

ORIGINAL
FILE COPY

MACFARLANE FERGUSON & McMULLEN

ATTORNEYS AND COUNSELORS AT LAW

111 MADISON STREET, SUITE 2300
P.O. BOX 1531 (ZIP 33601)
TAMPA, FLORIDA 33602
(813) 273-4200 FAX (813) 273-4396

400 CLEVELAND STREET
P. O. BOX 1669 (ZIP 34617)
CLEARWATER, FLORIDA 34615
(813) 441-8966 FAX (813) 442-8470

September 26, 1996

IN REPLY REFER TO:

Ansley Watson, Jr.
P. O. Box 1531
Tampa, Florida 33601

BY HAND DELIVERY

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. 960725-GU -- Unbundling of natural gas services

Dear Ms. Bayo:

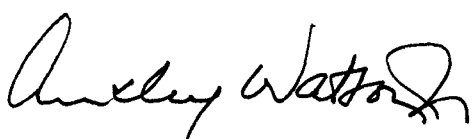
Enclosed for filing in the above docket on behalf of Peoples Gas System, Inc., please find fifteen (15) copies of Peoples' follow-up comments on issues discussed at the Gas Unbundling Workshop held on August 22 and 23, 1996. A diskette containing the comments is also enclosed.

Finally, I enclose a certificate of service with respect to service of the enclosed comments on parties of record.

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

Many thanks for your usual assistance.

Sincerely,



ANSLEY WATSON, JR.

- CK _____
- FA _____
- PP _____
- AF _____
- MU _____
- TR _____
- AG _____
- EG 1
- N 5 AWjr/a
- PC _____
- CH _____
- EC 1
- AS _____
- TH _____

RECEIVED & FILED
[Signature]
FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE
10369 SEP 26 88
FPSC-RECORDS/REPORTING

Blanca S. Bayo, Director
September 26, 1996
Page 2

cc: Mr. Joseph W. McCormick
Parties of Record

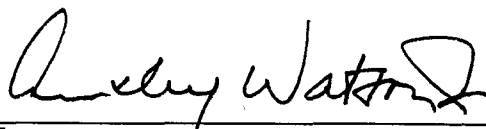
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Unbundling of natural)
gas services)
_____)

Docket No. 960725-GU
Submitted for Filing:
9-26-96

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the follow-up comments of Peoples Gas System, Inc. on issues discussed at the Gas Unbundling Workshop held August 22 and 23, 1996, has been furnished by regular U.S. Mail to all parties of record in the above docket, this 26th day of September, 1996.



Ansley Watson, Jr.
Macfarlane Ferguson & McMullen
P. O. Box 1531
Tampa, Florida 33601-1531
Telephone: (813) 273-4200 or -4321
Facsimile: (813) 273-4396 or -4397

and

Robert Scheffel Wright
Landers & Parsons, P.A.
P. O. Box 271
Tallahassee, Florida 32302

Attorneys for Peoples Gas System, Inc.

ORIGINAL
FILE COPY

**Follow-up Comments of Peoples Gas System, Inc.
on Issues Discussed at Gas Unbundling Workshop
(August 22 & 23, 1996)**

PREFACE

Aggregation of firm loads: Peoples Gas System's responses are based on the concept of customer aggregation for purposes of transportation described by Peoples Gas at the August 22 and 23 workshop. The critical component that lets Peoples permit aggregation for firm customers without extensive real time metering is comparability of service, and that clearly means primary firm capacity--only. To be certain our firm customers have truly reliable, truly firm service, primary firm is the only capacity Peoples can accept for its own firm system sales service. Comparable quality and reliability means primary firm capacity must also be the only acceptable pipeline capacity that can be used by any aggregator of firm loads. It would be irresponsible for Peoples to, on its own, permit customers who need firm service to be served with any lesser quality capacity. It would be equally irresponsible for the Commission to require Peoples to do so.

Further, any capacity that would become available at reduced price would be available at that price only because LDCs' firm customers would be forced to subsidize the price by picking up the balance of FGT's full tariffed rate. LDCs acquired primary firm capacity to protect the service needs of both firm and interruptible customers. That was the only way to ensure protection in the 1985 - 1989 time frame. The Commission must not now permit a few customers to abandon primary firm capacity that they have benefitted from since 1985 and stick someone else with the cost.

