customers who have viable energy options in a way that assures that existing customers will never be called upon to subsidize contracts entered pursuant to the tariff.

8. City Gas' proposed flexible gas service rates will apply, in the Company's discretion, only to customers who show that viable options exist for fulfillment of their energy needs at a rate lower than the Company's standard tariffs. Only after receipt and review of a documented statement detailing a customer's option would the Company offer Flexible Gas Service to any customer.

9. Importantly, City Gas' proposed tariff incorporates several protective measures designed to ensure that existing customers will not be adversely affected by the adoption of the Flexible Gas Service tariff for new customers. To ensure that other customers have no responsibility for costs attributable to this tariff, in future rate cases the Company will impute revenues sufficient to offset the administrative costs of serving customers under the Flexible Gas Service Tariff so that other customers will not bear these costs. Additionally, the Company will not attempt to recover from the other customers the difference between the otherwise applicable tariff rate and the Flexible Gas Service contract rate, either through cost recovery clauses or during future base rate cases. This degree of protection sets City Gas' proposal apart from other competitive measures that have been brought to the Commission. Thus, the tariff rate will assist the Company to be competitive and at the same time will shield the remaining customers from any additional costs associated with competitive efforts.

10. The Flexible Gas Service tariff will have a floor equivalent to the incremental cost of providing service to the customer. The Company will exclude all incremental capital costs related to serving the customer from rate base and will retain all revenue received from these customers. While the Flexible Gas Service tariff is intended primarily to enable the Company to compete effectively for new customers who have viable alternatives to the Company's service,

there may be instances in which the tariff could be applicable to existing customers. In such instances, in addition to excluding all incremental capital costs from rate base, the Company shall remove from rate base the depreciated cost of the service line, metering equipment, and any other facilities that were installed specifically to serve the customer. In addition to investments made specifically to serve the existing customer, the tariff requires the Company to remove from rate base a portion of the depreciated costs of common distribution mains reflecting the size of the pipe serving the customer and the distance of the customer from the interstate pipeline. The tariff permits the Company to waive this latter requirement if it determines that removal of the entire amount of common costs would result in a loss of the customer that would be detrimental to the remaining customers. In short, the tariff contemplates that the Company will attempt to retain the customer and in the process secure as great a contribution to fixed costs as circumstances allow. To illustrate how the costs associated with a customer will be excluded from rate base, the Company has prepared several hypothetical examples, which are attached as Exhibits A and B to this petition.

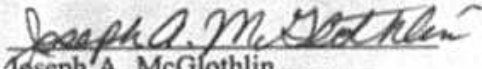
11. City Gas' proposed Flexible Gas Service Tariff contemplates that the Company will submit information relating to each contract entered pursuant to the tariff to the Commission within 30 days of execution of the contract. The information will include the name of the customer, the contract rate, the alternative energy sources available to the customer that justified the application of the Flexible Service Tariff, and a copy of the contract entered between the customer and the Company pursuant to the tariff. The tariff prescribes that such information will be submitted to the Commission on a confidential basis. Because each contract will be separately negotiated, City Gas regards the confidentiality provisions as an essential component of the tariff,

without the approval of which the Company could not offer the program.

12. City Gas initially proposed this tariff as a part of its general base rate petition filed on June 18, 1996 in Docket No. 960502-GU. City Gas has elected to pursue the tariff separately because of the importance the tariff represents to the competitiveness of the Company. The authority to implement greater price flexibility is imperative to City Gas' ability to succeed in the present, highly competitive energy market.

WHEREFORE, City Gas respectfully requests that the Florida Public Service Commission authorize the Company to implement its proposed Flexible Gas Service tariff under the conditions and procedures set forth herein.

Respectfully submitted this 6th day of August, 1996.


Joseph A. McGlothlin
Vicki Gordon Kaufman
McWhirter, Reeves, McGlothlin,
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117 S. Gadsden Street
Tallahassee, FL 32301

Attorneys for City Gas Company
of Florida

DEDICATED

City Gas of Florida

Flexible Gas Service Tariff Incremental Cost - Dedicated Facility

Exhibit A

page 1 of 2

Dedicated Facility Example 1/

Capital Cost - Incremental

Description

	Labor	Materials	Total
Incremental Cost of Plant:			
Distribution Main	\$5,000	\$105,000	\$110,000
Regulator	\$200	\$3,000	\$3,200
Service Line	\$500	\$5,000	\$5,500
Meter Set	\$500	\$5,100	\$5,600
Total	\$6,200	\$118,100	\$124,300 *

- 1/ This hypothetical example assumes a new customer who would receive service entirely from new facilities. For this reason, there would be no need to remove a portion of embedded costs from rate base in conjunction with the execution of the FGS contract with the new customer. Only the "incremental costs", that established with building the new facilities, would be excluded from rate base.

