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October 9, 1996

Ms. Blanca Bayo, Director
Division of Records and Reporting
Room 110, Easley Building
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

BY HAND DELIVERY

Re: Docket No. 960725-GU

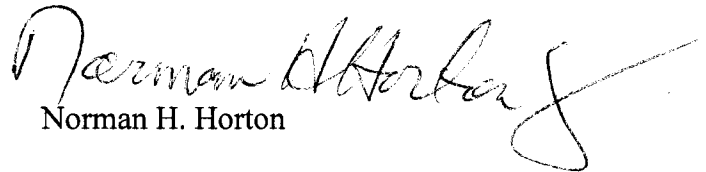
Dear Ms. Bayo:

Enclosed for filing on behalf of West Florida Natural Gas, please find 15 copies of follow-up comments to the initial workshop.

Please acknowledge receipt on the enclosed duplicate copy of this letter.

Thank you for your assistance in this matter.

Sincerely,


Norman H. Horton

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October 17, 1996

**West Florida Natural Gas Company
Comments on Unbundling Issues
Docket No. 960725
Staff Workshop One**

West Florida Natural Gas appreciates the opportunity to provide additional comments on the issues discussed during the first staff workshop on unbundled service. The comments provided below on the issues raised by staff reflect the company's individual positions on these issues. It should be noted, that West Florida Gas supports the general consolidated comments of the AGDF, as prepared by the Reed Consulting Group. Our company's overall concerns in this Docket closely parallel those listed in the Preface to the AGDF comments. These concerns are vitally important to West Florida Gas, and merit restating prior to offering our specific company comments.

We need flexibility to design individualized unbundling plans and tariffs that address our company's unique operating characteristics. Implementation of any enhancements to our current unbundled service must proceed at a pace that is commensurate with our technical and administrative capabilities. The costs associated with unbundling must be recognized, and an appropriate allocation of these costs must be developed. In addition, we strongly believe that any unbundling effort must preserve primary firm capacity to serve the core customers on our system. In our view the LDC, at least over the next several years, will hold, release, recall and redistribute primary firm capacity to customers regardless of whether they are transporting individually or as part of a pool. We regard the tariff and contractual terms that define the transfer of capacity between the LDC, the customer and the commodity supplier to be central to the success of unbundling. And finally, we must have operational tariffs that define system control procedures and curtailment policies that address our individual service and reliability concerns.

Obligation to Serve/ Service Offerings

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

During the transition to full unbundled service, the LDC will by default be the supplier (merchant) of last resort. For the vast majority of small volume transportation customers, the LDC will be operationally unable to track or control gas flows to end-users in time to effectively mitigate a situation where gas has not been delivered by a customer's supplier, or their usage exceeds a nominated amount. Even in the instance of a large volume customer with telemetry, it is frequently difficult to react quickly enough to avoid the use of system supply gas.

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Clearly, it is in the best interests of the LDC to keep the gas flowing to all customers. We continually make a best-efforts attempt to avoid any service disruption to either sales or transportation customers. Our current tariff provides a mechanism for addressing over and undertenders. Customers overrunning their nomination are able to purchase sales gas and capacity at the company's WACOG. As unbundling continues, however, we believe there will be increased pressure to keep the WACOG in line with market competitive pricing. At present, we are providing a merchant of last resort service to our transportation customers, at the expense of our sales customers. The capacity costs and, to some extent, the supply costs of this "service" are captured in the PGA. If overrun gas is used by a transporter, they pay only the WACOG price. If no overrun gas is taken, the cost of maintaining that service option is borne by the sales customers through the PGA. Prior to transportation service, the "excess" capacity owned by an LDC for peaking and growth purposes was shared by all customers. Our current tariff allows transportation customers to utilize system supply and capacity on a no-notice basis, with no volume commitments and no obligation to share the costs of maintaining such a service.

During the initial stages of unbundling, allowing customers virtually unrestricted access to Interruptible overrun gas could be justified on a load factor improvement basis. Certainly, our current overrun mechanism has eased our larger customers transition to transportation service. However, as more customers migrate to transportation and elect to leave behind all or a portion of the capacity purchased for their use by the LDC, the remaining sales customers are left to absorb capacity costs for which they receive no benefit. Our current overrun gas policy satisfies a merchant of last resort function, but without doubt inappropriately allocates the costs of providing such a service. One of the company's primary unbundling objectives is to remove the cost subsidization of backup or last resort service from the sales customer classes.

