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January 27, 1997

By Hand-delivery

Ms. Blanca S. Bayo, Director
Public Service Commission
Division of Records and Reporting
2540 Shumard Oak Boulevard
Tallahassee, Florida 32301

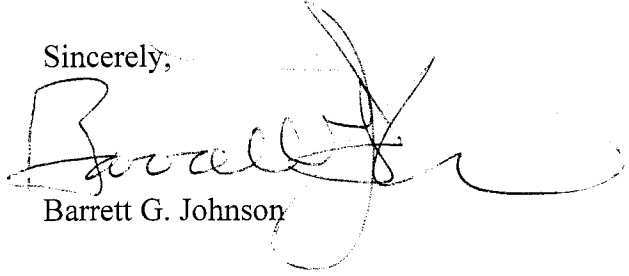
RE: Docket No.: 960725-GU

Dear Ms. Bayo:

Enclosed for filing in the above-referenced proceeding are the CNB Olympic Gas Services' Comments on PSC Unbundling Workshop.

Please contact me at the above number if you have any questions.

Sincerely,



Barrett G. Johnson

- ACK BGJ/rja
- AFA Enclosures
- APP _____
- CAF cc: Parties of Record
- CMU _____
- CTR _____
- EAG _____
- LEG 1
- LIN 5
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DOCUMENT NUMBER-DATE

01060 JAN 27 97

FPSC-RECORDS/REPORTING

BEFORE THE PUBLIC SERVICE COMMISSION

In Re: Unbundling of Natural)
Gas Services.)

Docket No. 960725-GU
Filed October 9, 1996

Certificate of Service

I HEREBY CERTIFY that a copy of CNB Olympic Gas Services' Comments on PSC Unbundling Workshop has been furnished to the following parties of record by U.S. Mail this 27th day of January, 1997.

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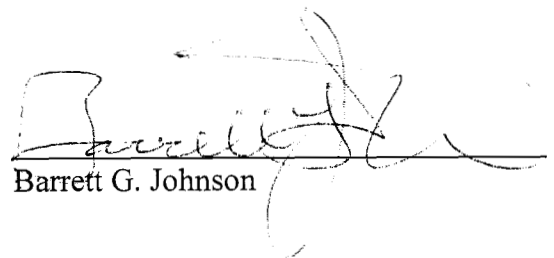
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960725-64

BILLING AND RATES

43. Which dollars would flow to PGA customers, and which services would remain subject to the PGA? (AGDF)

To the extent rates, charges, fees and penalties collected by an LDC are cost-based and justified, this question will be more easily answered. As with many of these issues, one question leads to another. Have the true component costs for the unbundled services offered by the LDC been identified? Various LDC resources are needed for providing each identifiable service. Has an appropriate proportional use of such resources and an associated proportional cost been determined for providing each service? Ultimately, sales customers should be able to convert to transportation service that has all the costs of LDC system-supply stripped out, not just those costs incurred upstream of the citygate.

To what extent have the costs traditionally embedded in the LDC's sales rate (e.g., those costs associated with gas supply and load forecasting) been alleviated by unbundling? The costs associated with the LDC's gas supply function, which include administrative costs of confirming upstream pipeline nominations and allocating supplies at the citygate, of gas acquisition personnel, accounting, legal, and billing, should be reduced by unbundling. When netted against cost savings, many so called transitional costs disappear. In the future, where regulated utilities are basically common carrier transporters for retail energy merchants, a benefit-cost model will be verified. Today, the picture is less clear, but there are direct benefits to the unbundled LDC and they must be considered before levying transition charges. Unrestricted access to unbundled services will provide benefits: lower regulatory costs with improved regulation, better risk-reward analysis resulting in better principle-agent dealings and more efficient industry investments, services better matched to consumer preferences, improved utilization of natural gas, better market price signals and gains to all gas consumers from a more competitive natural gas industry.

