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March 30, 1998

IN REPLY REFER TO:

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VIA FEDERAL EXPRESS

Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

MAR 31 10

Re: **Docket No. 980269-PU -- Consideration of change in frequency and timing of the hearings for the fuel and purchased power cost recovery clause, the capacity cost recovery clause, the generation performance incentive factor, the energy conservation cost recovery clause, the purchased gas adjustment (PGA) true-up, and the environmental cost recovery clause**

Dear Ms. Bayo:

Enclosed for filing on behalf of Peoples Gas System, please find the original and 15 copies of (1) Peoples' Responses to Staff's List of Issues and (2) Peoples' Responses to Staff's List of Questions, both the issues and the questions having been posed by the Commission Staff at the workshop held in the above docket on March 17, 1998. A diskette containing the enclosed responses in Wordperfect 5.1 format is also enclosed.

Please acknowledge your receipt and the date of filing of the enclosures on the duplicate copy of this letter and return the same to the undersigned in the enclosed preaddressed envelope.

Thank you for your usual assistance.

Sincerely,

Ansley Watson, Jr.

ANSLEY WATSON, JR.

AWjr/a
Enclosures

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FPSC-BUREAU OF RECORDS

Issues
DOCUMENT NUMBER-DATE
03756 MAR 31 98
FPSC-RECORDS/REPORTING

Questions
DOCUMENT NUMBER-DATE
03757 MAR 31 98
FPSC-RECORDS/REPORTING

cc: Mr. J. Brent Caldwell (w/enclosures)

PEOPLES GAS SYSTEM
RESPONSES TO STAFF'S LIST OF QUESTIONS
COMMENTS ON WORKSHOP HELD MARCH 17, 1998
DOCKET NO. 980269-PU
MARCH 31, 1998

ORIGINAL

Staff has developed a series of questions that explore the effects of a Commission decision to approve: 1) a change in the frequency of the fuel cost recovery hearings from a semiannual to an annual basis, and 2) a change to calculate factors for the cost recovery clauses on a calendar year basis. Please be prepared to address the following questions at the staff workshop on March 17, 1998 in this docket. **Questions 1-10 apply only to investor-owned electric utilities. Questions 11-14 apply to all investor-owned electric and gas utilities.**

Q1) Based upon historical data over the past 10 years, what impact would a Commission decision have upon the size of the utility's over/under recovery?

Applicable to investor-owned electric utilities only.

Q2) If the Commission adopts an annual hearing for the fuel clause and the environmental clause, should the Commission revise its 10 percent threshold as a basis to request a midcourse correction?

Applicable to investor-owned electric utilities only.

Q3) During the past 10 years, how frequently would the utility have requested approval for a midcourse correction based upon a 10 percent threshold?

Applicable to investor-owned electric utilities only.

Q4) It has been suggested that a utility could submit interim petitions between hearings for special or unanticipated issues. What threshold level of costs would cause a change in the fuel factor?

Applicable to investor-owned electric utilities only.

Q5) It has also been suggested that an annual fuel factor would provide a utility's customers with a greater level of certainty about fuel costs. Over the past 12 months, how many customers have expressed this concern?

Applicable to investor-owned electric utilities only.

Q6) If the Commission adopts an annual hearing for the fuel clause and environmental clause, would the utility change any of its forecasting models, methodologies, assumptions, or data sources?

Applicable to investor-owned electric utilities only.

Q7) Which form modifications would be necessary to accommodate the change to an annual hearing?

Applicable to investor-owned electric utilities only.

Q8) What are the expected advantages and savings of conducting the cost recovery hearings on an annual basis?

Applicable to investor-owned electric utilities only.

Q9) What are the expected disadvantages and costs of conducting cost recovery hearings on a annual basis?

Applicable to investor-owned electric utilities only.

Q10) When should the Commission implement the change to annual hearings?

Applicable to investor-owned electric utilities only.

Q11) What are the expected advantages of calculating the cost recovery factors based upon a calendar year?