As previously noted, for the next several years we will, by default, serve as the supplier of last resort. While we acknowledge this role, we strongly believe that there should be substantial limitations associated with any obligation to provide this service. Last resort supply service should only be provided on a best efforts basis. If firm stand-by service is needed, the customer should pay an appropriate competitive rate to whoever is providing the service. In our view, last resort service should be provided as defined in an LDC's system management tools, balancing provisions and curtailment plan. A key element of the service should be the identification of substantial penalties, assessed on the suppliers, for delivery failures or other major out-of-balance conditions. If we are to provide last resort service for all firm transporters, our future capacity and supply plans may need some revision. To avoid continuing inappropriate cross class subsidization, a cost adjustment mechanism for transportation customers may be required to fairly allocate supplier of last resort costs.

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

Our company is of the opinion that traditional customer classes are somewhat meaningless in a discussion of transportation eligibility. In general, transportation service should be offered to all customers as dictated by an LDC's operational and administrative capability to effectively offer the service. In our view, transportation service eligibility should be defined by transport volumes. The LDC should adjust the eligibility threshold to allow greater participation as their capabilities expand. Restricting eligibility by customer class may inappropriately deny service to some in the class until such time as the smallest customer can be accommodated. For example, our Small Commercial class includes customers using up to 182,500 therms per year and customers using only a few hundred therms per year. We can shift the larger customers in the class to transportation today. It will likely be some time before we will have the systems in place to accommodate all customers in the Small Commercial or Residential class.

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

Backup or no-notice service in today's market are competitive services. Many suppliers are capable of providing these services. LDC's should not be placed in a position of having to offer services readily available in the marketplace, unless they choose to do so. If a regulated, cost based rate for these services is competitive, and the LDC has the resources to provide the service, it should be allowed to compete. Otherwise, the market and the LDC's operational and balancing provisions as described in Issue 1, should be sufficient to address any concern for backup service.

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

The LDC should be under no obligation to transport in situations where the customer's gas was not delivered to the city gate. As noted above, it will be difficult to control "unauthorized use" for most customers, given our limited data acquisition and control capabilities. In our view the company's balancing and penalty provisions will define the character of service provided when transport supplies fail.

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

Under a limited set of conditions identified in the LDC tariff, transportation gas should be available for use by the LDC. Only a critical system constraint condition

would trigger the diversion of a transporting customer's gas. Our curtailment plan would identify the priority of curtailment, and by extension the order in which we would divert transportation gas. The curtailment plan we envision would include both transportation and sales customers. Priority standing would not be dependent on the origin of the customer's gas supply. The LDC tariff should incorporate a method of compensation for any customer whose gas supply has been reallocated by the LDC for use by other customers.

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)

The LDC's curtailment plan would identify situations where firm transportation supplies could be curtailed and reallocated. We also anticipate including curtailment language and related compensation issues in the transportation agreements executed with individual customers.

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

The LDC should be allowed to require certain conditions of service, including backup supply arrangements, for essential human needs customers. These service conditions may vary greatly from customer to customer, and should be defined in the transportation agreement. The LDC should allow the customer substantial flexibility to devise a backup plan that meets its needs. Backup service, in our view, should be a non-regulated competitive service.

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

In general, we believe customers should have the ability to choose the services they want. If customers elect a combination of transportation and sales service, appropriate tariff and contract provisions should govern the conditions of service. Of primary concern is the designation of which gas is first through the meter. As noted in Issue 1, we are currently providing a mix of transportation and sales service to several customers in accordance with our overrun gas policy. The transportation gas is designated first through the meter. We are proposing to tighten our overrun policy as described in Issue 1. Faced with handling overruns in accordance with our probable balancing provisions, it is likely that several of our customers will elect a mix of transportation and sales service. Clearly, we will need to develop more comprehensive tariff language to accommodate the expanded customer options we anticipate.

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

If the LDC retains the merchant function, gas streaming should be allowed. WACOG pricing through the PGA clearly places the LDC at a competitive disadvantage with third party marketers targeting specific customers. Gas marketers are able to develop gas packages tailored to a customers individual requirements. The cross class subsidization that inevitably occurs with non-homogeneous customer pools, is obvious in the PGA cost of gas. These pooled costs are defined by the poorest load factor, most weather sensitive customers. It is little wonder that the industrial and large commercial customers are opting out of the WACOG pool. Streaming would resolve many of the gas cost subsidization issues that exist in our current sales service. If streaming is allowed, the gas supply purchases should be handled outside the PGA, with the LDC at risk for non-recovery of these costs. The LDC should be required to demonstrate that the streaming activity is not harming other sales customers (assuming an appropriate allocation of the PGA costs).

As an alternative to streaming, LDC could adopt a segmented PGA policy similar to that currently approved for ALAGASCO. Customers could be grouped by similar operating characteristics. Gas packages could be purchased for the separate groups or pools based on their individual requirements. The WACOG for each group would be much more representative of their actual costs, than is currently provided by our existing PGA calculation. Customers would have the option to purchase sales gas at the segmented WACOG price, or opt for transportation service with gas provided by a third party supplier. Ultimately, we believe the LDC's will exit the merchant function and this will be a moot issue. Until that time, however, streaming or segmenting the PGA are rational transitional alternatives to balance market competitiveness.