* Capital cost excluded from Rate Base

City Gas of Florida
Flexible Gas Service Tariff Incremental Cost - Dedicated Facility

Exhibit A
 page 2 of 2

Dedicated Facility Example 2/

Estimated O & M Expenses - Incremental

	Man Hours	Labor	Other	Total
I <u>Customer Maintenance:</u>				
Leak Surveys (main and service line)	8	\$160	\$175	\$335
Meter Set Maintenance	8	\$160	\$800	\$960
Valve Maintenance	12	\$240	\$800	\$1,040
II <u>Pipe Inspection:</u>				
Exposure Reports	8	\$160	\$50	\$210
Locate for Others	8	\$160	\$100	\$260
Third Party Monitoring	8	\$160	\$75	\$235
III <u>Cathodic Protection:</u>				
Pipe to Soil Survey	4	\$80	\$100	\$180
Interference Testing	4	\$80	\$100	\$180
Atmospheric Inspection	8	\$160	\$50	\$210
Magnesium Anode Replacement	2	\$40	\$100	\$140

DEDICATED

IV Administrative Functions

Meter Reading	4	\$100	\$500	\$600
Billing	12	\$300	\$500	\$800
Other	24	<u>\$600</u>	<u>\$200</u>	<u>\$800</u>
Total Estimated O & M Expenses		<u>\$2,400</u>	<u>\$3,550</u>	<u>\$5,950</u> *

- 2/ In this example, because the hypothetical assumes only dedicated facilities to serve the FGS customer, the only revenues to be imputed to protect existing customers are those that correspond with the expenses of operating the dedicated facilities.

** Amount of revenue which would be imputed in future base revenue proceeding and used in monthly surveillance reports.*

COMMON

City Gas of Florida

Flexible Gas Service Tariff Incremental Cost - Common Facility

Exhibit B
page 1 of 2

Common Facility Example 1/

Capital Cost - Incremental

<u>Description</u>	Labor	Materials	Total
Incremental Cost of Plant:			
Distribution Main Extension	\$3,000	\$10,000	\$13,000
Regulator	\$200	\$3,000	\$3,200
Service Line	\$500	\$5,000	\$5,500
Meter Set	<u>\$500</u>	<u>\$5,100</u>	<u>\$5,600</u>
Total	\$4,200	\$23,100	\$27,300 *

Capital Cost - Common

Description

Main: Original Cost	\$80,000
Accumulated Depreciation	<u>\$40,000</u>
Net Cost	\$40,000

	COMMON	
Peak Capacity of Common Main	50	MCF/Hour
Peak Load of New Customer	10	MCF/Hour
Percent of Common Main Allocated to New Customer	20.0%	
Total Cost Allocation to New Customer		<u>\$8,000</u> **
Total Capital		<u>\$35,300</u>

* Capital cost excluded from Rate Base.

** Amount to be removed from Rate Base.

- 1/ This hypothetical assumes the FGS customer will be served partially through existing facilities and partially through new facilities. As a result, all capital costs associated with the new facility plus a portion of embedded costs related to existing plant that will be used to serve the customer will be excluded from rate base.
- Typically, this scenario will apply to new customers; however it could conceivably apply to an existing customer whose service line is being enhanced in conjunction with a change to the FGS tariff.

COMMON

City Gas of Florida

Exhibit B

Flexible Gas Service Tariff Incremental Cost - Common Facility

page 2 of 2

Common Facility Example 2/Estimated O & M Expenses - Incremental

	Man Hours	Labor	Other	Total
I <u>Customer Maintenance:</u>				
Leak Surveys (service line)	1	\$20	\$25	\$45
Meter Set Maintenance	8	\$160	\$800	\$960
Valve Maintenance	6	\$120	\$400	\$520
IV <u>Administrative Functions</u>				
Meter Reading	4	\$100	\$500	\$600
Billing	12	\$300	\$500	\$800
Other	24	\$600	\$200	\$800
Total Estimated O & M Expenses		<u>\$1,300</u>	<u>\$2,425</u>	<u>\$3,725</u>

Estimated O & M Expenses - Common Facilities

	Man Hours	Labor	Other	Total
I <u>Customer Maintenance:</u>				
Leak Surveys (main)	7	\$140	\$150	\$290
Meter Set Maintenance	0	\$0	\$0	\$0
Valve Maintenance	6	\$120	\$400	\$520
II <u>Pipe Inspection:</u>				
Exposure Reports	8	\$160	\$50	\$210
Locate for Others	8	\$160	\$100	\$260

