

FLORIDA PUBLIC SERVICE COMMISSION
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M E M O R A N D U M

December 26, 1996

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF ELECTRIC AND GAS (MAKIN, PULFORD) *CRBB*
DIVISION OF LEGAL SERVICES (ELLIAS) *JDJ*

RE: DOCKET NO. 960003-GU - WEST FLORIDA GAS COMPANY
PURCHASED GAS ADJUSTMENT (PGA) TRUE-UP

AGENDA: 01/07/97 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\EAG\WP\WESTFLORIDA.RCM *960003A.Rcm*

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission grant West Florida Natural Gas Company's (West Florida) petition to increase its PGA cap from 39.781 cents per therm to 47.250 cents per therm?

RECOMMENDATION: Yes. The Commission should approve the proposed PGA cap of 47.250 cents per therm for meter readings taken on and after January 1, 1997, through March 31, 1997 billing cycles.

STAFF ANALYSIS: On December 5, 1996, West Florida filed a petition for expedited relief, (mid-course correction) to its currently authorized purchased gas adjustment cap for the period January 1, 1997 through March 31, 1997.

West Florida's existing PGA factor of 39.781 cents per therm was approved by Commission Order PSC-96-1197-FOF-GU issued September 23, 1996, as a mid-course correction predicated on a projected underrecovery of \$1,745,272 (for the period April, 1996 through March, 1997).

Even with the increase in the PGA cap granted in September, West Florida still projects to have an underrecovery of \$1,258,229. The proposed increase in the PGA cap of 7.469 cents per therm for January 1, 1997 through March 31, 1997 will increase a typical residential customer's bill by \$2.24, and help reduce the impact on

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ratepayers during the twelve months beginning April, 1997.

West Florida continues to experience unanticipated increases in the commodity cost of gas. Natural gas commodity prices have escalated primarily due to colder than normal weather. The Mercantile Exchange forecast pushed natural gas deliveries for January 97 up by 16 percent to a \$4.467 per 1,000 cubic feet (44.67 cents per therm), its highest price since the Mercantile Exchange started trading the commodity in 1990, and are projected to continue through the remainder of the current true-up period. The result of the continued increase is that the currently effective PGA cap will not be sufficient to recover the base commodity portion of gas supply costs.

The price differential between natural gas and various alternative fuels has narrowed, and the market for excess pipeline capacity has been virtually eliminated. In addition, West Florida has recently experienced cancellation of a capacity reservation contract by a major end user, creating an added unforeseen expense to be recovered in the PGA.

Staff recognizes there will not be time to conduct a prudence review of the Company's re-projections of purchased gas costs prior to the implementation of the increase in the PGA factor. However, a prudence review will occur as a matter of course during the hearing to be held in Docket No. 970003-GU in February 1997. If the increase in the cost recovery cap is ultimately found imprudent, West Florida's ratepayers will suffer no harm since all costs found imprudent will be disallowed for recovery and will flow back to the affected ratepayers through the true-up mechanism.

ISSUE 2: Should this Docket be closed?

RECOMMENDATION: No. The Purchased Gas Adjustment Clause docket should remain open. If Issue 1 is approved, the tariff should become effective with customer billings on and after January 1, 1997.

STAFF ANALYSIS: The Purchased Gas Adjustment Clause is an ongoing clause and the docket should remain open. If a protest is filed within 21 days of the issuance of the Order, this tariff should remain in effect with any increase held subject to refund pending resolution of the protest.