Total FGT capacity costs constitute a "zero sum game"; that is, somebody pays for all of it. Right now, those who benefit also pay. If the Commission permits marketers to provide some new form of quasi firm service using discounted, released capacity, LDCs' customers will see a corresponding increase in the cost to serve them. It is they who will be left to pay the differential between the LDCs' cost of primary firm and the discounted price recovered from marketers who buy released capacity. There is nothing magic about the savings from grey market capacity; savings exist only because someone not benefitting is paying the difference. Peoples Gas will not willingly burden our firm customers with those costs. The Commission must not require us to do so merely to increase the profits of unregulated competitors.

DOCUMENT NUMBER-DATE

10369 SEP 25 8

FPSC-RECORDS/REPORTING

If the Public Service Commission should require Peoples to provide any lesser quality of service than the firm service our customers now receive, our responses would more closely align with the comments filed by the Associated Gas Distributors of Florida.

Simply stated, these are the keys of Peoples Gas System's aggregation concept:

1. Any Peoples Gas customer should be free to choose their natural gas supplier, similar to the way local telephone subscribers are free to choose their long-distance service provider. Realistically, there must be a phase-in of such service, eventually to include even the small commercial and residential customers, simply due to the administrative complexity of handling the number of customers served.
2. Any Peoples Gas customer receiving gas through an aggregating supplier must receive service comparable in quality and reliability to that received by system sales customers.
3. Any qualified supplier of natural gas should be able to aggregate loads on Peoples Gas System for purposes of transporting natural gas to our customers.
4. Any qualified supplier of natural gas must have transportation capacity, and the obligation to deliver to the Peoples' system, comparable in reliability to that which Peoples requires when purchasing from suppliers of system sales gas. To meet our obligation to serve, Peoples requires the use of primary firm capacity from wellhead to city gate.
5. The administration of aggregated transportation service should be transparent to our customers; that is, our customers whose natural gas is supplied by aggregating suppliers should face no greater complexity of transactions to receive service comparable to that which they would receive as system sales customers.

Capacity

1. **Should the Local Distribution company (LDC) be required to be the supplier of last resort?** (Staff)

This response is dependent upon the type of customer being served. The answer may be either, "yes" or "no".

Yes. For firm customers served by aggregating suppliers, Peoples response is "Yes". Peoples understands this question

to relate to the obligation to serve. We are prepared to continue to carry the obligation to serve all of our customers, based on the aggregation concept outlined above.

No. For customers choosing to arrange for individual natural gas transportation on an interruptible basis, Peoples should not be required to stand ready to supply natural gas if a customer's supplier or interruptible transportation fails. We should be able to provide such service on a best-efforts basis and to be compensated sufficiently so as to insulate the rest of our customers from any excessive costs incurred. LDC's must be protected by having in their tariffs, penalties levied *against the marketer or supplier*, rather than the ultimate customer. These penalties must cover the cost the LDC will incur by providing its best efforts to meet last minute supply requirements. The penalties should be sufficiently punitive so as to provide a disincentive for abuse.

2. Should the LDC be required to offer transportation service to all classes of customers? (Staff)

No. Small commercial and residential customers should not be included at this time. The LDC should be permitted to provide transportation to all customer classes if its management so chooses, but should not be required to do so.

If the Commission decides that LDCs must offer transportation to all or certain classes of customer, it should establish a phase-in approach to service to smaller customers.

3. Should the LDC have the obligation to offer backup or no-notice service for firm transportation customers? (Staff)

No. Peoples must not be required to provide any service for which it is not justly compensated. We should not be required to assume the obligation for backup or no-notice, but should be permitted to provide the service if desired. The service can be provided and compensated as either a best-efforts service or as a firm service at a higher price commensurate with the greater obligation.

These are competitive services any willing supplier in the competitive market should be able to provide. If they are not desirable services for which others are willing to compete, the LDC should not be saddled with them. Stated differently, the LDC must not be constrained by an obligation to provide any competitive service when competitors have no similar obligation.

4. **Should the LDC be relieved of its obligation to transport if the customer fails to secure firm supplies or backup service? (Staff)**

No, not in the case of firm customers receiving service through aggregating suppliers. This is part of what makes aggregated service transparent to the customer.

Yes, when dealing with an individual customer. If the customer fails to secure supplies or deliver them to the city gate, there is no product for the LDC to deliver. The LDC should be permitted to make best efforts to supply gas, with just compensation for the gas at penalty rates.

Peoples' response may be further differentiated in dealing with interruptible and firm transportation by individual customers.

