

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the matter of: : DOCKET NO. 960725-GU
Proposed Rule 25-7.0335, F.A.C. :

PROCEEDINGS: RULE DEVELOPMENT WORKSHOP

BEFORE: CHAIRMAN JOE A. GARCIA
COMMISSIONER J. TERRY DEASON
COMMISSIONER SUSAN F. CLARK
COMMISSIONER E. LEON JACOBS, JR.

DATE: Wednesday, November 17, 1999

TIME: Commenced at 9:37 a.m.
Concluded at 2:54 p.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: MARY ALLEN NEEL, RPR

BUREAU OF REPORTING

RECEIVED 12-1-99

DOCUMENT NUMBER - DATE

14660 DEC-1 99

FPSC-RECORDS/REPORTING

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P R O C E E D I N G S

CHAIRMAN GARCIA: Good morning. I assume that you all will be running this to some degree, so let's all take a seat and get started. Staff?

MS. HELTON: Pursuant to notice issued by the Commission on September the 23rd, 1999, and published in the Florida Administrative Weekly on October the 1st, 1999, this docket -- excuse me, this workshop in Docket No. 960725-GU was noticed. The purpose of the workshop is more fully set out in the notice.

I think that the next thing is to take appearances.

CHAIRMAN GARCIA: We'll take appearances.

MR. LORENZO: Good morning, Commissioners. My name is Jose Lorenzo. I'm representing the Energy Direct Program of the Florida Department of Management Services.

CHAIRMAN GARCIA: Jose Lorenzo?

MR. LORENZO: Jose Lorenzo, yes.

MR. BLAZER: Good morning. My name is Rich Blazer, with Infinite Energy, a marketer here, natural gas marketer.

MR. RICHARDS: Good morning. My name is Allan Richards. I'm with End Users Natural Gas

1 Company. We're a marketer in Florida as well.

2 CHAIRMAN GARCIA: Okay.

3 MR. SCHNEIDERMANN: Good morning. My name
4 is Marc Schneidermann. I'm with Florida Public
5 Utilities Company, a Florida LDC.

6 MR. SCHIEFELBEIN: Wayne Schiefelbein,
7 attorney for Florida Public Utilities Company.

8 MR. PALECKI: Michael Palecki, with City
9 Gas Company of Florida, a division of NUI Corporation.
10 With me here today is Ray DeMoine, Director of Rates
11 and Compliance with NUI Corporation.

12 MR. POWERS: Good morning, Commissioners.
13 I'm Brian Powers from Indiantown Gas, one of your
14 smaller LDCs.

15 MS. PENNINO: Mary Jo Pennino with Peoples
16 Gas System.

17 MR. CALDWELL: Brent Caldwell with Peoples
18 Gas System.

19 MS. McABEE: Myra McAbee.

20 CHAIRMAN GARCIA: Come to a mike.

21 MS. McABEE: Myra McAbee and Harriet
22 Stubblefield with El Paso Merchant Energy, formerly
23 Sonat Marketing Co. LP. We're a gas marketer.

24 MS. HELTON: Mary Anne Helton. I'm an
25 attorney with the Commission Staff.

1 MR. MAKIN: Wayne Makin, Commission Staff.

2 MS. BANKS: Cheryl Banks, Commission
3 Staff.

4 MR. BROWN: Shevie Brown, Commission Staff.

5 CHAIRMAN GARCIA: All right. Where do we
6 go from here?

7 MR. MAKIN: We go from here -- Ms. Banks is
8 going to give us an overview of where we've been and
9 where we are, and I'll do a little overview on the
10 issues to be addressed today.

11 CHAIRMAN GARCIA: Okay. Ms. Banks?

12 MS. BANKS: As most of the people in the
13 room are aware, this docket has been open since 1996.
14 We've been evaluating the merits of unbundling and
15 whether that action should be taken by this
16 Commission, whether it's cost-beneficial to do so,
17 whether there's a benefit to the consumers for having
18 this option available to them.

19 This docket was opened as a result of the
20 FERC issuing FERC Order 636, in which the pipelines
21 became common carriers and were no longer allowed to
22 purchase gas supply. In turn, this opportunity was
23 given to the LDCs to buy their own purchased gas, and
24 they no longer had to buy it from the pipeline.

25 When we talk about unbundling, we're

1 essentially moving that level to be able to buy gas
2 molecules to the end use customer.

3 Now, after the FERC issued Order 636, some
4 of the LDCs had begun to offer transportation
5 service. In fact, some of them had done so even prior
6 to that order, because Order 436 permitted also an
7 amount of unbundling available to the end use
8 customer.

9 Many of the LDCs have offered
10 transportation service to large customers since the
11 late 1980s. It really took off in the '90s, and since
12 then, they have slowly -- some of the utilities have
13 started to offer to bring down their threshold
14 somewhat to allow smaller customers to transport. But
15 when I mean smaller, I'm not talking really small.
16 I'm talking, instead of a Tropicana size or a big
17 processing plant, maybe some middle size industrial.

18 What Staff has done over the years, we have
19 held numerous workshops. We've looked at all the
20 states' activities around the country, what problems
21 they've encountered, what benefits they've
22 encountered, what has transpired over time, what are
23 the costs involved. And essentially we have concluded
24 that in the State of Florida it would be beneficial to
25 allow small commercial customers and larger the

1 opportunity to pick their gas supply provider. We're
2 not talking about anything to do with the distribution
3 facilities that would solely still remain regulated
4 and would be a service provided strictly by the
5 municipality.

6 So that was our conclusions, and that is
7 why at one point -- we've gone through several
8 different modes. We actually issued a model
9 transportation tariff for those utilities to give them
10 an idea of what our expectations were.

11 In all the workshops, what was concluded
12 from the Staff was that the utilities wanted
13 flexibility. They didn't want a "one size fits all"
14 program, because utilities are substantially different
15 one from the other. So they wanted the flexibility to
16 be able to structure their unbundling program so it
17 would suit the company. Staff was amenable to that,
18 and so when we decided to go to a rulemaking docket,
19 as indicated by legal staff, since this would apply to
20 all, that was the route we needed to go to, we drafted
21 this rule and made it as flexible as possible so that
22 the utilities had the opportunity to structure it as
23 we would like.

24 The only element that we put in the rule
25 that may be confining to them was that we wanted it

1 open to all small commercial customers. The only
2 class of customers that we did not include was
3 residential, and the reason why is because we don't
4 believe that in most circumstances it's cost-effective
5 to do so. Now, in the rule, it doesn't preclude the
6 utility from offering that service should it be
7 cost-effective. There are some classes of residential
8 that may -- it may be cost-effective if they use a
9 large amount of gas.

10 Historically in Florida, the statistics
11 show that we have the highest rates in the entire
12 country for residential gas, and the reason why that
13 is so is because it's the same amount of cost for the
14 facilities. It's the same meter cost. Some of our
15 permitting costs are more in certain pristine areas
16 within the state. But we only use about a third of
17 the gas they use up north. So when you're doing it on
18 a per therm basis, our costs are -- as the table came
19 out that I have from EIA, we are truly the highest
20 cost state for residential gas.

21 Now, what happened is -- I mean, I would
22 generally tell you, in my opinion, that it is not
23 cost-effective to serve residential load generally in
24 the State of Florida. That has been true in all the
25 data that I've looked at, and it's because we just

1 don't use that much, and you've got all that cost and
2 infrastructure in place.

3 But what has been done over time is that
4 the large customers have always generally subsidized
5 the small commercial class, because socially, it has
6 been the opinion that we should avail ourselves to
7 have the utilities serve residential load, even though
8 it may not be cost-effective to do so. In most cases,
9 it is not. Over the years since I've been here, the
10 residential class has actually produced a negative
11 return in many circumstances, and some definitely
12 lower than the overall rate of return, and the large
13 customer classes, the industrial loads, have been
14 significantly higher, some as high as 35% higher.

15 And historically, that's how Florida's gas
16 market developed. You had a very large anchor load
17 that the pipeline would be built to. But then the
18 little spurs, as residential, commercial, small
19 commercial wanted gas service, the utility had an
20 obligation to expand.

21 And now that I went off on a total tangent,
22 but just for informational purposes that I thought
23 would be helpful to the Commission, that's an overview
24 of what we have done to far in the docket.

25 MR. MAKIN: The way I would like to proceed

1 is, I'll give just a very brief identification of the
2 issues to be discussed, and then I would like to see
3 all the parties make an opening statement, and then
4 after that go to each particular issue and discuss
5 that particular issue, if that's all right.

6 CHAIRMAN GARCIA: Okay.

7 MR. MAKIN: And the opening statements, no
8 more than five minutes, the maximum. Okay?

9 CHAIRMAN GARCIA: All right.

10 MR. MAKIN: After many, many years of
11 evaluating all the issues in the unbundling docket --
12 and we've been doing it for seven, ten years -- there
13 are certain issues that are germane to everyone in
14 this room.

15 One is the obligation to serve and the
16 supplier of last resort. It has always been the
17 Staff's position that the LDC should not be required
18 to be the supplier of last resort. If we're going to
19 unbundle, we're going to be big boys, and it's your
20 responsibility to deal with the marketer. If the gas
21 doesn't show up, that's your problem.

22 Of course, reality says that won't happen,
23 because the LDC will not let their customers go
24 without any natural gas whatsoever, simply because
25 they would lose revenue also.

1 Stranded investment, Staff has always been
2 under the opinion that the utilities are entitled to
3 recover reasonable stranded investment. However, LDCs
4 should avail themselves of the opportunity to reduce
5 the amount of capacity they hold on FGT. We still are
6 somewhat in the fog as far as it relates to excess
7 capacity and why LDCs retain an excessive amount of
8 this capacity.

9 Potential for slamming, we've been doing
10 this for 13 years in the State of Florida, and not one
11 case are we aware of of slamming. And the issue to be
12 addressed here on slamming stems from Georgia and
13 their directive to completely get out of the merchant
14 function business. So no longer were LDCs in the
15 merchant function business, and you had a lot of
16 confusion and a lot of people switching in
17 residential. That's not the case in Florida. We're
18 just not going to run into that kind of problem in
19 Florida.

