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December 9, 1996

Blanca S. Bayo, Director
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2540 Shumard Oak Blvd.
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HAND DELIVERY

RE: Docket No. 960725-GU
Unbundling of Natural Gas Services

Dear Ms. Bayo:

Enclosed for filing in the above docket are an original and 15 copies of Florida Public Utilities Company's Responses to Issues Discussed at the October 21-22, 1996 Unbundling Workshop, together with our Certificate of Service.

Please acknowledge receipt of the foregoing by stamping the enclosed extra copy of this letter and returning same to my attention. Thank you for your assistance.

Sincerely,

Wayne L. Schiefelbein

Wayne L. Schiefelbein

WLS/adw
Enclosures

cc w/encl: Anne Wood
Chesapeake Utilities Corporation

Marc Schneidermann (w/cover letter & certificate only)
Florida Public Utilities Company

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Unbundling of Natural Gas Services)	Docket No. 960725-GU Filed: December 9, 1996

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of Florida Public Utilities Company's Responses to Issues Discussed at the October 21-22, 1996 Unbundling Workshop have been furnished by hand delivery (*) or by U.S. Mail to the following individuals, on this 9th day of December, 1996:

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Responses by Florida Public Utilities Company
to issues discussed at the October 21-22, 1996
Public Service Commission's Unbundling Workshop
in Docket 960725-GU

BALANCING

16. Should the LDC be required to file balancing tariffs that establish a period when transportation customers can balance deliveries into and out of the utility's system? (Staff)

FPU's response:

No. LDCs should not be required to file balancing tariffs but should be allowed to file any tariffs it deems necessary to keep its system(s) in balance. Balancing tariffs may or may not directly reflect the tariffs in place by Florida Gas Transmission.

17. Should the LDC be allowed to issue Operational Flow Orders and impose special volume conditions and/or balancing provisions in case of system emergencies and capacity constraints? (Staff)

FPU's response:

Yes. LDCs must be allowed to issue Operational Flow Orders and should be allowed to prudently issue orders it deems necessary to keep its system(s) in balance. Operational Flow Orders may or may not reflect operational orders issued by Florida Gas Transmission.

18. Should the LDC be allowed to impose penalties when a customer fails to balance deliveries and withdrawals within an established time frame? (Staff)

FPU's response:

Yes. The LDC must be able to impose penalties in order to keep its system(s) in balance and prevent gaming by its unbundled customers and their respective gas suppliers. This is necessary to protect the LDC's traditional customers. Penalty provisions should convince unbundled customers to stay in balance while ensuring that all current and potential costs associated by such customers' imbalances are collected only from the parties that cause such potential charges.

19. Should the LDC be required to institute a tolerance range for purposes of setting the threshold before an Operational Flow Order is issued? (Staff)

FPU's response:

No. LDCs should have the option of instituting tolerance ranges, preferably, before an operational flow order is issued. These tolerance ranges may or may not reflect tolerance ranges of the pipeline since many customers cannot adjust their gas consumption or input into the system based upon short timing and each individual unbundled customer's operations and contractual relationships with their gas suppliers. The process for setting tolerance levels should be flexible in order to react to changes caused by actions such as imbalance tolerance changes made by Florida Gas Transmission and other operational requirements.

20. Should balancing obligations, costs and penalties be based on a "no harm/no foul" principle? (Staff)

FPU's response:

No. The "no harm/no foul" principle should not be used because if it were implemented customers and marketers would have the opportunity to game the system at the expense of the LDC's traditional customers. When an LDC or a pipeline issues an order, it is normally based upon a situation where the pipeline or LDC needs a response within a certain period of time. By instituting the "no harm/no foul" principle, we would simply be sending the wrong signal. This could persuade the customer to ignore future orders that could jeopardize the LDC's and/or the pipeline's distribution operations. "No harm/no foul" will not work, especially when an LDC does not have backup supplies, either on system or off system. Excess revenues derived, based upon customers being penalized for not responding to the utilities' orders, may be shared among all traditional and unbundled customers.

21. Should the LDC be allowed to impose metering requirements on the transportation customers to ensure the LDC remains in balance with the pipeline?