5. **Should the LDC be allowed to use transportation customers' gas in critical need situations? (Staff)**

Yes. This response falls within our curtailment plans. We should not be able to confiscate customer-owned gas to cover our own imprudent supply purchasing decisions. In the event of a system *force majeure*, on or upstream of Peoples system, Peoples should be permitted to confiscate, with adequate compensation, any gas flowing on its system for use in supplying critical needs, in line with our curtailment plan.

This is best handled through contracts between Peoples and our transportation customers and through revision in tariffs and curtailment plans. Contracts and tariffs should clarify circumstances which would create a need for confiscation and set standards for compensation.

6. **Should LDCs be allowed to curtail gas service to a firm transportation customer who has demonstrated that their gas supply arrived at the LDC city gate? (Staff)**

See response to previous question. This is a matter for curtailment plans, contracts and tariffs.

7. **Should the LDC be allowed to require transportation customers using gas for "essential human needs" to contract for standby service? (Staff)**

Yes. We should have the flexibility to do so, but should not be required to do so.

8. **Should the LDC be required to offer customers the ability to combine unbundled and bundled services?** (Staff)

No. We should have the flexibility to do so, but should not be required to do so. Customers should be free to choose the mix of services they want to purchase. We should have the ability to specify in our tariff, which service is considered to be provided first; i.e., Is the first gas through the meter system sales gas or transportation gas?

Mixing services also provides the customer the opportunity to game the system, taking less system sales gas when spot gas is cheaper and taking more gas when spot prices exceed the PGA. This causes increased underrecovery of PGA costs due to increased takes when replacement gas is most expensive. Then, if the customer changes the mix to take less system sales gas during the time the underrecovery is being collected, the burden of paying for that customer's saving fall upon the other customers.

9. **Should LDC's be permitted to stream gas on a competitive basis using a negotiated rate?** (AGDF)

Yes. If Peoples retains the merchant function, we must be permitted to use the tools to retain customers. Streaming of supplies (targeting the sale of specifically purchased packages of gas to a customer or group of customers at a price different from the WACOG) is one tool that will help us to meet competition. Dedicating supplies to certain customers will benefit other customers by increasing the total volumes Peoples purchases. That can be expected to give us greater market power and permit us to arrange better buying packages, overall.

It must be recognized that, due to taxation differentials, even streaming gas will not let the regulated utility meet the price of unregulated natural gas. The State of Florida continues to award a superior marketing position to unregulated marketers by requiring LDCs to pay taxes on gas sold through the utility, but not equally taxing sales by marketers. If taxes are not equalized, LDC's will have little option left but to remove themselves from the merchant function.

10. **Should all LDC's be subject to unbundling?** (Chesapeake Utilities)

No position.

11. **Should all LDC services be performed pursuant to filed tariffs and should any desired rate flexibility be effected under a filed rider?** (CNB Olympic)

LDC services should be performed pursuant to filed tariffs. Rate flexibility should be affected under tariffs and subsequent confidential contracts or agreements filed with the FPSC.

12. **Should the LDC's have the right to unilaterally terminate transportation agreements without cause?** (CNB Olympic)

No.

13. **Should LDC's be required to "act reasonable" and should "sole discretion" provisions in the tariffs read "reasonable discretion"?** (CNB Olympic)

Actions that Peoples takes every day based upon its sole discretion have historically been subject to FPSC assessment of whether the decisions were reasonable and prudent. We anticipate no change in that. Tariff wording should remain clearly stated as it is today to ensure that all parties to a transaction fully understand who has the responsibility (and therefore, sole discretion) to make certain decisions.

14. **Should the LDC be allowed to require a waiting period to transportation customers wanting to return to bundled services?** (Staff)

In general, Peoples Gas' response is, "Yes". The response may vary dependent on several conditions.

If a customer has been served by an aggregating supplier, there should be no waiting period. We stated earlier that we willingly accept the continuing obligation to serve customers supplied their natural gas through aggregators. We must, however, be able to immediately recall from the aggregating supplier the amount of firm capacity we had previously released to the supplier to serve that customer or group of customers.

If a customer has been individually transporting on Peoples Gas' recallable firm transportation capacity and the transportation capacity returns to Peoples, there should be no waiting period. Peoples may not have adequate gas supply under contract to serve returning transportation customers. To insulate the rest of our customers from excess cost of

procuring incremental supply, we must be able to recover any costs in excess of our WACOG from the returning transportation customer.