20 COMMISSIONER JACOBS: Do you know to what
21 extent -- I know a lot of that had to do because they
22 did residential and everybody at one time. Do you
23 know to what extent there were concerns by
24 non-residential customers in Georgia? Did they
25 experience slamming?

1 MS. BANKS: I really don't know on the
2 non-residential side. I would say this, that I did
3 request from member -- NARUC gas committee members
4 what activity they have had, because many of the
5 states, 21, in fact, already have residential programs
6 in place. And I did seek did they ever have any
7 problem with slamming, and in the 12 states that
8 responded back to me, there has not been a single
9 complaint of slamming.

10 Part of this stems from -- in a gas
11 utility, it's not -- generally the utility says you
12 have to take capacity with you when you go, because
13 the marketer often doesn't hold capacity on any
14 pipeline. So in order to have that transaction take
15 place and the marketer have capacity with which he can
16 move a customer's gas, he's got to get it from the
17 utility. And in order to get it from the utility,
18 he's got to go in there and say, "I have a customer
19 here, and here's the document the customer signed," in
20 order for the utility to release the capacity to
21 them. And then once they release the capacity, now
22 the marketer pays the FGT for the capacity.

23 There's a lot of things that have to go on
24 in order to complete a natural gas transaction, plus
25 that marketer has to nominate capacity every single

1 day for all the customers on his system, which he
2 submits to the LDC, who in turn submits it to FGT, who
3 -- in turn, FGT checks with the producer to make sure
4 that the gas is going in. There are so many
5 safeguards that I think that's part of the reason you
6 don't see that.

7 Again, the residential customers in
8 Georgia, the reason why that was a problem is that you
9 did it as a free-for-all, and you had a cutoff date,
10 and so LDCs weren't going to shift all the capacity
11 until they knew how many customers you had. And it
12 was just a real mass confusion. Of course, they were
13 if first ones to do anything like this. This is the
14 first distribution company that no longer buys gas
15 supply. None of the other states have done this. And
16 I think there were a lot of lessons to be learned.
17 And, of course, after the fact didn't really help
18 them, because there were some issues.

19 In talking to some of the LDCs who are
20 already unbundled, they have different procedures in
21 place to even prevent the possibility of this
22 happening, but this is just not something that we have
23 seen in the market.

24 MR. MAKIN: All right. The last one is
25 marketing affiliations. We have run into some

1 problems in Florida with marketing affiliations. In
2 our unbundling draft tariff, model tariff, we
3 explained what we would like to see as far as
4 marketing affiliations are concerned, separation, you
5 know, in different buildings, and the president of the
6 regulated utility cannot be the president of the
7 unregulated utility, and so forth. So those are
8 certain things that need to be addressed as it relates
9 to marketing affiliations. And we only have, I think,
10 three in Florida.

11 Having said that, I would like to proceed
12 with opening comments by all parties, limited to five
13 minutes.

14 CHAIRMAN GARCIA: All right. We'll start
15 with you, Mr. Lorenzo, and then we'll work our way
16 down.

17 MR. LORENZO: Thank you very much.

18 First of all, I would like to say that the
19 Department of Management Services appreciates the
20 opportunity to participate in this proceeding, and
21 also appreciates Staff's effort in moving forward with
22 the proposed rule and the process undergoing.

23 To make it short and to the point, the
24 Department does agree with the rationale and the
25 purpose and the content of the rule that's being put

1 forth.

2 As a state agency involved in the Florida
3 Natural Gas Procurement Program for state-owned
4 facilities, we've determined that the implementation
5 of the proposed rule itself will provide significant
6 help, provide significant help to non-residential
7 customers served by the investor-owned utilities
8 across the state. In addition, we believe that even
9 the utilities that do not come under the Florida
10 Public Service Commission jurisdiction will eventually
11 -- will adopt the provisions of the proposed rule when
12 it becomes effective.

13 To date, we're seeing reduced thresholds,
14 and we're also seeing progress being made as far as
15 gains in savings to the State.

16 Currently we're seeing a growth in
17 facilities being added to the system. Our previous
18 number was in the high 30s. Now it's somewhere around
19 50. We roughly have a little over 100 facilities
20 being under some type of analysis and appraisal being
21 added to the state term contract. And we roughly have
22 around 500 that we're looking to add in the near
23 future. Just in clearing up, the middle number is in
24 the process of being added, and the 500 figure is
25 being under appraisal.

1 The numbers as far as the savings, when we
2 look at annual savings to date, we previously have
3 said somewhere around the vicinity of 1,300,000. That
4 number has gone up. Certain areas have been added.
5 Duval County is in the process of being added, and
6 that will bring up the number on the annual savings.

7 As far as the natural gas cost avoidance,
8 an approximate figure is still somewhat around the \$5
9 million figure, a little bit more than that. I would
10 like to get more accurate numbers.

11 As far as the total cumulative savings to
12 date from the inception of the program, we're looking
13 at roughly over a million dollars -- \$11 million.

14 So for the FNGPP program to proceed, we see
15 that it's essential for this rule to go forward in
16 meeting the needs of the non-residential customers,
17 and we're seeing that the whole state will continue to
18 benefit. And we just look forward to the continuing
19 cooperation of the Commission, and we appreciate the
20 opportunity of being able to present.

21 Thank you.

22 MR. BLAZER: Rich Blazer with Infinite
23 Energy. We are a natural gas marketer in the states
24 of Georgia and Florida. In Georgia we market to the
25 residential, the industrial, and the wholesale

1 markets. And in Florida, we're currently marketing to
2 the wholesale and the industrial and commercial
3 markets. We have customers behind. We are serving
4 customers that are natural gas customers of TECO,
5 Peoples Gas, and City Gas.

6 We are in support of the proposed rule
7 moving forward with deregulation in the State of
8 Florida. Currently we have a difference in
9 transportation abilities for customers to be able to
10 buy their gas from someone other than the LDC
11 throughout the state. This causes confusion for many
12 customer that have many facilities in many different
13 areas all over the State of Florida in trying to
14 explain to them why they can choose their supplier in
15 one area and not in another area. We have many
16 customers in the TECO/Peoples Gas area that are
17 waiting for the FTA program to reopen.

18 We have experience in the Georgia area with
19 marketing companies slamming customers and are in
20 support and helping the Commission Staff come up with
21 -- helping the rules to be made to help in a smooth
22 transition for deregulation in the State of Florida,
23 bringing our knowledge of what has happened in the
24 Georgia markets and with the Atlanta Gas Light
25 unbundling so that Florida won't fall into the same

1 errors that we did up there.

2 We appreciate the Staff's effort that
3 they've had over the last three workshops in working
4 forward and moving forward with deregulation, and are
5 happy and hope to see more of the commercial accounts
6 have the opportunity to transport and save monies on
7 their gas costs and be able to choose and to pick
8 their gas prices.

9 Thank you.

10 MR. RICHARDS: Good morning. My name is
11 Allan Richards. I'm with End Users Natural Gas.
12 We're natural gas based in Houston, Texas. We've been
13 moving natural gas supplies directly to the ultimate
14 consumer since 1986 throughout most major pipelines in
15 the country.

16 I would like to take the opportunity to
17 express our thanks to the Commission for having this
18 workshop and the Staff's long diligence in bringing
19 about the rule, simply to provide full and fair and
20 equal access in the protection of the Florida
21 consumer.

22 As we've moved from a regulatory model on
23 the federal level with command control by FERC at the
24 wellhead all the way to the city gate, the model
25 failed for a variety of reasons, but primarily it was

1 high cost pipeline contracts to producers with take or
2 pay. The total net worth of those take or pay
3 liabilities for those bilateral contracts under FERC
4 jurisdiction in the early '80s was three times the
5 total net worth of those interstate pipelines.

6 With the crash of oil from \$42 down to
7 below \$10 in the early '80s, this caused the pipes to
8 go empty, take or pays to be triggered, LDCs' minimum
9 bills to the pipelines, causing great hardship on the
10 LDCs, the interstate pipelines, and the producers.

11 Because of that phenomenon of X theory or
12 market forces causing such hardship and pain on the
13 natural gas industry, the natural gas industry went
14 through deregulation. Through a series of various
15 rulemakings, notice of inquiries, stakeholders were
16 able on the federal level to come forward in a vibrant
17 deregulation model whereby delivery of gas as a
18 merchant function by the LDC is not a monopoly
19 function, but we now have the contract carriage of
20 that natural gas as the true natural monopoly, whereby
21 the ultimate end users -- when I say end users, I
22 should say LDCs have the right to source their supply.

23 Under state jurisdiction, the control of
24 those local distribution companies and the advent of
25 636 by FERC, it is hoped, with firm natural gas

1 transportation with equal access on a
2 nondiscriminatory basis by the ultimate users, that
3 open access can provide for customer choice on an
4 equal basis.

5 I would like to start off just by saying
6 briefly that with the historic regulatory model, the
7 LDCs had this implicit obligation to serve their
8 ultimate customers. And with that implicit obligation
9 to serve those customers, they had a franchise which
10 was granted by the state.

11 Without going into the specifics of those
12 franchises, whether exclusive or protected or what
13 have you, if there was an implicit obligation to
14 serve, it is my view that as the LDCs move from a
15 regulatory environment to a deregulated model, where
16 their lines which are a natural monopoly are used for
17 equal, nondiscriminatory access by the ultimate
18 consumer, that the assets that were acquired under
19 regulation should not be left stranded, but
20 compensation for those assets should be granted,
21 simply because of this obligation to serve.

22 Having said that, and that the LDCs then
23 would become margin neutral, that their stockholders
24 or the stakeholders would not be harmed by going to a
25 deregulated model in keeping with what has happened on

1 the federal level.

2 We have to have free and fair access by the
3 consumer to those wholesale supplies. Today we don't
4 have that. Today we have discrimination in Florida.
5 If a customer has a certain load volume or a load
6 profile, then they can get access to wholesale
7 supplies. Some programs and LDCs would require a new
8 point. If this is a new facility for them, then they
9 can get access. If they put in certain natural gas
10 fired equipment and displace electric equipment or
11 enhance their natural gas load somehow, then they may
12 be able to get access.