In very limited circumstances, transition costs may be assessed to transportation customers. However, as made clear during the workshop, "transition" charges should not be permitted until real costs have been proven to exist, have been proven to be unavoidable and have been netted against savings. How the recovery of transition costs or the collection of penalties will be allocated depends on a rigorous understanding of the LDC's intentions and those costs being offset. Under no circumstances should penalties be credited to the bottom line of the LDC, nor should they be credited through the PGA. In order to avoid cross-subsidies, all penalty revenues must be credited back to all customers on a per-unit-throughput basis. It is important to remember that, unlike penalties levied against non-affiliated entities, a penalty assessed by an LDC against its affiliate is really no penalty at all. Essentially, the penalty simply shifts monies from one corporate pocket to another: overall neither the LDC or its affiliate takes a loss.

44. Should the LDC's have the discretion to bill the customer in one of two ways: (a) Company bills distribution and commodity components. (b) Company bill distribution component, supplier bills commodity component? (AGDF)

This sort of flexibility is fundamental to good service, but what about the utility's tax collection role? How will this role pertain to billing for transportation services bundled with the supply from ABMs (aggregator marketer broker)?

45. Should the PSC adjust rates to parity before requiring further unbundling of LDC's? (AGDF)

No Comment.

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FPSC-RECORDS/REPORTING

OTHER ISSUES

46. Should the LDC be required to unbundle meter reading, billing, and collection services? (Staff)

As a general rule, customers prefer to have more choices in the products and services they consume. This is a well established guiding principle for carrying out the unbundling of services: The more choice customers have for competitively priced services, the better off they are. The LDC should be required to unbundle as many of its monopoly services as possible if doing so provides improved economic efficiency. As a recourse service, such services could remain in a bundled service option for customers.

47. Should the LDC be required to file unbundled tariffs within 90 days of the issuance of a Commission Order on unbundling?

The LDC should be required to file as soon as possible.

48. Who is responsible for tax collection remittance, who is responsible for bad debts and collections, etc.? (AGDF)

Responsibility is determined by law and contract. In any case, ambiguity may arise when transportation agreements "interfere" with standard competitive market contract terms. The most critical issues addressed in these workshops (e.g., service thresholds, customer supply interruption and confiscation, stranded costs and capacity release requirements, penalty assessment, nomination and balancing procedures, credit worthiness, metering requirements) may be controlled within the agreements between the LDC and an ABM. An issue like ABM credit worthiness (also see answer to question no. 65) may not directly involve the customer, but may affect such issues as bad debts and collections. Who has the security deposit or who approved the credit for the accumulation of debt referred to in this question? ABM agreements with the LDC may have established deposit requirements. These deposits may be redundant. The customer has already established credit with the LDC. The LDC may have in its possession a customer deposit that was calculated to cover supply as well as service. In this instance, the customer may be entitled to a refund (supply portion of deposit). This would in turn affect the protection against certain bad debt.

The Commission must maintain its regulatory role in such matters. If an LDC's required transportation agreements directly, or even indirectly, substantially affect the quality and cost of service to transportation customers, such agreements must fall under the purview of the Commission. Consider LDC agreements forced upon ABMs as a requisite to customer access. These agreements determine service cost and quality to end-users because they directly govern ABMs' costs for delivering to the citygate. They must be reviewed and approved by the Commission. Something as reasonable as an LDC's creditworthiness rule for ABMs supplying to the citygate may have profound and unreasonable consequences, such as developing an anti-competitive arena in which the customer may ultimately make service choices within a playing field designed to favor the affiliate.

49. Who is responsible for the costs of educating customers about transportation: LDC's, marketers, state government? (AGDF)

As part of the unbundling process, the Commission should oversee the development and dissemination of informational materials to be sent by the LDCs to customers explaining the availability of unbundled service. The LDC should be made to communicate to customers that it fully embraces its transportation services. It must effectively communicate that it does not discriminate between customers receiving supply from the LDC and those receiving only transportation services and that all other good services will continue. Affiliate conduct standards must be passed on to customers in some fashion and the LDC must make it clear to the customer that no affiliate favoritism exists. The impact of affiliate abuse on a new market can be so tremendous that it takes years to recover. It is very important that the Commission establish clear affiliate conduct standards immediately.

