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February 18, 1997

Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

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 Response to February 6, 1997 Staff Memorandum, 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/pav
Enclosures

cc w/encl: Marc Schneidermann (w/cover letter & certificate of service only)
Florida Public Utilities Company

Anne Wood
Chesapeake Utilities Corporation

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PUBLIC UTILITIES COMPANY

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P. O. Box 3395
West Palm Beach,
Florida 33402
February 14, 1997

Mr. Wayne R. Makin
Florida Public Service Commission
Division of Electric and Gas
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0868

RE: Docket No. 960725-GU

Dear Wayne,
This is in response to your memorandum dated February 6, 1997 in which you requested responses to the below listed question.

Question:
Should the Commission proceed to further direct the LDC's to unbundle natural gas services?

Florida Public Utilities Company's Response:
Florida Public Utilities Company (FPU) has expressed its views on "unbundling" throughout the three PSC sponsored workshops and through its subsequent submissions of responses to the workshop issues. FPU does not support the concept of unbundling. However, FPU firmly believes that if unbundling were to occur, safeguards must be instituted to ensure that there will be no degradation of service and no increase in cost to traditional customers. Furthermore, there must be no adverse effects on the LDCs either due to purchased gas costs being allocated to LDCs or negative effects on the market share of natural gas caused by unbundling or the future marketability of natural gas in this state.

FPU has been an open system since February 1991 with the implementation of one of the first transportation tariffs in Florida. The majority of FPU's customers must be satisfied by the Company's traditional service. Only two customers to date, one being a municipally owned electric generator, have elected to convert from traditional services to transportation services. Many others were tempted when one marketer offered them approximately a 12% reduction in their gas bills. These customers, which included hospitals, resorts, etc., were not informed by the marketer that their service would be degraded from firm service to interruptible service. Upon educating those customers, they asked the right questions and unanimously elected to continue purchasing their gas supplies from FPU via its traditional service offerings.

Gas marketers and FPU generally purchase their supplies through the same or similar sources. Marketers can save money for unbundled customers using the following tactics:

- <u>Use less reliable capacity</u>
  FPU supplies its customers using only high priority, non-recallable capacity. FPU signed up for capacity during various periods when FGT had open seasons for such services. It is essential for a utility to have sufficient pipeline capacity, for the present and the future, in order to operate reliably. This capacity is more costly than the lower priority, less reliable, capacity used by gas marketers. A gas marketer's capacity may not even extend past a single day or thirty days. A utility company would not be able to raise necessary capital for construction if it were not able to provide evidence that it has sufficient capacity to carry it into the future. It also may not be able to serve its customers if it were to utilize the same type of capacity used by gas marketers. FPU has an obligation to its customers, the local economy and its shareholders to ensure adequate capacity for its gas sales. Had the state been fully unbundled when Florida Gas Transmission Company (FGT), the only pipeline serving peninsular Florida, announced its recent Phase III expansion, we seriously doubt that any marketer would have contracted for significant capacity to ensure adequate capacity levels for FPU's then current customers or future customers. FPU would have been locked into a zero growth position for years to come. Furthermore, LDCs must continue to hold capacity and be permitted to contract for additional capacity when prudently planned and available.

  Marketers' utilization of secondary capacity benefits marketers for the most part with, probably, a few crumbs being left for unbundled customers, while the remaining tab is paid by the original capacity holder who found it essential at some point in time to sign up for capacity to ensure availability to pipeline capacity. Overall, the only party deriving the majority of the benefit of this arrangement is the gas marketer.

- <u>Profit off of LDC's PSC required PGA mechanism</u>
  FPU's gas purchases, as well as gas purchases by Florida's other LDCs, are regulated. There is no form of a profit margin, gross up, etc. on the physical commodity sold by LDCs. The LDCs are severely handicapped by the Purchased Gas Cost Recovery Mechanism a/k/a PGA. The mechanism, since it runs a duration of twelve months and is subject to annual true-up, causes FPU's PGA to, typically, be outside of the true market. This can easily be taken advantage of by marketers. Large positive true-ups result in a one-for-one direct profit to marketers. If unbundling were to occur, LDCs and its customers must be afforded price protection which should be accomplished by the total revision of the PGA mechanism.

- Offer short term contracts
  Marketers have the ability to offer unbundled customers short term supply contracts. FPU's obligation to its customers is long term, very long term to say the least. The utility's obligation is enforced by the fact that utilities have significant capital investments in their distribution systems. We cannot pack-up and leave. On the other hand, a marketer's investment in unbundled customers probably is in the lower range of single basis points when compared to the utility's investment. This makes it very attractive for marketers to be in this market for the near term. Once their contracts with unbundled customers expire, they can phase out of this market and leave it short of supply and short of capacity.

- Avoid taxes, municipal and regulatory fees
  Utilities are required to collect and remit sales tax, gross receipt tax, regulatory assessment fees, franchise fees and municipal utility tax. Many of these taxes and fees are added to the total utility bills which include charges for the physical commodity. Marketers do not have such an obligation. Therefore, they can beat the utilities' charges by the avoidance of these government imposed fees and taxes. This is done at the expense of the general taxpayers. Eventually governmental, municipal and regulatory authorities may, and some probably already do, meet their revenue shortfalls by imposing higher taxes and/or fees on the balance of their constituents. Based on 1996 sales to non-residential customers, the reduction in tax and fee revenues would have been nearly $1,100,000 if Florida Public Utilities Company's non-residential customers were unbundled for that year.

By the above discussion, it is evident that gas marketers could generate their profit, and also potentially save money for unbundled customers, by shifting the costs for capacity, taxes and fees from unbundled customers to traditional customers as well as the general public. They offer terms of service which are generally inferior to those offered by utility companies. They even could harm the potential for the future growth of gas availability in the state. Transportation tariffs are made available by many, if not all, of the regulated gas companies. FPU is proposing that transportation tariffs be the vehicle for allowing marketers to serve customers behind our city gates. Unbundling, potentially, could harm many for a minimal benefit gained by unbundled customers while the majority of the benefit would be reaped by marketers.

If you have any questions, do not hesitate to call me at 561/838-1767.

Yours truly,

Marc L. Schneidermann
Manager of Engineering
and Gas Supply

cc: Mr. F. C. Cressman
Mr. C. L. Stein
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Unbundling of Natural Gas)
Services)

Docket No. 960725-GU
Filed: February 18, 1997

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of Florida Public Utilities Company's Response to February 6, 1997 Staff Memorandum have been furnished by hand delivery (*) or by U.S. Mail to the following individuals, on this 18th day of February, 1997:

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