13 If a marketer can go out and get propane
14 customers, then under those conditions it's possible
15 in some LDC programs where they can bring on a like
16 amount of on-system customers to the natural gas
17 wholesale markets. Obviously, this in our view is
18 discrimination. A certain set of conditions will
19 allow that customer access to the wholesale market,
20 whereby if the customer doesn't meet those conditions,
21 then they are barred access to the wholesale markets.

22 The consequences of that is that the
23 customer who doesn't have access is at a competitive
24 disadvantage. And for these reasons, we feel it's
25 essential that rule go forward, unless, of course, the

1 local distribution companies voluntarily opened up
2 their system, and then we wouldn't need a rule. And
3 that could be done in a variety of ways. But if we
4 have the current state of affairs, the current
5 conditions whereby one consumer has access to the
6 wholesale market and is achieving approximately 27 to
7 32% savings going directly to their bottom line, and
8 the consumer across the street that competes with that
9 same competitor does not have access, then they're in
10 a competitive disadvantage. And that's why we need
11 the rule, to ensure that we don't have undue
12 discrimination, that we have equal access which is
13 fair to all parties within the marketplace.

14 Regarding some of the concerns that were
15 brought up, stranded investment, as I said in my
16 opening remarks, I believe that if the LDC acquired
17 those assets under regulation and they were prudent,
18 that those assets should not be stranded and the LDC
19 stakeholder should not be harmed because of that.

20 MR. MAKIN: Allan, I would like to get into
21 that on an issue by issue basis and let everybody just
22 make their opening statements, and then we'll come
23 back and get into that.

24 MR. RICHARDS: That's all I had to say.
25 Thank you.

1 CHAIRMAN GARCIA: Great.

2 Mr. Schneidermann?

3 MR. SCHNEIDERMANN: Good morning. I'm
4 Marc Schneidermann from Florida Public Utilities
5 Company.

6 I want to make it clear that Florida Public
7 Utilities Company is a local distribution company.
8 We're not a marketer. We do not have a marketing
9 affiliate. We have no intentions of having a
10 marketing affiliate.

11 There are certain items that are of great
12 concern to us. One item which is paramount is
13 marketer regulation. We want to make sure our
14 customers get the same sort of treatment and care they
15 get currently from Florida Public Utilities Company.
16 We have many -- most of our customers, almost all of
17 them, are very happy with our service. We need to
18 make sure there isn't any way that their natural gas
19 service will be degraded at all. Marketer regulation
20 is essential. Starting off unbundling without having
21 marketer regulation is very much like putting the cart
22 before the horse.

23 Staff indicated that the LDC should ensure
24 that the customers are dealing with reputable
25 middlemen as part of their August 19th recommendation.

1 We don't see that as being the role of the LDC. We
2 see it as being the role of a state agency.

3 Other issues that we're concerned about are
4 such as the authority to be able to have adequate
5 measurement devices approved for all transportation
6 customers. In order to adequately bill the
7 transportation customers and have them share in the
8 cost of providing service to them, we need to get
9 daily feedback from the transportation accounts. At
10 this point in time, we don't have the assurance that
11 we would be able to require the customers to
12 contribute to the purchase of this sort of telemetry.

13 The recovery of stranded costs obviously is
14 also a great concern to us. We did sign up for
15 pipeline capacity. At the time, there was absolutely
16 no choice. We had to take pipeline capacity on a long
17 term to serve our customers. If the State were to
18 fully unbundle, we need to address those issues. One
19 way of mitigating the cost may be through a
20 redevelopment or revising the purchased gas cost
21 recovery factor mechanism, also known as the PGA. And
22 I can get into that in more detail later on.

23 In order for unbundling to occur, there
24 would also need to be adequate lead time. We would
25 not be able to start this up in a short period of

1 time. We would have to put the systems in place.
2 There are significant investments we will have to
3 make. Our original and still to date estimation of
4 the cost of the systems will be about \$1.7 million.
5 We expect that there will be a recurring cost of about
6 a quarter million dollars a year. There should also
7 be reasonable recovery of the costs associated with
8 providing transportation service to commercial
9 customers.

10 Another issue that we really need to look
11 into is that it doesn't make sense to offer
12 transportation service to all levels of commercial
13 customers. We currently have in total about 37,000
14 customers, 10% of which, about 3,700, are commercial
15 customers. Of that 3,700 commercial customers, about
16 1,000 customers, 1,100 customers, one-third of our
17 customers, use very small volumes of gas. And would
18 it make sense, is it cost-effective to provide all
19 these additional transportation services to customers
20 that are using those small quantities?

21 Along the lines of Mr. Richards'
22 statements, I would like to congratulate Staff. This
23 has been a very long process.

24 But one of the key points is that we need
25 to make sure that -- this may be looked at as

1 protecting the Florida consumers by going and
2 unbundling, but it's not true protection for the
3 consumers. It gives them additional options, but we
4 need to make sure there is consumer protection
5 associated with an unbundled program.

6 Thank you.

7 MR. PALECKI: My name is Mike Palecki. I'm
8 with City Gas Company of Florida.

9 City Gas Company of Florida supports the
10 proposed rule. This rule provides each LDC the
11 opportunity to tailor its program to its customer mix,
12 its particular system, and its unique circumstances.
13 It is not a "one size fits all" rule. And City Gas
14 supports this flexible approach.

15 There is one principal reason for this
16 rule: To give commercial customers the ability to
17 choose their gas suppliers and allow them to reduce
18 their energy costs if they so choose. We believe that
19 this is a customer choice issue that we're dealing
20 with today.

21 The issues set forth in the agenda this
22 morning, obligation to serve, stranded investment,
23 potential for slamming, excess capacity, and marketing
24 affiliations, are serious, legitimate concerns. We
25 think these issues can be dealt with. We have dealt

1 with these issues in the other states that are served
2 by NUI Corporation and in our tariffs. We believe
3 that they've dealt with these issues except for the
4 issue of marketing affiliation in our tariff here in
5 Florida.

6 We'll address each of these issues
7 individually during the issues discussion phase of
8 this workshop. And we would like to thank the
9 Commission and the Staff for this opportunity this
10 morning.

11 Thank you.

12 MR. POWERS: Good morning, Commissioners.
13 My name is Brian Powers, and I'm from Indiantown Gas
14 Company. And I too am thankful to the Staff and to
15 you, the Commissioners, to have a venue in which we
16 can share our issues regarding this.

17 And I want to say right off the bat that we
18 as a company are not against unbundling in the State
19 of Florida. However, we don't feel that we should be
20 required to file these tariffs, and I would like to
21 just take a minute and tell you why.

22 In our case, as Indiantown Gas -- and there
23 are several other LDCs that are similar to us under
24 your jurisdiction -- we have only 21 commercial
25 customers. Combined annually, we sell them 8,300

1 MM BTUs per year.

2 Now, we have a non-fuel rate for those
3 customers of a little over six cents a therm. So you
4 take my one Burger King, and already that has to be
5 the cheapest energy that they could possibly buy in
6 the State of Florida when you add their fuel and
7 non-fuel and everything together.

8 Our concern is that in trying to offer the
9 customer a choice, we will only drive that non-fuel
10 cost up and erode any fuel savings that they may be
11 able to ascertain. And when you consider the cost,
12 not just the cost of the customer information system,
13 but the cost of the filing, in addition to the other
14 issues that are brought up here, stranded investment
15 and those type of things, and you spread that over a
16 mere 8,300 MM BTUs a year for the whole class -- this
17 is all the customers combined -- there's a huge
18 potential for that rate to be very large. And our
19 concern is that we would have a -- if we were forced
20 to do these things as a utility, while it would be
21 good, we would achieve the objective of customer
22 choice, these customers are making economic choices,
23 and none of them would choose it. And that would put
24 pressure on the other ratepayers where we would
25 recover those costs.

1 And that's the brunt of our concern here.
2 Again, we do feel that -- we're not trying to preclude
3 customers in the rest of the state from achieving
4 this, but we're concerned for our customers, our 21
5 customers that, while they don't have to go down this
6 road, that it will never make sense for them to go
7 down this road. And that's our concern.

8 Thank you.

9 MR. CALDWELL: Good morning, Commissioners.
10 I'm Brent Caldwell with Peoples Gas. Thank you for
11 this opportunity to discuss the implications of the
12 proposed transportation service rule.

13 Natural gas is a valuable service to both
14 the citizens and the businesses of Florida. Any
15 program that improves customer satisfaction with their
16 choice, and it is just that, a choice, of natural gas
17 should be encouraged by the Commission. Peoples Gas
18 believes that transportation service can improve
19 customer satisfaction, but under the right
20 circumstances.

21 The proposed transportation service rule
22 requires local distribution companies to file tariffs
23 that allow commercial customers to purchase their gas
24 supply from a third party separate from the local
25 distribution company. Peoples believes unbundled gas

1 supply can be beneficial to some customers and to some
2 utilities. Peoples Gas has demonstrated this belief
3 by steadily expanding the availability of
4 transportation service to commercial customers.

5 Ms. Pennino is handing out a graph, and in
6 this graph it depicts the expansion of transportation
7 service to commercial customers on the Peoples system.

8 Beginning in 1992, transportation service
9 became available to all commercial and industrial
10 customers who use at least 500,000 therms per year.
11 Granted, this is a large amount, and while it
12 represented 50% of the commercial and industrial
13 throughput, it represented only a small fraction of
14 the number of commercial and industrial customers on
15 the total system.

16 In 1995 and '96, Peoples initiated two new
17 transportation service offerings. The Transportation
18 Aggregation or TA program, and the Firm Transportation
19 Aggregation or FTA program, represented Peoples' new
20 approach to allowing smaller volume customers to
21 transport. To reduce the administrative effort
22 associated with transportation service, Peoples
23 developed the aggregation approach in which a single
24 entity, usually a gas marketer, is responsible for the
25 gas supply, the daily gas supply scheduling, monthly

1 imbalance resolutions, the things Ms. Bulecza-Banks
2 alluded to earlier. During the first two years of the
3 FTA program, approximately 200 commercial customers
4 transported nearly 20 million therms per year.

