



# Public Service Commission

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RECORDS AND REPORTING  
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**DATE:** MARCH 4, 1999

**TO:** DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYLOR)

**FROM:** DIVISION OF ELECTRIC AND GAS (W. MAKIN, C. BULECZA-BANKS)  
DIVISION OF LEGAL SERVICES (G. JAYE) *RUE*

**RE:** DOCKET NO. 981698-GU - REQUEST BY TAMPA ELECTRIC COMPANY D/B/A PEOPLES GAS SYSTEM FOR APPROVAL OF A METHODOLOGY FOR CHARGING MULTIPLE PURCHASED GAS ADJUSTMENT FACTORS

**AGENDA:** 03/16/99 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

**CRITICAL DATES:** NONE

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\EAG\WP\981698.RCM

**ISSUE 1:** Should the Commission approve Peoples Gas System's (Peoples) amended petition for approval of a methodology for charging multiple Purchase Gas Adjustment (PGA) factors?

**RECOMMENDATION:** Yes. The Commission should approve Peoples amended petition for approval of a methodology for charging multiple Purchase Gas Adjustment (PGA) factors.

**STAFF ANALYSIS:** On November 23, 1998, Peoples filed its request for approval of a methodology for charging multiple Purchased Gas Adjustment factors (PGA). On February 26, 1999, Peoples filed an amendment to its petition. Historically, Peoples has used only a single PGA factor for the purpose of recovering purchased gas and upstream transportation costs. The purchased gas cost is the cost of the actual gas molecules being transported. Upstream transportation (pipeline capacity/demand) represents the costs of transporting the gas molecules from the producer to the natural gas distribution companies.

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Peoples, like most local distribution companies, must reserve interstate pipeline capacity to fulfill the expected peak demand of its firm customers. Historically, the peak demand on Peoples system has occurred in January. To ensure that it has capacity available to supply firm load, Peoples must contract for interstate capacity in an amount needed to serve the peak day. During all other periods, Peoples will likely have excess capacity which it will attempt to sell.

Since interstate pipeline capacity is a fixed cost and the level of cost is driven by the peak throughput month, demand-related interstate pipeline costs are incurred based upon the level of sales for the peak month. Peoples' proposed methodology for allocating costs among rate classes recognizes this cost relationship.

Historically, a single PGA factor was calculated by taking the total projected costs of the molecules and transportation costs and dividing them by the projected therm sales. Using actual numbers, Peoples PGA factor for December 1998 was determined as follows:

Total Cost of Gas Including Interstate Transportation Costs	\$10,160,724
Divided by Projected Therm Sales for December	29,994,980
December PGA Factor	0.338750*

\* Factor does not include any prior true-up or taxes.

While the single PGA factor methodology has been applied since the PGA was first developed, Peoples believes that the method does not allocate costs appropriately. Peoples believes that by using multiple PGA factors, on a seasonal basis, the PGA costs will be allocated more closely matched to the class causing the cost to be incurred.

According to Peoples, under the single PGA factor method, the residential class has not covered the costs incurred to provide natural gas. Peoples amended petition is designed to allocate interstate capacity costs more appropriately. However, the method to assign the gas costs (molecules) remains unchanged.

As addressed in Peoples' amended petition, the PGA costs would be based on the interstate capacity held during two distinct seasonal periods. The winter period consists of the months October through March, and the summer period consists of the months April through September. For each season, the historical peak month

PGA Factors (Winter)

	Demand	Commodity	Total	Sales
Residential	\$1,425,031	+\$1,037,429	=\$2,462,460	/6,694,880=0.36781*

	Demand	Commodity	Total	Sales
Commercial	\$4,089,796	+\$3,608,468	=\$7,698,267	/23,289,983=0.33053*

\*Excludes true-up and taxes

The effect on an average residential customer using 20 therms, would be an increase of \$0.02906 cents per therm, or \$.58 increase on the customer's bill compared to the single PGA factor of 0.33875 cents per therm used in December.

Because the residential contribution to the peak is significantly lower in the summer months, a separate calculation would be applied for the months April through September. The same calculation would be made, except the peak summer month would be April.

New demand allocation factors will be derived based on each January's and April's data. The proposed methodology provides for the fixed demand allocation factors to be used for the October through March period and the April through September period.

The commodity allocation factors will change every month, based on each class' monthly PGA sales divided by the total monthly PGA sales. True-up of any overrecovery/underrecovery dollars will be treated the same as they are now.

Accordingly, Staff recommends approval of Peoples proposed methodology of the allocation of fixed, demand-related costs to separate PGA factors for residential and commercial classes, according to each class' contribution.