50. Should LDC's be permitted to recover costs of educating customers, if they are required to perform that service?

Educating customers should be considered a normal part of good business practice and the costs will be minimal. No doubt, most ABMs will be more than willing to provide such education to all prospective transportation customers. If provided a list of the LDC customers that need to be contacted, CNB Olympic will, at no expense to the LDC, personally educate these transportation prospects.

51. Should the F.E.R.C. Gas Tariff of Florida Gas Transmission (FGT) be used as an unbundled tariff model? (CNB Olympic)

Many states have already found that, contrary to the LDC's need for individually developed tariffs, a basic commonality among unbundled tariff proposals exists. Allowing each proposal to be examined in a common context and using common vernacular for what might otherwise be a confusing array of differently named services should assist the Commission in its duties. It is recognized that the various LDCs have certain unique circumstances and characteristics, and that these differences, if demonstrated by each LDC, may require alterations in the model. CNB Olympic believes that the development of a standard set of base tariffs is the only reasonable place to begin this process. In fact, the FERC has currently standardized all pipelines for many operational concerns through the Gas Industry Standards Board (GISB). Rules that are uniform make for an efficient system. Learning from the unbundling experience in other states is helpful. The definitive unbundling "cookbook" has yet to be written, but why reinvent the wheel? It just makes better sense to learn from the past. The unbundling of interstate pipelines provides many valuable lessons; do not dismiss the value inherent in these unbundled tariffs. Consider the framework of FGT's tariff; it has been very influential in forming all of Florida's current LDC tariffs.

52. Should the LDC's start-up issues allow for implementation of procedural requirements (such as paperwork, metering, initial eligibility limitations, access fees, and mandatory agreements) if they act as barriers to service? (CNB/Olympic)

A complete answer to this question should encompass the full scope of these workshops. Complete unbundling is a worthy goal and is attainable. Expanding the scope of service unbundling will accelerate competitive pressures in the retail gas sector. In May 1996, The National Regulatory Research Institute established guiding principles for carrying out residential service unbundling. The Institute concluded that three conditions are required for establishing a truly competitive environment that guarantees economic efficiency: "consumer choice of different service providers, no regulatory price or entry barriers, and nondiscriminatory access to essential facilities. When these conditions exist, in most situations competition is robust and socially desirable." In general, with regard to any procedural requirements that are requested by the LDCs, if it is not required of similarly situated sales customers, it should not be required of transportation customers and thus should be considered a barrier to service.

53. Should supplier's competitively sensitive information, such as upstream contracts, remain confidential? (CNB/Olympic)

Yes, and market affiliates should also enjoy this confidentiality. ABMs are not concerned that unbundled LDCs know this information; they are concerned that this information will fall into their competitors' hands (other ABMs). LDCs have legitimate concerns regarding the reliability of supply deliveries to the citygate, but there are ways to allay these concerns without having suppliers or their customers reveal their contracts for firm upstream transportation, dedicated supplies, etc. Penalties for delivery failure on critical days has worked for interstates, and it will work for intrastates as well.

The LDC's request for competitively sensitive information was discussed during the workshop. Even if the ABM's fee for capacity within a bundled service (one price for a delivered supply) was known to the customer, confidentiality might preclude this information from being revealed to the LDC. The argument is that the LDC has the right to reconcile certain imbalance transactions using the transportation

costs incurred by the customer. This might be logical if the costs this tariff provision is designed to recover were linked to the customer's costs, but they are not. The provision is strictly linked to the LDC's costs, the customer's cost is immaterial. When the LDC uses its own costs for capacity in determining imbalance reconciliation, it is neither helped or harmed; the LDC's WACOC (weighted average cost for capacity) should always be used. Furthermore, for any imbalance, this provision is mathematically designed in favor of the LDC, or interstate, and is punitive for the customer of the pipe system. This is acceptable so as to assure the "pipe system company" will not be harmed by any imbalance. Careful review of the provision and its intent will reveal these facts.