5 Peoples has taken an even more significant
6 step toward providing transportation in 1999. In
7 June, the FTA program was expanded to over 2,500
8 customers, representing 10% of the commercial and
9 industrial customers on our system and approximately
10 70 million therms per year. In comparison, the
11 American Gas Association estimates that currently
12 nationally about 10% of commercial customers use
13 transportation service for their natural gas. So we
14 are right in line were the nation already.

15 Peoples followed the FTA expansion with the
16 introduction of FTA-2 in October of '99. The FTA-2
17 will bring new customers onto the system from day one
18 as transportation customers, and will also continue
19 the conversion of existing commercial customers from
20 sale service to transportation service.

21 The expanded FTA program and the FTA-2
22 pilot program provide the opportunity to understand
23 the issues and benefits of transportation service for
24 commercial customers. Peoples has taken this careful,
25 methodical approach, reviewed and examined by the

1 Commission at each step, this careful, methodical
2 approach to the expansion of transportation service to
3 support our desire that Peoples' implementation of
4 transportation service be successful. By successful
5 I mean that it is beneficial both to customers and
6 manageable and beneficial to the company.

7 For a transportation service to be
8 successful, three equally important elements must
9 exist. There must be a market desire for a
10 transportation service, there needs to be a regulatory
11 framework which allows and encourages transportation
12 service, and the business must have the capability to
13 run transportation service.

14 I'll speak briefly about those three
15 elements, but the first element, market desire, means
16 customers want the option to acquire the gas supply
17 from someone besides their utility, and it also means
18 there must be gas marketers who want to supply gas to
19 these customers.

20 Considering the unique circumstances in
21 Florida, the very low usage levels in many cases, the
22 competitive fuel alternatives, it is not obvious that
23 gas marketers will want to serve smaller commercial
24 customers, and it's not obvious that customers will
25 want to go through the effort of buying their gas from

1 a marketer when gas is probably a small portion of
2 their operating budget.

3 The second element for a successful
4 transportation program is the permissive regulatory
5 framework. And as demonstrated recently by City Gas,
6 this framework already exists for the most part. The
7 Commission evaluates each program according to its
8 merits and the utility's specific circumstances.

9 More importantly, though, the regulatory
10 framework will also need to evolve as the industry
11 evolves. Natural gas already resides in a very
12 competitive market. Introduction of unbundled gas
13 supply potentially requires added rate flexibility,
14 reduced regulatory oversight, more complex rate
15 design, and may cause rate impact consequences. As
16 Mr. Richards alluded to, if the business model
17 changes, it is likely that the regulatory model will
18 also have to change.

19 The third element is business capability.
20 Unbundled natural gas supply adds complexity to
21 virtually every aspect of the utility's business.
22 Numerous systems and processes must be overhauled or
23 replaced. The utility must have the business
24 capability to handle the administrative effort and
25 logistics of providing extensive transportation

1 service. The expense of creating this business
2 capability is great, and the business capability must
3 be in place and tested, speaking from experience,
4 prior to making the transportation service available.
5 Failure will clearly lead to customer confusion and
6 dissatisfaction. While the expense of creating the
7 systems and processes up front is extremely expensive,
8 not having the processes in place is probably even
9 more expensive.

10 Additionally, a utility would clearly need
11 to recover these extraordinary expenses, and for many
12 utilities such as Indiantown, the expense of
13 implementing transportation service to all commercial
14 customers may far exceed any possible benefit.

15 To date, Peoples has spent approximately a
16 million dollars to upgrade systems, and that's just
17 upgrading systems directly related to the provision of
18 transportation service, and will spend much more to go
19 any further.

20 The Commission in previous Staff workshops
21 have recognized the significant issues associated with
22 unbundled gas supply. These issues include, among the
23 list, and many others, marketer integrity, supplier of
24 last resort, reliability, capacity management, and
25 cost recovery. Peoples' cautious approach allows the

1 Company and the Commission to identify issues and
2 design solutions before an issue becomes a
3 significant, widespread problem.

4 So in conclusion, Peoples Gas has been and
5 continues to be a proponent of unbundled natural gas
6 supply when it makes sense. However, Peoples does not
7 believe the proposed transportation service rule is
8 either necessary or even beneficial compared to the
9 current regulatory framework. For many local
10 distribution companies, particularly the smaller
11 companies, the expense and effort required to satisfy
12 the proposed rule may be an actual detriment to their
13 overall natural gas service.

14 For City Gas and Peoples, these utilities
15 have shown that they will add transportation service
16 to their service offerings to meet the competitive
17 needs of the market and to improve their customer
18 satisfaction.

19 The remaining utilities, Chesapeake and
20 Florida Public, obviously will watch the results that
21 Peoples Gas and City Gas experience. If there are
22 measurable benefits that exceed their costs and their
23 customers request transportation service, I am sure
24 they too will address what is the appropriate course
25 of action when it is the appropriate time.

1 The TECO merger with Peoples Gas has been a
2 milestone in the natural gas industry of Florida.
3 Peoples Gas is making natural gas service available to
4 numerous portions of the state that would not have
5 natural gas otherwise. Peoples' primary focus is
6 providing natural gas to customers in a safe, reliable
7 manner and at reasonable rates, the same objectives of
8 the Commission. If transportation service can enhance
9 this primary focus, Peoples will provide it. However,
10 the proposed rule does not enhance this objective for
11 Peoples, and therefore, Peoples does not support the
12 proposed transportation service rule.

13 Thank you.

14 COMMISSIONER DEASON: Let me ask one quick
15 question on the graph. From this, am I to conclude
16 that approximately 11% of your commercial and
17 industrial customers constitute some 80 plus percent
18 of the number of therms sold to those classes?

19 MR. CALDWELL: That's absolutely correct.

20 COMMISSIONER DEASON: Okay. Thank you.

21 MR. MAKIN: Commissioners, it's your
22 pleasure. Do you want to go issue by issue, or would
23 you like to have each participant talk about all the
24 issues at one time?

25 CHAIRMAN GARCIA: I think it might be

1 better, more comprehensive to deal with all of them at
2 one time. If you think it's better the other way,
3 Wayne, then --

4 MR. MAKIN: However you want it is fine
5 with me, whatever is easier to grasp.

6 CHAIRMAN GARCIA: I don't know.
7 Commissioners, what's your pleasure?

8 COMMISSIONER DEASON: It makes no
9 difference to me.

10 MR. MAKIN: Okay. With that, I would like
11 to start with the utilities first and then end up with
12 the marketers at the end discussing the issues. And I
13 think the first utility would be Florida Public
14 Utilities, with the direction of the Commission to go
15 forth and discuss all the issues at one time. We'll
16 just go around with that. Okay?

17 MR. SCHNEIDERMANN: Mark Schneidermann from
18 Florida Public Utilities Company.

19 The first issue that's listed is the
20 obligation to serve and supplier of last resort. The
21 way we look at that issue is, we would have no choice
22 but to be the supplier of last resort and to provide
23 gas to transportation customers whose gas supplies may
24 not have shown up at the city gates for their
25 accounts.

1 It would be impractical if unbundling were
2 to occur in total for us to possibly turn off as many
3 as 3,700 commercial customers whose gas supplies for
4 whatever reason wouldn't show up at our city gates.
5 We wouldn't have the work force available to do that.
6 And obviously, we try to maintain good customer
7 relations, and we would not want to do that. We would
8 not want to inconvenience our customers.

9 COMMISSIONER DEASON: Well, let me
10 understand. You're saying that you should not be the
11 provider of last resort, but in reality, you would do
12 everything you could to make sure that no one lost
13 their service.

14 MR. SCHNEIDERMAN: The way the issue is
15 presented and the way it has been addressed in the
16 past, there has been discussion indicating that the
17 LDC will not be responsible to be a supplier of last
18 resort.

19 What I'm saying is that from a practical
20 standpoint, it would be impossible for us not to be
21 the supplier of last resort. If our commercial
22 customers' transportation gas didn't show up, we would
23 not have the work force available to go around and
24 turn off those accounts, so obviously, we would still
25 keep on supplying gas to those accounts.

1 COMMISSIONER DEASON: So would that
2 jeopardize service to your firm customers?

3 MR. SCHNEIDERMANN: The way we're
4 structured now, it would increase the cost for our
5 firm services, firm service customers. What could
6 happen is, if a transportation customer's gas did not
7 show up, a significant sum didn't show up, then we may
8 have to go in and buy some short-term gas supplies.

9 COMMISSIONER DEASON: Just because you
10 don't have the capability to identify those
11 transportation customers whose suppliers did not
12 provide the gas and terminate service just to those
13 customers?

14 MR. SCHNEIDERMANN: At this point in time,
15 we have the capability.

16 COMMISSIONER DEASON: You do have the
17 capability?

18 MR. SCHNEIDERMANN: We do have the
19 capability. We have -- our larger customers are
20 transporting. We have the --

21 COMMISSIONER DEASON: But you couldn't do it if
22 all your commercial customers chose --

23 MR. SCHNEIDERMANN: No, we couldn't do it
24 if there was widespread unbundling. We would still
25 obviously look for the capability of measuring each

1 transportation customer's consumption on a daily basis
2 and comparing that to the amount of gas that they
3 actually had tendered to our city gates for their
4 accounts.

5 MS. BANKS: Excuse me. Mr. Schneidermann,
6 if you could help me out here. Generally, from what
7 I've understood, when those situations occur, and if
8 you do go put additional gas in the system to cover
9 the sales that are going through, wouldn't you in turn
10 simply bill the marketer as penalties and the excess
11 costs that go through? The marketers, from my
12 understanding, are used to the situation, and that is
13 exactly what occurs, so that in turn, your firm
14 customers are not picking up the difference from the
15 extra gas you had to buy.

16 MR. SCHNEIDERMANN: Under the current
17 situation, what happens if the marketer's gas doesn't
18 show up, we bill the customer for imbalances. Those
19 imbalances are monitored on a daily basis. And we're
20 able to do that now because we have the telemetry, the
21 proper telemetry at each customer's location. If we
22 were to go forward with widespread unbundling, the
23 only way that we could properly allocate those costs
24 and bill those costs, whether it's to the customer or
25 the marketer, depending upon what is developed, would

1 be based upon being able to get daily feedback on each
2 one of our transportation customer accounts.