FPU's response:

Yes. Real time measurement presents some interesting issues. To ensure that customers are responding to orders, to ensure they are delivering adequate gas supplies on peak days, to ensure they are off-line during curtailments, etc., electronic measurement is essential.

If many customers were to unbundle, sophisticated and expensive back room utility support would be required to process the daily and hourly flow information. Such measurement also would require, depending on the system, dedicated phone lines or dedicated radio frequencies. Presently, the cost of electronic measurement is somewhat prohibitive. In fact, due to the need for electronic measurement and processing of such data, any consideration of unbundling of small customers is not economically feasible at this time. Electronic measurement equipment should be funded by each unbundled customer in the form of a contribution. LDCs should also be allowed to roll into its rates the cost of maintaining such incremental equipment. Proper policing of unbundled customers will protect the traditional customers from additional costs potentially caused by unbundled customers.

22. Should the LDC be allowed to vary the metering requirements between classes? (Staff)

FPU's response:

Yes. LDCs should be allowed to establish metering requirements it deems necessary and prudent in order to properly manage the gas control of its system. Obviously, the larger the customer, the greater the impact the customer would have on gas control issues.

23. Should the LDC be required to institute:
- hourly flow limitations
- mid-day nominations
- no notice service
- monthly cash out provisions
- transportation nomination rules
- delivery point allocation rules (Staff)

FPU's response:

No. LDCs should not be required, but should have the ability to place into their tariffs any and all operational requirements and tools which are necessary to properly and effectively manage their distribution system(s).

24. Should LDCs be permitted to establish non-performance penalties to be levied on suppliers, marketers or brokers who create imbalance situations for the LDC? (AGDF)

FPU's response:

Yes. LDCs must be able to enact penalties for suppliers, marketers or brokers who create imbalance situations. This is necessary in order to keep the LDC's systems operating properly. The penalties may not be fixed amounts. They may be indexed and must cover whatever costs the LDCs have or could have incurred.

25. Should each LDC have the discretion to establish nomination and balancing procedures? If so, should third party suppliers be required to abide by these procedures? (City Gas)

FPU's Response:

Yes. LDCs must be able to set the procedures for shipping gas through the LDC's distribution system(s). These rules may vary from LDC to LDC and would not necessarily be directly linked to the pipeline's procedures.

26. Should shippers erring on the side of caution and being out of tolerance in the "right" direction and that "Help" the LDC's system during operational controls be rewarded? (CNB Olympic)

FPU's response:

No. This issue goes beyond the proposal in "no harm/no foul." Such a reward system, though it is appreciated when a shipper helps the LDC, would not be a wise business move. Having such a provision would reduce the effectiveness of the LDC to control its system. Rewarding customers for being out of balance, although their out of balance situation helps the system, could cause such shippers to ignore the LDC's orders and/or game the system. Additionally, when many customers are out of balance in the "right" direction, that may cause the LDC to go from being in an over-nominated position to an under-nominated position and vice versa on the pipeline.

MARKETERS AND AFFILIATED MARKETERS

33. Should the LDCs be allowed to charge marketers penalties for any daily over or under deliveries? (Staff)

FPU's response:

Yes. LDCs should be allowed to charge marketers penalties for any over and under deliveries outside the LDC's tolerance ranges subject to any flow orders, curtailments, etc. This will help remove the customer, who probably is not an expert in the pipeline, LDC or gas supply issues, from being placed in the middle of disputes between the LDC and the marketer.

Additionally, if marketers' supplies fail to show up and there is a reduction in gas consumption or a curtailment due to the actions or inactions of such marketer(s), the marketer(s) should be obligated to make payment to the LDC for any lost, non-fuel revenues.

34. Should the LDC be required to develop eligibility policies/standards to evaluate potential marketers? (Staff)

FPU's response:

No. If an LDC were to enact eligibility policies/ standards, the LDC may be placed in a controversial position. There could potentially be restraint of trade or discrimination allegations.

Eligibility standards may give the public the impression that an LDC is portraying a marketer as being reliable since it met a theoretical eligibility standard. This may not necessarily be the case.