	COMMON			
Third Party Monitoring	8	\$160	\$75	\$235
III Cathodic Protection:				
Pipe to Soil Survey	4	\$80	\$100	\$180
Interference Testing	4	\$80	\$100	\$180
Atmospheric Inspection	8	\$160	\$50	\$210
Magnesium Anode Replacement	2	<u>\$40</u>	<u>\$100</u>	<u>\$140</u>
Total Estimated O & M Expenses-Common Facilities		\$1,100	\$1,125	\$2,225
Allocation of Common Facilities O & M to New Customer		\$0	\$0	<u>\$445</u>
Total O & M Expenses of New Customer				<u>\$4,170</u> *

- 2/ Because this hypothetical example assumes service will be provided to the FGS customer through a combination of existing and new facilities, the Company will impute revenues reflecting the customer's share of the cost of maintaining existing facilities as well as the full cost of maintaining the new dedicated facility.

** Amount of revenue which would be imputed in future base revenue proceeding and used in monthly surveillance reports.*

FLEXIBLE GAS SERVICE
Rate Schedule FGS

OBJECTIVE

The objective of this service classification is to enable the Company the opportunity to compete in markets where natural gas service is not a monopoly service.

This tariff provides the Company with both the opportunity and risk to compete in these markets. It is designed to increase load by working with customers with regard to the specific terms and conditions of service.

This tariff places the Company's shareholders at risk, not the general body of rate payers (see rate-making treatment.)

APPLICABILITY

This service is available at the Company's option to customer(s) meeting the applicability standards, which include (1) The customer must provide the Company with a viable economic energy alternative including verifiable documentation of customer alternative and (2) the Company must demonstrate that this new customer will not cause any additional cost to the Company's other rate classes. Absent a service agreement with the Company under this rate schedule, customers are under no obligation to accept service under this rate schedule, and may elect to receive service under other applicable tariff rate schedules.

Terms of service under this rate schedule, including pressure, capital repayment, operating conditions and length of service are separately set forth in individual agreements between the Company and the Customers.

FLEXIBLE GAS SERVICE (Continued)

CHARACTER OF SERVICE

Natural gas, or its equivalent, with an average heating value on the order of 1,100 British Thermal Units per cubic foot

MONTHLY RATE

The rate will be developed based on economic market conditions at the time gas service is requested. The rate shall not be set lower than the incremental cost the Company incurs to serve the Customer.

CONFIDENTIALITY

The Company and customer each regard the terms and conditions of the negotiated service agreement as confidential, proprietary business information.

The Company and customer agree to utilize all reasonable and available measures to guard the confidentiality of said information, subject to the requirements of courts and agencies have jurisdiction hereof.

In the event either party is asked to provide the information by such a court or agency, it will promptly inform the other of the request, and will cooperate in defending and maintaining the confidentiality of the information.

This provision shall not prohibit or restrict the FPSC from reviewing the service agreement in the performance of its duties, but the FPSC shall treat the service agreement has been executed under this rate schedule and the Company shall file the service agreement and related documents with the Commission's Division of Records and Reporting for review by the Commission staff, who shall treat them as confidential documents.

FLEXIBLE GAS SERVICE (Continued)

RATE-MAKING TREATMENT

The Company will separately account for all incremental capital cost, and such cost will be excluded from rate base. To the extent that the Company enters into flexible gas service agreements with Customers, the Company is at risk for the capital investment, not the general body of rate payers.

As part of the incremental cost analysis, in determining the Customer's rate, the Company will specifically identify the incremental O & M costs. In future base rate cases, the customer operating costs (the annual operating and maintenance cost of meter reading, billing, and maintenance of facilities) will be imputed as revenue to offset the revenue requirement of such cost. The imputed revenue will be the greater of the specifically identified O & M cost or applicable customer cost component, as identified in the cost of service study, of the Company's most recent base rate proceeding.

Revenues, exclusive of the appropriate taxes and assessments, and PGA (for sales service) shall be retained by the Company. In addition, revenue will be excluded from regulated revenues. For the purpose of monthly surveillance reports, only the imputed revenue component of revenue shall be included.

Although the primary purpose of the flexible gas service schedule is to attract new customers, the Company shall not be precluded from using the schedule to keep existing customers from leaving its system. Flexible gas service rates for existing customers, shall be determined on a case-by-case basis. If this rate schedule is applied to an existing customer, in addition to excluding all incremental capital costs from rate base, the existing depreciated cost of the gas service line, metering equipment and any other facilities that were specifically installed to serve that particular customer shall be removed from rate base. Also, a portion of the depreciated costs of common distribution mains reflecting that customer's distance from the nearest point on an interstate Gas Pipeline and the size of pipe required to serve that customer's peak demand for gas shall be removed from rate base; however, this may be waived if the inclusion of such costs will result in the loss of this customer and will have a detrimental impact to the remaining utility customers of the Company.