3 MS. BANKS: It may just be lack of
4 experience, I think, in this particular area, because
5 I know that under Peoples' program and under City
6 Gas's program, the small commercial customers are not
7 daily monitored, and the aggregator or marketer in
8 this case, that's how the situation is handled through
9 those imbalances. But again, I mean, it's a matter of
10 experience and what you've gained over time from doing
11 the program. But that's my understanding, that the
12 bulk of that would be occurring as a result of the
13 marketer getting the billing for any imbalances for
14 the group of customers that fall under his purview
15 that he's buying for.

16 COMMISSIONER CLARK: How do you know who is
17 responsible for the imbalance if you don't meter?

18 MS. BANKS: He's looking at it as a daily
19 imbalance. FGT, the pipeline, and all the entities
20 work really on a monthly basis. You know at the end
21 of the month how much you put in on behalf of the
22 customers, and then you can look and see what the
23 difference is for that particular customer.

24 But Mr. Schneidermann was looking more on a
25 daily balancing issue. That has not occurred in

1 Florida. We don't daily balance, not even on FGT's
2 system. But what happens is, sometimes the pipeline,
3 if it gets truly out of whack and they know -- a
4 system operator, say, for instance, City Gas, its city
5 gate is way out of line. FGT would call up City and
6 say, "As the system operator, you need to put some
7 more gas on the system and find out what's going on."

8 COMMISSIONER DEASON: Let me ask this.
9 Doesn't FGT bill -- in their tariff, there's daily
10 amounts that are calculated, where if there were
11 excesses or underages in their tariff, the customer
12 that is using their transportation system has to
13 account for that and pay accordingly on a daily basis,
14 not a monthly basis.

15 MS. BANKS: No. They attempted to go daily
16 in one particular filing at FERC, and they had so much
17 animosity and disconcern from all the utilities that
18 that did not go through. Their penalties are assessed
19 on a monthly basis based on a monthly imbalance.

20 The only time you really look at some daily
21 penalties are if they have an OFO in place, an
22 operational flow order that says you must stick to
23 this, because the system, you know, were it either in
24 an over or under situation, in those particular
25 situations, you will be penalized for a particular set

1 of days. But that's generally when they have one of
2 those mechanisms in place.

3 COMMISSIONER JACOBS: So there is
4 experience with the larger transportation customers
5 with these imbalances. Is there some additive effect
6 by going to the smaller loads? Would you have more
7 volume? Would there be a higher frequency or a
8 greater volume?

9 MS. BANKS: Intuitively you might think
10 so. And I really don't know. It would depend on the
11 set of customers involved, because if I'm a small
12 customer, but I have the same daily flow every day on
13 my little process that I do day in, day out, you
14 probably won't get a lot of fluctuations deviating
15 from what you thought you would use based on what you
16 actually did use. But there may be some customers out
17 there that do experience some fluctuation that you
18 might see. And it will depend on the group of
19 customers.

20 Mr. Schneidermann had mentioned, you know,
21 the need for actually monitoring these small guys.
22 Throughout the country, what they have found is that
23 they do not do this. In City Gas's experience, they
24 have said no one individually has telemetry to know
25 what a small commercial customer is doing, because it

1 won't change your operation of your system enough.
2 But a big customer using a lot of gas, it is necessary
3 to know exactly what he's using hourly to make sure it
4 doesn't jeopardize the integrity of the system. But
5 when you're talking about smaller load customers, even
6 if they were off 5%, it's so small that it doesn't
7 really change the operational integrity, and the gas
8 will flow.

9 As Mr. Schneidermann also mentioned, if
10 you're on a system and, for instance, a marketer's gas
11 did not show, the gas is still going to flow.

12 Now, if the customer is not very big and
13 he's not using very much, they probably won't even
14 know. The gas will flow. It just keeps physically
15 moving, and not until the end of the month will you
16 even know you had a blip.

17 COMMISSIONER JACOBS: So you would disagree
18 then that they're going to have to go to the spot
19 market on a daily basis?

20 MS. BANKS: Excuse me. I couldn't hear
21 you.

22 COMMISSIONER JACOBS: You would disagree
23 that to cover imbalances, they're probably going to
24 have to look to the spot market on less than a monthly
25 basis?

1 MS. BANKS: Those things are possible. And
2 I think we're looking at things that there's a
3 potential to happen.

4 The marketers who are sitting here have
5 been in Florida's system for a long time, and I think
6 that they've operated on many of the systems here, on
7 the LDC systems, and I think that their gas supply has
8 arrived. And if their supply is not showing up with
9 these people who have been in the business for so
10 long, I would suggest that you probably have some LDC
11 gas supply that's not showing up either. And because
12 that also is a possibility, they have it in the
13 tariffs that if the LDC supply does not show up, they
14 can take the marketer's supply in order to serve firm
15 load. So those are different possibilities. There's
16 a possibility the marketer got on and the LDC didn't.
17 I mean, like we said, it's possible that the
18 marketer's gas may not show up.

19 Those are things that I think happened at
20 the beginning, in the early stages. We didn't --
21 there were some that were not reputable marketers that
22 were in phone booths, and those were the things. And
23 it kind of worked itself out, and those people left,
24 and, yeah, some people lost money as they went to the
25 Bahamas with the money they got.

1 But I think what you see here over time is
2 the people who have been through the system. They've
3 been marketing for years and years and years, and I
4 think they've shown their customers that they are
5 there to stay.

6 MS. PENNINO: Commissioner Jacobs, we can
7 and will deal with the issue of the gas showing up.
8 But I think that's the point. When you're talking
9 about obligation to serve and supplier of last resort,
10 I think what we're hearing here is, yes, the utility
11 will go out and buy spot, and the utility will move
12 gas around from one delivery point to the other,
13 because we have the capability to do that.

14 No, the utility is not going to go out, and
15 we're not going to allow pressure to drop to a certain
16 delivery point so that we lose the whole -- you know,
17 everybody behind the gate because somebody's gas
18 didn't show up. But I think it speaks to the
19 obligation to serve and the supplier of last resort.
20 I think we're saying that the utility pretty much
21 needs to be the back stop for the system. We need to
22 be the supplier of last resort. Who else is going to
23 put that gas in the system and make sure it flows?

24 MS. BANKS: I think what's important here
25 from the Staff's point of view is that as a customer,

1 when I'm undergoing a choice, and because I'm
2 undergoing that choice, I generally am getting a
3 better price, there's a risk that I undertake if I
4 haven't -- if my gas supply doesn't show up.

5 Now, again, we're playing a big "what if"
6 game that this is happening often, and it's just
7 simply not happening out there in the real world. But
8 assuming that we're going to make the assumption that
9 we're discussing supplier of last resort, that in
10 Staff's opinion is a risk I have to take.

11 If my gas doesn't show up, what I'm trying
12 to have the utility say is, "I don't have an
13 obligation to supply you molecules of gas. My
14 obligation is simply to move them to you when I
15 receive them, and if I do not receive them, I don't
16 have an obligation. However, should I choose to be
17 able to and I can supply you gas and I can put it in
18 place, then I would like the opportunity to do so, and
19 I would like to be able to keep it going for you."

20 But there's a small distinction there. I
21 don't think they should be forced to, but they should
22 have the ability if they choose to to supply that
23 customer. But as a customer, if I choose to
24 transport, I've got to understand that there's a
25 possibility my gas won't show up. And that's a risk

1 that I think the customers today understand. That is
2 how it has been.

3 It's just like you're an interruptible
4 customer. If I'm an interruptible customer on an LDC
5 system, they can shut me off for whatever reason they
6 have, because I am truly interruptible. They don't do
7 that, and I don't -- I mean, it rarely, rarely
8 happens, but they can. And that's basically the same
9 thing we're saying. If your gas supply doesn't show
10 up, we can shut you off.

11 COMMISSIONER JACOBS: What I'm hearing is
12 that the system is probably not going to take that
13 option. The option it will seek to take is to provide
14 that customer service.

15 Who will the customer look to? He's always
16 going to look to the marketer to address the instance
17 where his capacity was not available at his time of
18 need.

19 MS. BANKS: He probably will look to the
20 LDC also. He'll look to anybody he can to get supply
21 if it's critical.

22 COMMISSIONER JACOBS: Right.

23 MS. BANKS: When we had that bad situation
24 with FGT in that August, everybody was having to shut
25 down people. Marketer supply wasn't on. LDC didn't

1 have 100% of supply on. But they were doing the best
2 they could to get what they could through the system,
3 and they were trying to help people out. They did it,
4 we tried the make some adjustments over the phone to
5 be able to say, "Yes, you can go ahead and try to get
6 these people and help them if you can," because those
7 provisions weren't out there at the time for emergency
8 situations.

9 So the utility tries, just like any entity,
10 I think, in the utility business. When we have
11 pipeline interruptions on one system in other states,
12 other pipelines try to pick up and help people when
13 they can. I think that's just how the industry has
14 historically worked. The customer will call up. In
15 that situation, they were calling Peoples. They were
16 calling their marketer. They wanted their supply on.
17 Of course, everybody did. We were in a very critical
18 state. And I think the customer will look to anybody
19 it can.

20 And I think that those provisions can be in
21 a tariff that says, you know, if possible -- and we
22 have them now. If possible, it says we'll try to
23 serve you if we can, but we don't have an obligation
24 to. And I think that's the critical difference. It's
25 like if we can, we will try, but we are not obligated

1 to, because you are not buying supply from us.

2 MR. BLAZER: As a marketer in TECO's area,
3 for the large accounts that we serve -- actually, for
4 the smaller accounts --

5 CHAIRMAN GARCIA: Hang on for one second.
6 I get a feeling we're going to break down into a
7 free-for-all any moment now, if we're not there
8 already.

9 Why don't we let the presenters go, and
10 that way each one gets their full story in. And then
11 Ms. Banks can take you all on, or half of you on, or
12 whatever, and we'll have a nice discussion. But let's
13 wait until it's all done so that we have the
14 information, because we may get stuck. Let's get the
15 whole story.

