

FLORIDA PUBLIC SERVICE COMMISSION
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Tallahassee, Florida 32399-0850

MEMORANDUM

August 22, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF ELECTRIC & GAS (MAKIN, GING, BULECZA-BANKS, DILLMORE) *CRBB*
DIVISION OF LEGAL SERVICES (JOHNSON) *VJ*

RE: DOCKET NO. 960920-GU - CITY GAS COMPANY OF FLORIDA - PETITION FOR AUTHORITY TO IMPLEMENT CITY GAS' PROPOSED FLEXIBLE GAS SERVICE RATE *55*

AGENDA: 9/3/96 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 60-DAY SUSPENSION DATE: 10/7/96

SPECIAL INSTRUCTIONS: S:\PSC\EAG\WP\960920.RCM

CASE BACKGROUND

On August 6, 1996, City Gas Company of Florida (City Gas) filed a petition for approval to implement a proposed Flexible Gas Service tariff. On August 8, 1996, City Gas filed an amended petition to include physical relocation as a possible option that could be available to customers, and correct typographical errors in the body of the proposed tariff. On August 14, 1996, City Gas filed a second amended petition to revise the tariff as it relates to existing customers who may seek to qualify for service under the proposed Flexible Gas Service tariff.

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 existing customers will not be required to subsidize contracts entered into pursuant to the Flexible Gas Service Tariff.

City Gas' proposed Flexible Gas Service tariff will apply to customers who demonstrate to City Gas that viable alternative to natural gas exist. Only after receipt and investigation of a documented statement detailing a customer's option would the Company offer Flexible Gas Service.

DOCUMENT NUMBER-DATE

08935 AUG 22 96

FPSC-RECORDS/REPORTING

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve City Gas' petition to implement a Flexible Gas Service Tariff?

RECOMMENDATION: Yes. The Commission should approve City Gas' petition to implement a Flexible Gas Service Tariff.

STAFF ANALYSIS: The proposed tariff incorporates several protective measures designed to ensure that the general body of customers will not be adversely affected by the adoption of the Flexible Gas Service tariff. To ensure that these other customers are not burdened with costs attributable to this tariff, City Gas will, in future rate cases, impute revenues sufficient to offset the administrative costs (meter reading, billing, and maintenance of facilities) of serving customers under the Flexible Gas Service Tariff. This is equivalent to placing these expenses "below-the-line".

City Gas will not attempt to recover from other customers the difference between the otherwise applicable tariff rate and the Flexible Gas Service tariff, either through cost recovery clauses or directly or indirectly in future base rate cases.

For new customers served directly off an FGT main, the Flexible Gas Service tariff will have a floor price equivalent to the incremental cost of providing service to that customer. The Company will exclude from rate base all incremental capital costs related to serving the customer, and will retain all revenue received from these customers.

For new customers served off the Company's existing distribution system, the Flexible Gas Service tariff will have a floor price equivalent to the incremental cost of providing service to that customer. The Company will exclude from rate base all incremental capital costs related to serving the customer, and a portion of the depreciated costs of common distribution mains reflecting the size of the pipe serving the customer plus the distance from the interstate pipeline, and will retain all revenue received from these customers.

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The Flexible Gas Service tariff is intended primarily to enable City Gas to compete effectively for new customers who have viable alternatives to the Company's service. However, there may be instances in which the tariff could be applicable to existing customers. City Gas has approximately 38 large volume customers which represents approximately 16% of total revenue to the Company. If City Gas offers this tariff to existing customers, it will exclude all incremental capital costs from rate base, and will 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 all instances, the Company will remove from rate base, a portion of the depreciated costs of common distribution mains reflecting the size of the pipe serving the customer plus the distance from the interstate pipeline.

The proposed Flexible Gas Service tariff contemplates that City Gas will submit information relating to each contract 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, and a copy of the contract entered between the customer and the Company. Because each contract will be separately negotiated, City Gas regards the confidentiality provision as an essential component of the tariff. Without the approval of confidentiality, the Company could not offer the program.

City Gas proposed this tariff as 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.

Accordingly, Staff recommends the Commission approve City Gas' proposed Flexible Gas Service tariff for the following reasons:

- The Company will separately account for all incremental capital costs to be excluded from rate base.
- The Company is at risk for existing and incremental capital investment, not the general body of ratepayers.
- As part of the incremental cost analysis, the Company will specifically identify the incremental O & M costs in determining the customer's rate.

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- In future base rate cases, the customer operating costs (the annual operating and maintenance cost 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 Company's most recent base rate proceeding cost of service study.
- The Company will account for the imputed revenue component in its monthly surveillance reports..
- City Gas 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, and a copy of the contract entered between the customer and the Company.
- Because all allocation and transactions are clear and accountable, rates charged to the general body of customers will not increase due to other customers receiving a rate discount.

As an additional reason for approving City Gas' petition, Staff notes that Federal initiatives have transformed the sale of natural gas from what was traditionally a monopoly enterprise, to one of multiple providers who participate in a competitive market. Customers are becoming increasingly aware of their ability to meet their energy requirements with alternative sources of energy. Options may include physical relocation, by-pass directly to the interstate pipeline, or access to viable energy alternatives.

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ISSUE 2: What is the appropriate effective date for the Flexible Gas Service tariff?

RECOMMENDATION: The effective date for the Flexible Gas Service tariff should be the effective date of Commission vote.

STAFF ANALYSIS: Staff believes the effective date for the Flexible Gas Service tariff should be the effective date of Commission vote.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes. If no substantially affected person files a protest within 21 days of the issuance of the order, the docket should be closed. If a protest is filed within 21 days from the issuance of the order, the tariff should remain in effect with any increase held subject to refund, pending resolution of the protest.

STAFF ANALYSIS: If no substantially affected person files a protest within 21 days of the issuance of the order, the docket should be closed. If a protest is filed within 21 days from the issuance of the order, the tariff should remain in effect with any increase held subject to refund, pending resolution of the protest.