54. Should LDC unbundled rates be held confidential to prevent the marketer/broker a competitive advantage? (Staff)

The LDC is not in competition with ABMs. Only when LDCs have proved they hold no market power may they reenter the sales service arena as true competitors. Then and only then, should LDC's be allowed greater discretion in setting unbundled rates, or be allowed to implement performance-based rates. After this occurs this question will be pertinent.

55. What types of alternative regulation of unbundled rates should take place to allow unbundled service to "stand alone" from continued regulation of bundled customer services? (Staff)

No comment.

56. Should the Commission mandate intensive technical conferences on each LDC's unbundling proposal: involving all interested parties? (CNB/Olympic)

The F.E.R.C. used this process effectively in implementing Order No. 636. Other states have followed this example successfully. In any case, free and open discussion of all proposed tariffs should be allowed.

57. Should there be mandatory review of unbundled tariffs: Should there be a plan to come back and fine-tune tariffs implemented? (CNB/Olympic)

Yes.

58. Should the large customers simply be deregulated? (AGDF)

Contestable markets should determine any and all levels of unbundling. Limits should be market driven and not LDC dictated.

59. What issues are involved with total deregulation; cost allocation, tax collection and remittance, conflict resolution, etc.? (AGDF)

Hopefully, these are the broad issues being addressed within these workshops.

60. Should the PSC use a different, lighter-handed regulation for small LDC's as they move to unbundle services and to increase transportation? (AGDF)

See answer to question no. 51.

61. Should the PSC permit greater discretion to LDC's in setting rates for commercial and industrial rates? (AGDF)

See answer to question no. 54.

62. Should the PSC allow LDC's greater flexibility in setting unbundled transportation rates? (AGDF)

See answer to question no. 54.

63. Should the Legislature equalize tax levies on all suppliers? (AGDF)

Only after it is proven that an LDC has no market power and wants to re-enter the sales service arena will this issue be pertinent. The LDC does not compete with suppliers (ABMs). In these terms, equity in tax collection should not matter to the LDC; they make no margin on sales service and lose nothing but costs when a customer converts to transportation services to avoid taxes.

64. Should municipals with their different state and federal tax treatments, be scrutinized when acting as a marketer outside of their municipal territory and competing with unbundled, FPSC-regulated LDC market affiliates and independent natural gas marketers? (CNB Olympic)

Natural gas tax issues are confusing for LDC sales customers exploring transportation services. They seek answers from ABMs and LDCs. This is perhaps a legislative issue. To the extent the Florida Department of Revenue and legislators look to the Commission for help in understanding such issues and to the extent the Commission may formulate and communicate its opinion, it would be most appropriate for Staff to discuss candidly these issues with end-users, LDCs, Municipals and ABMs.

65. Should the legislature (or perhaps the PSC) set requirements for financial capability of suppliers, marketers, and brokers? (AGDF)

The financial capability of marketers should be decided in the market place. Those selling gas to ABMs need to be concerned with the financial capability of ABMs. LDCs secure supply from ABMs for serving their loads. The LDC (buyer) would certainly want a contractual commitment with performance guarantee. The ABM (seller) is the one most concerned about financial fitness. It is the ABM in this instance that is extending credit to the LDC; it is the ABM that is delivering gas and counting on future payment. This is the condition analogous to the ABM delivering supply to the citygate for aggregate loads. It is the LDC that is receiving gas from the ABM; the ABM is at risk, not the LDC. It is the seller that extends credit to the buyer. The LDC already has security from its customers (see answer to question no. 48). Why would financial capability of the ABM be so critical to the LDC?

66. Should the Legislature give the PSC authority to pre-qualify suppliers, marketers and brokers? (AGDF)

The market will establish which ABMs are best qualified.