Conservation

There are two relatively insignificant advantages to calculating the conservation factor on a calendar year basis. The first advantage is for customers who are budgeting for the upcoming year. A calendar year factor will be finalized by December of the previous year. However, this is a theoretical advantage. The company can alreedy provide the customers with an estimated annual conservation factor based on the existing true-up level, estimated expenses and estimated therms. While the value is an estimate, it should be adequate for customer budget purposes and can be updated in January when the actual filing is made.

The second advantage is the timing of preparing schedules and filings. The current filings are due in mid-January which means schedule preparation coincides with month, quarter and year-end closing. However, since the budget process is complete, the preparation of the schedules is much less time consuming than it would be if the filing was due the previous September or October.

Purchased Gas Adjustment

There are no real advantages for a calendar year based PGA factor. Since the PGA is set as a cap with monthly flex down billing factors, the time period over which the cap applies is insignificant. Also, changing the timing does not provide any advantage to customers for budgeting purposes. Most of the largest customers are transporting third-party gas, so they are unaffected by the PGA. Additionally, the PGA is effectively a monthly factor, so the company can easily provide a calendar year estimate even though the cap is approved for April through the following March.

Q12) What are the expected disadvantages of calculating the cost recovery factors based upon a calendar year basis?

Conservation

There are several disadvantages associated with changing the current conservation cost recovery period to a calendar year. The most significant disadvantage is an increased error between the projected factor and the actual factor experienced during the year. This "error" will cause increased magnitudes of over and under recoveries. The increased true-up magnitudes will cause greater variation in the conservation factors as well as a potential reduction to company earnings through the current Commission policy regarding the treatment of over and under recoveries in rate base.

The increased "error" arises from the timing of the preparation and filing of conservation schedules for a factor to be effective in January. The filing must be made no later than mid-October. At this time, the company budget for expenses and sales is incomplete. Thus, preparation of the conservation factor filing will require additional effort to generate estimates for these values. These estimates may vary significantly from the final budget values, thus, causing inherent "error" in the projected conservation factors.

Another disadvantage of shifting to the calendar year is the added company and Commission expense associated with changing Rule 25-17.015. Should a party request a workshop and hearing during the rulemaking process, the expense could be considerable and the time frame excessive.

The final disadvantage would be an awkward transition period. Utilities, customers and the Commission are all adjusted to a April - March conservation recovery factor. Shifting would require an interim factor followed by a calendar year factor, both of which may generate customer questions.

Purchased Gas Adjustment
There is no significant disadvantage to shifting to a calendar year PGA factor. There may be an increase in the error in projecting the end-of-period true-up due to projecting winter therm sales far in advance of the winter season. However, this error can be mitigated through the application of the flex down factor.

Q13) What are the expected advantages of calculating the cost recovery factors based upon a non-calendar year basis?

Conservation
The current April - March conservation cost recovery factor projection period allows the factors to be set using the most accurate projections available. The January filing incorporates budgeted estimates for capital expansion, labor rates, material costs, and advertising and projected therm sales. The January filing also allows for a timely forecast of the re-projected therm sales for the winter period, thus minimizing the error in estimating the end-of-period true-up. The use of the most accurate projected costs and therm sales will provide the most timely recovery of costs for the company combined with the most accurate price signal to customers.

Purchased Gas Adjustment
The only benefit of maintaining the current April through March projected PGA cap time period is that it avoids the need for a potentially awkward transition to the calendar year.

Q14) What are the expected disadvantages of calculating the cost recovery factors based upon a non-calendar year basis?

Conservation
The only disadvantage to calculating the conservation cost recovery factor based on a non-calendar year is when factors are reported on an annualized, calendar year basis. This conversion requires knowing two factors instead of one. However, since most pricing databases are maintained on a monthly basis (to accommodate monthly PGA factors), this is a small disadvantage.

Purchased Gas Adjustment
There are no disadvantages for a non-calendar year based PGA factor.

year factor, both of which may generate customer questions.

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Purchased Gas Adjustment
There are no disadvantages for a non-calendar year based PGA factor.