For customers served by capacity other than Peoples recallable firm capacity, a customer choosing to become a system sales customer should have no greater waiting period than any new, similarly situated customer would have.

15. **Should the price for transportation service be based on cost of service principles?** (Staff)

Yes. Any service that remains regulated should remain cost-based.

Peoples should retain the ability to flex rates and recover the discount, as we can now, to meet market conditions. As long as fixed costs are met and some contribution is made to variable costs, there is benefit to the balance of the body of customers.

Rates should be corrected to parity much more quickly than the Commission has permitted in the past. The Commission has applied a two-part rule of thumb in rate cases since the early 1980s: 1) "No customer class receives a rate increase greater than 1.5 times the system average increase." and 2) "No customer class receives a rate decrease in a rate increase proceeding." Their time has long since passed. Competitive pressures impinging on service to all customers necessitates correction of the rates more quickly. Correction should be done in each utility's rate cases.

AGGREGATION

27. **Should LDCs be required to have aggregation tariffs?** (Staff)

No. We should be permitted to do so, but not required.

28. **Should capacity releases to aggregators be subject to recall to correct any mismatch between customer load and assigned capacity outside a determined tolerance?** (Staff)

Yes. Each utility should develop its recall policy consistent with its unique circumstances and overall aggregation program. To allay marketers' fears about having their capacity recalled, this question might be more appropriately worded by inserting, after the word "recall", the words "for reallocation to another aggregator".

29. **Should aggregators become the customer of the LDC, rather than the individual customers whose loads are being aggregated?**
(AGDF)

A new relationship should be created with aggregators, but the existing relationship with the end use customer must not be undermined.

For purposes of system discipline we must have a service provider to customer relationship with aggregators. Peoples must have the tools necessary to safely operate our systems, including balancing tools necessary to maintain appropriate operating pressures. Those tools should be applied to the aggregating suppliers so the end use customer does not face greater complexity in buying from an aggregating supplier than from system supply.

30. **Do LDC's tell suppliers, marketers and brokers how much gas to deliver into LDC's system for aggregation of customers, or do the suppliers, marketers and brokers tell the LDC how much gas they are delivering? How are imbalances handled and who has financial responsibility to whom?** (AGDF)

Aggregators must accept the same level of responsibility that individual transportation customers or suppliers of system sales gas must display. For large commercial and industrial customers, that may mean the aggregator makes nominations. For aggregated loads of smaller customers, Peoples should direct the aggregating suppliers how much gas to deliver, just as we do with our suppliers of system sales gas. (Large and small are relative terms that should be left to the discretion of each LDC.) Aggregators must be held operationally and financially responsible for deliveries through application of LDC system balancing tools and when needed, appropriate penalties and cash out provisions.

31. **Should aggregators be able to order transportation service by phone or simply ask their agents to take care of the details of arranging service?** (CNB Olympic)

No. Transactions should be simplified, but not to the level of an unverifiable telephone call.

32. **Should aggregators be afforded the same load management used by the LDC in its capacity as supplier of unbundled sales service:** (CNB Olympic)

Peoples' responses to these questions assume aggregated firm loads. Interruptible customers' nominations and scheduling volumes must continue to be done independently of the firm customers.

- **hold the upstream capacity of their customers, if asked to do so**

Yes. Aggregators should be able to hold capacity on a recallable basis for reallocation as needed. Peoples must retain rights to capacity to serve a customer that chooses to return to system sales service or so we may release the capacity to another supplier if the customer chooses to move to a different aggregating supplier.

- **receive and pay their customer's transportation bills**

No, not by PSC mandate. Peoples must retain a service provider to customer relationship with its customers. This is a matter that should be subject to resolution by customers, their aggregating suppliers and Peoples. There should be no FPSC mandate to require or to preclude any billing arrangements mutually acceptable to those parties.

- **balance all their customers' usage as one pool**

Yes.

- **choose to have all LDC penalties and operational orders direct at their pools, rather than their customers**

All penalties and operational orders should be directed at the aggregating suppliers. It should not be the aggregators' choice. It is Peoples that must balance its system and the flows of gas as the Delivery Point Operator.

- **aggregate any collection of customers**

Yes, subject to the provisions of Peoples aggregation concept.

- **aggregate upstream capacity for the purpose of submitting one city gate nomination for their customers**

Yes. Again, the differentiations between firm and interruptible customers and large individual customers and aggregated pools of smaller customers must be considered.