16 And, Mr. Schneidermann, I think you had the
17 floor.

18 MR. SCHNEIDERMANN: Yes. If I may
19 continue? Thank you very much.

20 I would like to just address key points
21 that just came up, because a lot of this started with
22 the line of questioning that we were going through.

23 As far as the obligation to serve, I
24 realize that Staff is saying that we do not have the
25 obligation to serve. What I'm saying is that it's

1 impractical for us not to serve the customers. We're
2 not going to be able to turn off a multitude of
3 transportation customers.

4 In talking about what happens and who pays
5 the additional cost for transportation customers'
6 supplies that don't show up --

7 COMMISSIONER DEASON: Well, let me make
8 sure I understand. And I hate to interrupt, but I'm
9 going to ask my questions to you, and nobody answer
10 the questions except the person I direct it to. We'll
11 get to that point later.

12 Right now under your system, you do have
13 transportation customers; is that correct?

14 MR. SCHNEIDERMAN: Yes. Right now we have
15 16 transportation customers, and they account for
16 about 42% of our commercial volumes.

17 COMMISSIONER DEASON: Okay. Now, for those
18 customers that you have on your system now that are
19 transportation customers, do you have the capability
20 to go and actually turn off service to them if that
21 case ever arises?

22 MR. SCHNEIDERMAN: On each one of those
23 accounts we do. And the way we can determine if we
24 need to turn off the account is based upon the daily
25 flow monitoring through the proper telemetry that's

1 installed at each one of those sites.

2 COMMISSIONER DEASON: Have you ever done
3 that?

4 MR. SCHNEIDERMANN: We have had
5 interruptible transportation customers turned off.
6 What has happened is, we have looked at the volumes
7 that were being tendered for those accounts, and we
8 found that they weren't sufficient, and the customers
9 were told that they need to bring their consumption
10 down to zero at a certain point in the day. The
11 customers voluntarily turn their gas supply off or
12 their use off, and we're able to monitor that they do
13 not take any additional gas supplies through our
14 computer system.

15 COMMISSIONER DEASON: So your concern is
16 that if this proposed rule goes into effect, and just
17 for the sake of argument, all of your commercial
18 customers -- and I know it probably wouldn't in
19 reality happen, but if all of your commercial
20 customers chose to become transportation customers,
21 you would not physically have the capability to go out
22 and terminate service to that many different customers
23 if there was some type of a major shortfall from the
24 marketers serving those customers.

25 MR. SCHNEIDERMANN: We would not have the

1 capability to do that if a significant number of
2 customers did not have their gas supply show up at our
3 gate. But also, in order to determine whose gas did
4 not show up, we need to have the proper telemetry at
5 the customer's site and the proper computer systems to
6 feed back information concerning how much gas the
7 customer consumed.

8 COMMISSIONER DEASON: And you couldn't wait
9 until the end of the month to determine how much
10 people used, because the flows are on an hourly or
11 daily basis that need to be monitored to determine
12 what gas is being delivered and who's consuming that
13 gas?

14 MR. SCHNEIDERMAN: Yes. The flows are on
15 a daily basis.

16 And I would like to address some of the
17 items that Cheryl brought up concerning daily
18 balancing versus monthly balancing. On FGT's system,
19 there are requirements when the system gets high line
20 pack, in other words, there's too much gas on the
21 pipe, and the purchases are getting too high, or on a
22 long line pack, where they will notify the LDCs, those
23 shippers, and say, "You need to stay within a certain
24 tolerance level." That tolerance level is normally 5,
25 6%. Once we actually consume or use more gas outside

1 that tolerance range, that's when they start billing
2 imbalance charges. This would happen on days, as
3 Cheryl mentioned, where there are operational flow
4 orders issued from the pipeline, and also days that
5 are getting critical on the pipeline when they issue
6 what they call alert day notices.

7 During the last three months, we've had a
8 substantial number of alert days, probably in excess
9 of -- I don't have the exact numbers with me right
10 now, but in excess of about 15% of the days have been
11 alert days where obviously daily gas balancing was a
12 fact on the pipeline.

13 And what happens if you're out of balance,
14 you simply get billed a penalty charge, and that
15 penalty charge, we have no choice but to pass that
16 along to our sales gas customers through the PGA. And
17 we have mechanisms within our tariff right now where
18 we can charge the transportation customers penalties
19 based upon their daily imbalances. But the only way
20 you can do that is if you're able to monitor the
21 customer's daily flow at each one of their sites.

22 COMMISSIONER DEASON: So to protect your
23 full requirements customers from potential impacts of
24 the PGA, you would need the metering to determine if
25 you could -- under your current tariff to pass through

1 to those transportation customers who caused the
2 imbalance?

3 MR. SCHNEIDERMAN: Exactly, exactly.

4 COMMISSIONER DEASON: And that's the way
5 you operate now?

6 MR. SCHNEIDERMAN: That's the way we
7 operate now. All transportation customers are
8 required to have the proper measurement device, the
9 proper telemetry.

10 COMMISSIONER DEASON: But at some point, it
11 becomes economically infeasible for a small customer
12 to have that type of metering in, because the up-front
13 cost is going to overwhelm any potential energy
14 savings derived from subscribing to a marketer. Would
15 you agree with that?

16 MR. SCHNEIDERMAN: I agree, and that's an
17 unfortunate reality. We have to avoid the possibility
18 or great potential that our full requirements
19 customers may be paying for a free ride of
20 transportation service customers.

21 I think one issue that also came up
22 concerning RTUs we need address some.

23 COMMISSIONER DEASON: RTUs? I'm sorry.

24 MR. SCHNEIDERMAN: I'm sorry. Remote
25 terminal units, the telemetry at each customer's site.

1 I know I've heard in the past that there
2 are many companies that don't require the RTUs on all
3 their transportation customers. I've heard in the
4 past that NUI doesn't require it. We have some recent
5 information that shows that NUI has about 3,000 of
6 these units out there. That number is significant.
7 When looking at NUI's 10K from 1998, they had about
8 2,700 transportation customers. So we would like to
9 even have that addressed at some point in time.

10 COMMISSIONER DEASON: Well, maybe we'll get
11 to that. Thank you.

12 MR. SCHNEIDERMAN: But we look at the way
13 to properly allocate costs is to be able to have the
14 real-time data, the daily information from the
15 transportation customers.

16 Also, on the pipeline system, the pipeline
17 originally a while back proposed what was called daily
18 balancing, and that was a way of looking at each LDC's
19 account every single day and seeing how far out of
20 balance they were, whether it was a critical day or
21 not, and to bill each LDC or shipper on the pipeline
22 system a daily balancing charge.

23 That proposal never came to fruition, but
24 what happened was, the pipeline agreed with its
25 customers that instead of going to daily balancing,

1 they would have certain tools in order to balance out
2 its system, to be able to go out and buy gas, to be
3 able to go out and sell gas if their system is too
4 high on line pack.

5 And those tools are called -- they're daily
6 operational balancing tools. And the pipeline bills
7 the LDC for those tools, and we pass that cost along
8 through our PGA. We have no choice. That's the one
9 way it can get --

10 COMMISSIONER DEASON: What tools are these
11 again?

12 MR. SCHNEIDERMAN: These are tools so the
13 pipeline can go out and buy additional gas supplies if
14 the pipeline is line packed, the pipeline's pressures
15 are getting too low, or they can sell.

16 COMMISSIONER DEASON: And they probably
17 buy it at a high price.

18 MR. SCHNEIDERMAN: Of course. That's just
19 the way the market goes.

20 COMMISSIONER DEASON: And if you have too
21 high a line pack, they sell it for you at a low
22 price?

23 MR. SCHNEIDERMAN: They sell off some of
24 their supplies. It's called system balancing tools.
25 And there's a system balancing tool account that the

1 pipeline has that's very typical. But in essence, it
2 winds up being fed back or charged back to the LDCs
3 through the pipeline's rates and the pipeline's bills.

4 COMMISSIONER DEASON: That's a cost of
5 doing business. How do you recover that cost?

6 MR. SCHNEIDERMAN: That's recovered
7 through our PGA. That's the only way we can recover
8 it. We have no way of identifying if the pipeline
9 went out and bought gas or sold gas based upon any one
10 of our particular customers. That is a PGA issue.

11 COMMISSIONER DEASON: Is that a significant
12 cost for your company?

13 MR. SCHNEIDERMAN: It varies. The
14 pipeline keeps a running total. When it hits their
15 own targets, that's when they get with the customers
16 about billing.

17 But what I'm saying is, the pipeline has
18 those daily tools in place.

19 COMMISSIONER DEASON: Do you have any way
20 to audit that to make sure that you're --

21 MR. SCHNEIDERMAN: We have the right to
22 audit, yes. All shippers on the pipeline have a right
23 to the records concerning the operational balancing
24 tools.

25 COMMISSIONER DEASON: The pipeline entity,

1 does it have the capability -- at your city gate, for
2 example, just hypothetically, let's say that 50% of
3 the gas coming in is gas that is being provided to
4 full requirements customers, and another 50% is being
5 provided by marketers to serve transportation
6 customers behind your gate, and say there's two
7 marketers. Does Florida Gas Transmission know the
8 molecules that are flowing to your city gate, how much
9 is coming from marketer A, how much is coming from
10 marketer B, and how much is your gas that you've
11 subscribed to?

12 MR. SCHNEIDERMAN: Yes, they do know that.
13 But under our contractual obligations with Florida Gas
14 Transmission, we are what's known as a delivery point
15 operator. We're responsible for keeping each one of
16 our points in balance, irrespective if the gas is
17 coming from marketers or our own system supply
18 purchases.

19 COMMISSIONER DEASON: So you have an
20 obligation with FGT to make sure that everything stays
21 in balance as much as possible?

22 MR. SCHNEIDERMAN: Yes, we do.

23 COMMISSIONER DEASON: And if things get out
24 of balance, you're the one that suffers the economic
25 consequences of that?

1 MR. SCHNEIDERMAN: We get the penalty
2 bills in, yes.

3 As far as the next item, stranded
4 investments, we entered into pipeline capacity
5 agreements prior to the issue of unbundling coming
6 up. Our pipeline capacity agreements are long-term
7 agreements, expiring year 2010, 2015.