It would probably be in the best interest of the LDC and its customers if the PSC or the Bureau of Professional Regulation were to certify or license marketers. Due to the volatile change in the price of gas it would be essential that such a licensing agency listen to complaints and be prepared to take swift action against any marketer who fails to perform.

35. Should the Commission initiate rule-making to establish guidelines for utilities with marketing affiliates? (Staff)

FPU's response:

No. Utilities should be allowed to market gas behind their respective citygates, as well as any other location the utility deems is in the best interest of the LDC. We are a local area provider, just as Bell South is. They are not being precluded from competing with other telephone service providers in their native territories. Similarly, LDC's should also be allowed to compete with others within its service territories.

36. Should the LDCs be able to establish creditworthiness standards to ensure the financial capability of suppliers, marketers and brokers? (City Gas)

FPU's response:

Yes. The LDC should have the ability to establish creditworthiness standards for any party that may place the LDC into a possible collection role. These standards would not preclude the LDC from requiring deposits from suppliers, marketers or brokers who do not meet the LDC's creditworthiness standards.

STRANDED INVESTMENT

37. Should the LDC be allowed to require transportation customers to take capacity held by the LDC? (Staff)

FPU's response:

Yes. In fact, transportation customers should be required to use the LDC's capacity. A cost recovery mechanism would be necessary as a separate line item to enable the LDC to be reimbursed for its pipeline capacity expense. Without this line item, it would be impossible to increase the utilization of gas in the state of Florida since it would be very unlikely that gas marketers would sign up for any significant quantities of demand through current long-term releases, proposed pipeline expansion and/or looping projects. LDC's must have the ability to hold and release capacity.

38. Should the LDC be allowed to require marketers to pay the maximum rate for capacity purchased from an LDC? (Staff)

FPU's response:

Yes. It is essential that the LDC receive full recovery for all capacity acquired by the LDC. Marketers (or unbundled customers) should be responsible for paying the maximum rate for capacity purchased from an LDC. This should not preclude the LDC from being able to make releases through the pipeline's EBB at less than maximum rate. The LDC should also have the ability to flex down from the maximum rate when incremental gas sales could be made so that unutilized capacity could be used.

39. Should the LDC be allowed to require an exit fee payment when a customer chooses to use third party capacity? (Staff)

FPU's response:

Yes. Such an exit fee should cover the utility's stranded costs associated with the capacity that was held by the LDC for such a customer. There may also be other components of the exit fee which have not been determined at this time. Since exit fees are difficult to collect, it would be difficult to project any such revenues.

40. Should the LDC be required to make permanent relinquishments of unneeded capacity at maximum rates to lessen stranded capacity costs? (Staff)

FPU's response:

No. This issue is closely related to issue number 38 and needs to be clarified by the PSC staff. Florida Public Utilities does not have any unneeded capacity. We do have some unutilized capacity. Capacity requirements were developed by this Company, and many others, by projecting future requirements. There were few opportunities on FGT to elect LDC's demand levels. All demand levels were prudently set. It currently is not possible to achieve maximum rate reimbursement for unutilized capacity due to excess capacity available on the FGT system. As capacity becomes constrained, the value of capacity should reach or potentially exceed (dependent on FERC) maximum rates.

41. Should the LDC be allowed to institute a temporary Capacity Realignment Adjustment to recoup the LDCs stranded capacity costs?

FPU's response:

Yes. The LDC should have the option of instituting a capacity realignment adjustment. Such an adjustment is needed to protect traditional customers as well as to enable an LDC to continue operations. Lack of such an adjustment could place the LDC into a death spiral which would obviously be severely detrimental to all of the LDC customers. Details and elements of such an adjustment shall be determined based on the progress of these proceedings.

42. Should LDCs require interruptible customers to pick up released firm FGT capacity from the native LDC as a prerequisite to transportation service? (CNB Olympic)

FPU's response:

This would depend upon how the LDC contracted for its pipeline demand levels. In many cases the LDC has reserved some capacity for interruptible customers and, if that is the case, the interruptible customer converting to unbundled service should be required to obtain release capacity from the LDC as a prerequisite to transportation service.