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

The PSC should allow each LDC to develop reasonable unbundling plans that consider the utility's unique operating and administrative constraints.

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)

Monopoly services provided by regulated utilities should be performed in accordance with filed tariffs or contracts approved by the PSC. The terms and rates of competitive services provided by the LDC should be subject to negotiation with customers, and not defined or restricted by the LDC's tariff. Rate flexibility similar to that currently offered should continue to be included in the tariff and special contracts approved by the Commission.

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

The termination clauses of contracts for transportation service should be clearly identified in the LDC tariff or in the customer's transportation agreement.

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

The FPSC exercises considerable authority to assess the reasonableness and prudence of LDC decisions. We believe sufficient protection exists for customers under our current tariff provisions along with the regulatory oversight provided by the Commission.

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

It is our intent to define a minimum contract period in our transportation agreements. The option to allow customers to return to sales service in the middle of the contract term would be at the sole discretion of the LDC. A mid-term return to sales service would be evaluated based on the impact to other sales customers. Customers wishing to return to sales service at the end of the contract term will be evaluated as any new customer. Assuming the LDC has capacity and supply available, there would be no waiting period at the end of a contract term. The potential "gaming" that could occur with customers will not be an issue if the LDC can enforce the transportation agreement term. It should also be noted, that West Florida is contemplating the termination of certain of its industrial sales service tariffs. There may be no sales service to return to.

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

Transportation is a monopoly, regulated service and should be based on cost of service principals. The flex rates used to address competitive circumstances are a reasonable means of assuring that the LDC's fixed costs are met, to the benefit of all customers. The flex rates should be continued. We strongly support movement toward developing rate parity for all customer classes. As we have previously stated, however, the traditional customer classes are rapidly losing any relevance. Over the next couple of years we will need to redefine our customer groups, reallocate the costs of service, and adjust rates appropriately.

AGGREGATION

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

As stated previously, LDC's should have the option, not the requirement, to develop aggregation tariffs. West Florida plans to file aggregation tariffs that link similar

customer groups into pools for nomination and balancing purposes. These customer groups may cross existing customer class lines. It is our intent to aggregate for operational purposes only. Rates would continue to be based on existing customer class tariff rates, at least until a new cost study can be completed. We expect that our initial aggregation tariffs will define three threshold levels per customer group. A minimum volume for the aggregation pool, a minimum volume for each customer in the pool, and a maximum volume for each customer. We would like to group customers with similar usage characteristics. Over time we may find that factors other than volume will best define our aggregation pools. We are also planning to propose an initial limit on the number of customers or the total throughput eligible for aggregation. As we develop experience with aggregation, these restrictions would be lifted.

- 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)**

An LDC should have the ability to recall assigned capacity in accordance with its tariff or service agreement with the aggregator.

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

West Florida strongly supports the retention of the LDC's traditional relationship with the customer, albeit on a transportation service basis. It is probable that the aggregators will also become customers of the LDC given that tariff or contractual provisions will define such a relationship.

- 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)**

West Florida agrees with the response provided to the Commission by the AGDF. We definitely will need to file tariff adjustment to address the balancing provisions required to offer aggregated service.

- 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)**

We favor simplifying transactions, especially for smaller volume customers. However, we believe all transactions should be verifiable through a document trail.

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

a) hold the upstream capacity of their customers, if asked to do so

West Florida assumes that its firm transportation capacity will be released to existing customers migrating to transportation service. FGT policies will dictate the release terms. We have no particular objection if the capacity is re-released to an aggregator. It would appear to simplify the process for all concerned if that were to occur. However, we intend to retain recall rights for the capacity. It is our belief that over the next few years, the LDC will of necessity function as a "capacity bank", allocating and reallocating capacity among customers. We strongly support the concept of the capacity following the customer. As customers change suppliers the capacity would return to LDC to be reallocated to a new supplier.

b) receive and pay their customer's bills

The LDC's customer must remain ultimately responsible for their bills. We will strongly object to any action that attempts to deteriorate our traditional billing relationship with our customers. However, we are open to devising billing arrangements that are mutually acceptable to all parties, with the objective of providing enhanced customer service.

c) balance all their customers' usage as one pool

Yes, given that the LDC has some control over the establishment of the pools.

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

Each LDC must have the flexibility to develop balancing provisions based on its individual operating characteristics. Certain operational orders (curtailment) may be inappropriate to direct at the pool.

e) aggregate any collection of customers

As described above, the initial aggregation pools would be restricted to customers of similar operational characteristics.

f) aggregate upstream capacity for the purpose of submitting one city gate nomination for their customers

Generally, we support upstream capacity aggregation. Under certain conditions where customers receive both sales and transportation service, pooling arrangements may be problematic.