8 There were certain methods for electing to
9 subscribe to certain capacity. One method that we
10 agreed to for our lowest cost capacity on the pipeline
11 was an automatic contract renewal. Another method
12 that was offered at the time was to take your capacity
13 and essentially put it up for auction, and then you
14 had a right of first refusal if you wanted to pay
15 whatever price was bid. I believe that's what City
16 Gas elected to do. This option addresses our lower
17 cost capacity known as FTS-1 on the pipeline. So as
18 far as pipeline capacity goes, we do have a long-term
19 obligation as late as 2015.

20 One of the items that I brought up, I
21 believe it was in the second workshop, that would help
22 mitigate the cost of the stranded investment would be
23 a restructuring of the purchased gas cost recovery
24 factor. And I'll break it down into two components,
25 one component which is essentially just a capacity

1 charge, and the second component which covers the
2 commodity cost of gas, whereby transportation
3 customers will be charged the PGA component for
4 pipeline capacity, and full requirements customers
5 will be charged both components, the pipeline capacity
6 component, along with the actual commodity component.
7 And in theory, right now, if you were to add the
8 capacity component and the commodity component
9 together, you would come back to what is known as our
10 PGA or monthly energy charge to customers.

11 So that is one way that we mentioned to
12 mitigate the problems with stranded investment.

13 COMMISSIONER DEASON: Would you know -- if
14 that were to happen, would you have the information to
15 adequately bill the capacity component of the PGA to
16 your transportation customers?

17 MR. SCHNEIDERMAN: What I envision if that
18 were to happen is, we would have to estimate the
19 amount of capacity that's going to be used or the
20 amount of volumes that are going to be sold compared
21 to the amount of capacity subscribed to, and there
22 would have to be an annual true-up just like there is
23 in the PGA. There would be a true-up of capacity
24 charges, as well as a true-up of the commodity charge.

25 It adds a little bit more work, but I look

1 at that as being the most equitable way of allocating
2 pipeline costs and being able to serve the
3 transportation customers without having an adverse
4 impact on the full requirements customers such as the
5 residential customers.

6 COMMISSIONER DEASON: Is there any way --
7 you said that's the most equitable way. Is there any
8 other way to recover those costs without using the PGA
9 and still protect the full requirements customers from
10 absorbing any of those costs? Can you estimate them
11 on an up-front basis and have it as a charge to
12 customers when they leave the system and become
13 transportation customers?

14 MR. SCHNEIDERMAN: Yes, we can. We can
15 have a reasonable estimate. And there are many ways
16 of approaching this, but I look at that as being the
17 fairest way of doing it. It would cover any
18 additional capacity that's held for peak days, roll
19 those costs all into that capacity charge component.

20 COMMISSIONER DEASON: But you would have to
21 put in -- if you did it through the PGA, there would
22 be an ongoing administrative cost of administering
23 that, would there not?

24 MR. SCHNEIDERMAN: Yes, there would, but I
25 think the ongoing administrative cost greatly

1 outweighs the potential for allocating additional cost
2 to our residential and non-transportation customers.

3 Our residential market is very different
4 than other areas of the country. A typical
5 residential customer does not have or does not use
6 much in the way of gas for heating. And that's where
7 throughout the country, particularly in the northeast,
8 you'll find a heating customer may use, to throw out
9 numbers, about 880 therms a year. Our customers, our
10 residential customers use about 240 therms per year.

11 So if you have system balancing costs, to
12 spread those costs among customers who use almost
13 one-quarter of customers in other parts of the
14 country, it would have a great impact, a greater
15 impact on our customers.

16 Also, in other parts of the country,
17 because residential customers do use more natural gas
18 for heating, they stand to save significantly more
19 dollars than our customers do. In other parts of the
20 country, residential customers really need natural
21 gas. Down in South Florida, the savings is relatively
22 small for residential customers. So we need to make
23 sure we can protect them and protect that market.

24 As far as potential for slamming and
25 consumer protection, we do not look at the local

1 distribution company as being -- or they shouldn't be
2 placed in the role of a consumer protection agency.
3 It's not appropriate for a local distribution company
4 to administer programs or set certain thresholds or
5 certain creditworthiness provisions for marketers. It
6 may in fact preclude certain marketers from doing
7 business with the LDC's transportation customers. It
8 may even evolve into restraint of trade issues when
9 you set the creditworthiness requirement at a certain
10 level and the marketer may not be able to meet that.

11 There are many issues, such as what happens
12 if a marketer does not perform properly? Does the LDC
13 then try to persuade the marketer to perform properly,
14 and if they can't do that, bring suit against the
15 marketer? That's not the way to go with this issue.

16 In other parts of the country where
17 unbundling has occurred, you would find that there
18 were conditions set up whereby marketers were
19 regulated by the states, such as in Georgia, such as
20 in New Jersey, New York -- the list goes on. I know
21 even Michigan is looking at a proposal now, because
22 they're concerned about marketer abuse, which has in
23 the house bill penalties as high as \$10,000 to
24 \$20,000 for the first infraction by a marketer, and
25 second infractions are in the range of \$20,000 to

1 \$40,000 per infraction.

2 We're not asserting that marketer abuse
3 will happen down here, but we need to make sure our
4 customers are protected from the possibility of abuse,
5 and we do not see that it should be the LDC's role.

6 COMMISSIONER DEASON: Well, if it's not the
7 LDC's role and it basically falls to government, I'm
8 not sure we have the jurisdiction over marketers.
9 Maybe that's something we can address later on. Maybe
10 Staff can help me out on that. Who does it?

11 MR. SCHNEIDERMANN: I can provide you
12 assistance with that answer. We just see that there
13 is a definite need for marketer regulation.

14 COMMISSIONER DEASON: I'm going to
15 interrupt your presentation for just a second. Let me
16 ask Staff, have we looked at what our jurisdiction is
17 over marketers? I assume it's none or practically
18 none.

19 MS. BANKS: In 1992 the statute was changed
20 to specifically eliminate any jurisdiction over
21 marketers by the Public Service Commission or any
22 entity in the State.

23 COMMISSIONER DEASON: Is there any other
24 government agency that would either directly or
25 indirectly handle complaints about marketers? Would

1 it be some type of overall state consumer agency, or
2 would there be -- if there were allegations of fraud,
3 I guess that would be -- I don't know. Attorney
4 General's Office? Have we ever even looked at that?

5 MS. BANKS: When that statute was amended,
6 apparently, from my recollection of that seven years
7 ago, that statute was specifically -- the wording was
8 put into, I believe, 366 in the beginning in the
9 definition to specifically eliminate the impact of
10 having the Commission having any jurisdiction over
11 marketers. The premise, from my understanding, was
12 that they felt that in order to encourage competition
13 in the area, they didn't want an oversight body. They
14 wanted a free market of which marketers could come in
15 and out without any oversight, because it was
16 considered a competitive arena. That's why the
17 wording of the definition of public utility was
18 changed then.

19 As far as what would happen in a problem,
20 maybe the Attorney General. I assume most complaints
21 would go to Agriculture through their complaint
22 process.

23 COMMISSIONER DEASON: Do we know now if
24 there are any complaints being filed with the
25 marketers that are doing business now in Florida?

1 MS. BANKS: I am not familiar with any.

2 COMMISSIONER DEASON: But we would not be
3 the agency to receive those under current structure.

4 MS. BANKS: We probably would get them
5 anyway, because if we get complaints now from
6 customers that they want to be able to transport and
7 they can't, I assume that if they had a problem with a
8 marketer, at least they would start here with us to go
9 somewhere else. I would assume they would have to
10 start here. I have not gotten any.

11 Have you?

12 MR. MAKIN: No.

13 COMMISSIONER DEASON: Then you would think
14 that even if we didn't have jurisdiction, we would get
15 the call?

16 MS. BANKS: I think we would get the call,
17 because we get the call for propane, gasoline. They
18 start somewhere in a state agency, and eventually it
19 will get here.

20 COMMISSIONER DEASON: I apologize for
21 interrupting. You may continue.

22 MR. SCHNEIDERMAN: The reason why you may
23 not be getting the calls, our customers haven't had
24 many problems with marketers. When they do, we try to
25 help them resolve the problems. The customers that

1 are transporting are the larger customers. Marketers
2 want to ensure that they retain those customers.

3 The concern that we have is that when or if
4 unbundling goes widespread, we would not be a position
5 to help 1,000 customers or 500 or 200 customers
6 resolve issues with their marketers. We would not be
7 able to act as referee. We would not have the time,
8 the manpower, or the capability to do that.

9 I think also what has to be looked at is,
10 it was mentioned that in other states, there is
11 marketer regulation. I think before unbundling were
12 to occur, the issue about marketer regulation needs to
13 be resolved, without a doubt.

14 If you look in Georgia's recent history,
15 there was an issue with Peachtree Natural Gas just
16 recently filing Chapter 11 bankruptcy in October, and
17 there were many issues with reassignment of customers.
18 Even a few months before that, United Gas, another
19 marketing company up in Georgia, in August of '99,
20 there were 141 slamming complaints amongst 200
21 complaints filed by customers. We would not be in a
22 position to help customers resolve those issues, and
23 it shouldn't be our role either.

24 You know, it's not fair to assume that the
25 LDC will pick up the pieces when the gas supply

1 doesn't show up. It just wouldn't work for us, and it
2 wouldn't work well for the customer either.

3 The next item, excess capacity, excess
4 capacity and stranded investment go hand in hand, the
5 way I see it. There are mechanisms on the pipeline
6 system to release or sell off daily excess capacity.
7 There isn't always a viable market for that capacity.
8 During peak periods, obviously, the capacity has a lot
9 more value than during non-peak periods on the
10 pipeline system. But the unfortunate reality is that
11 during peak periods, that's when we need to use the
12 capacity for our customers.

13 A way of taking care of costs associated
14 with excess capacity obviously is, as I mentioned, to
15 release the capacity when not being used, assuming you
16 can get a market for it, and also to stream the cost
17 of the excess capacity in through the capacity portion
18 of the purchased gas adjustment which I've proposed.
19 So I do not see the excess capacity issue being a
20 major, insurmountable that couldn't be overcome.

21 COMMISSIONER DEASON: But what about the
22 question, if a customer chooses to become a
23 transportation customer, obviously, there's an amount
24 of capacity that was subscribed to to serve that
25 customer. Should there be a requirement that that

1 capacity goes with that customer and that the marketer
2 has to be responsible for that amount of capacity?

3 MR. SCHNEIDERMAN: I feel that to break
4 down the capacity by customer into discrete elements
5 based upon when we signed up for capacity years ago
6 would be a very inexact science, would not yield
7 results that are appropriate in many cases. Customers
8 can obviously change their load profile pretty easily.
9 A large customer adding additional heating equipment
10 can change their capacity requirements dramatically
11 without us even knowing.

12 I don't see it as being a possibility
13 really to say when we sign up for capacity, we sign up
14 for X number of therms per day for your account.
15 That's why I looked at breaking the PGA up into those
16 two components as being the most equitable way of
17 sharing the capacity costs amongst transportation and
18 non-transporting customers.

19 The next issue I'll have the shortest
20 response to of all my responses. We're not going to
21 take a position on marketing affiliates. As I
22 mentioned, we are an LDC. We're a local distribution
23 company. Our plans are to stay in the distribution
24 business. We have absolutely no plans to form a
25 marketing affiliate. So with that being said, we'll

1 make no comment on the marketing affiliate portion of
2 the issues.

3 Thank you.

4 CHAIRMAN GARCIA: The next one will be --
5 they're in favor of the Staff rule. Do you want to
6 hear from those that aren't and then --

7 MR. MAKIN: I love hearing from the ones
8 that are in favor of Staff.

9 CHAIRMAN GARCIA: You wanted the companies
10 -- I guess Mr. Palecki's company is somewhere in the
11 middle; right?

12 MR. MAKIN: We'll let Peoples go next.

13 MR. PALECKI: Ray DeMoine will -- Peoples
14 next?

15 MR. MAKIN: Yes.

16 CHAIRMAN GARCIA: We'll let Peoples go
17 first and then -- I think you're somewhere not in the
18 middle, but you do a little bit of both. All right?
19 We'll go with Peoples next.

20 Well, why don't we take a break. It's
21 11:10. Let's take a break until 11:30.

22 (Short recess.)

23 COMMISSIONER DEASON: Okay. We'll go back
24 on the record.

25 Mr. Caldwell, were you scheduled next, I

1 believe?

2 MR. CALDWELL: I believe I was.

3 COMMISSIONER DEASON: Okay. Please
4 proceed.

5 MR. CALDWELL: Okay. To start with, I want
6 to mention that the issues on this list are some of
7 the issues regarding how to unbundle, but back to my
8 opening comments, really the question is whether or
9 not to unbundle.

10 Additionally, I concur with virtually
11 everything that Mr. Schneidermann indicated, but I'll
12 make a few quick comments just to get it on the
13 record.

14 As far as obligation to serve and supplier
15 of last resort, clearly, Peoples Gas has the
16 obligation to serve. When a customer asks for natural
17 gas service, we have to extend the pipe and make sure
18 that safe, reliable, and adequate gas service is
19 available at reasonable rates. Clearly, part of this
20 includes the reliability, and that ties directly to
21 the treatment of capacity and the supplier of last
22 resort. As indicated by Ms. Bulecza-Banks and
23 Mr. Schneidermann, if the gas does not show up, the
24 gas is still consumed by the customer.

25 And there is a significant difference

1 between large industrial customers. Looking back last
2 August, or August of '98, I guess it was, when the FGT
3 outage occurred, we had people working around the
4 clock going out and turning off a couple hundred large
5 industrial customers, turning them off, bringing them
6 back on, monitoring pressures. You can do that with a
7 couple of hundred customers.

8 When you talk about unbundling for all
9 commercial customers, 25,000 customers, if a supplier
10 that perhaps is supplying 20% of that load doesn't put
11 gas in the system, you've got a significant low
12 pressure issue that could have the consequence of
13 bringing down a whole division. And unlike
14 electricity, if customers go out, (1), you have to go
15 out there and turn them off, and then (2), you've got
16 to bring them back on one appliance at a time. So
17 it's a very significant consequence.

18 But the reality is, the utility is the
19 supplier of last resort. We can't have customers go
20 out, and it does fall upon the utility to make sure
21 that customers continue to have service.

22 In terms of the excess capacity and the
23 stranded cost, stranded investment, the term "excess
24 capacity" would indicate that there is more capacity
25 than needed, but the reality is, you have to be able

1 to meet that firm day peak demand for your customers.
2 That means you've got to have adequate gas supply.
3 You've got to have adequate capacity on the pipeline.

4 Granted, there has not been a significant
5 need to turn off interruptible customers because of
6 capacity or supply shortages in the last couple of
7 years. FGT expanded the pipeline in '95. We've had
8 successive extremely warm winters. So honestly, the
9 gas system, the integrity and the operational
10 difficulties haven't been tested recently. I don't
11 think we can bank on that happening forever.

12 So the bottom line is that still the
13 utility has committed to meet that peak need. You
14 have to step up with that capacity on a long-term
15 basis. It's uncertain when additional capacity will
16 be available, when the pipeline, for instance, will
17 decide to add additional capacity coming into the
18 state. You've got to be ready to serve growth. And
19 in Peoples' situation, that is obviously a primary
20 focus. We hope to add lots of new customers,
21 requiring new capacity going forward for a number of
22 years.

23 To the extent that you're not using that
24 peak capacity on a given day, as Mr. Schneidermann
25 indicated, that unused capacity still has a cost with

1 it. Customers still have need to pay for it. And
2 just because you go to transport, you still have that
3 same -- they still should have that same requirement
4 to pay for it.

5 I look at the interstate pipeline capacity
6 as being just like the distribution pipe. We may not
7 own it, but the need to supply customers is exactly
8 the same.

9 With regard to the potential for slamming,
10 I guess it's called cramming and other names for
11 customer acquisition. Certainly the best way, I
12 believe, to address slamming is with customer
13 education. And I think unbundling programs around the
14 nation have kind of recognized that you cannot overdo
15 the education piece. It's expensive. But if
16 customers know what their options are, the people
17 they're dealing with, then slamming is not necessarily
18 that big of an issue. But once again, it does cause
19 expense.

20 COMMISSIONER JACOBS: Do you know if FERC
21 or the AGA have any ethics provisions that they're
22 required to adhere to?

23 MR. CALDWELL: I'm not certain. With
24 regard to LDCs, I'm quite certain that FERC does not
25 have any -- you know, a code of conduct for the LDCs,

1 and ethics. As far as the AGA, I'm not positive.

2 And then the one final issue that is on the
3 list, the marketing affiliations, Peoples Gas System
4 does have a gas marketing affiliate. That's TECO Gas
5 Services.

6 The important part, if you are going to
7 unbundle, that means you're trying to stimulate
8 competition for the gas supply. Granted, it's already
9 competitive on a wholesale basis. Now you're trying
10 to bring that competitiveness to the retail. To
11 maximize that competitiveness, all potential and
12 capable marketers should have equal access to serve
13 those customers. That includes any affiliate of the
14 company.

15 That's all.

16 COMMISSIONER DEASON: Are you finished?
17 Thank you.

18 Mr. Powers, were you planning on
19 addressing the issues?

20 MR. POWERS: I'll be glad to if this is the
21 appropriate time, although you had requested to hear
22 from City Gas next. But if you would rather hear from
23 me now, that will be fine.

24 COMMISSIONER DEASON: Well, while you have
25 the microphone, we'll go ahead and hear from you.

1 MR. POWERS: Thank you.

2 The reality of unbundling for this class
3 for our company is similar to the situation that
4 Cheryl described earlier in talking about why we're
5 not unbundling the residential market. And the
6 reality is that we don't have the critical mass on our
7 system to justify it.

8 And as you look at these issues going down
9 the list, of course, obligation to serve I think we've
10 identified. That's really a non-issue, I think. That
11 has been pointed out.

12 But certainly from a stranded investment
13 and excess capacity standpoint, those are costs that,
14 (1), would be hard to split out, but (2), if I could,
15 to this one class, would be very difficult. It would
16 be not cost-effective on those issues alone, not to
17 mention the cost of filing the tariff and customer
18 information system changes that we talked about
19 earlier. I think when you look at that whole package,
20 you say, you know, how do you spread those costs over
21 a mere 8,000 MM BTUs a year. It just doesn't make
22 sense. So that's really our position on the issue of
23 stranded investment and the excess capacity.

24 I'm not so worried about the potential for
25 slamming from our perspective, although there were

1 some good points raised on that.

2 And our position on the marketing affiliate
3 is obviously the same. We've got our hands full just
4 being a gas company, and we're not in the position of
5 looking to be a marketing affiliate either.

6 So those are our concerns in this. And I
7 would urge you could come up with some kind of a
8 threshold for where it makes sense to unbundle this
9 class on a company basis. I think that's the best way
10 to handle it when you look at all the costs that are
11 involved.

12 Thank you.

13 COMMISSIONER DEASON: Do you have a
14 suggestion, a suggested threshold level where the rule
15 would apply and where it would not apply?

16 MR. POWERS: I don't, but I'm sure there's
17 enough wisdom in this room that we could come up with
18 an equitable solution to that. But I don't have a
19 specific number where I think that would make sense.

20 Also, there's other companies besides
21 myself in the same position, and I think it would be
22 interesting in trying to determine that to hear their
23 thoughts on the matter as well.

24 COMMISSIONER DEASON: Okay. Thank you.

25 MR. POWERS: Thank you.

1 COMMISSIONER DEASON: Mr. Palecki?

2 MR. PALECKI: Ray DeMoine will be
3 addressing the specific issues for City Gas Company of
4 Florida.

5 COMMISSIONER DEASON: Very well.

6 MR. DEMOINE: Good morning, Commissioners.
7 With regard to the issue of supplier of last resort,
8 the practical reality for the small commercial
9 customers is that we are going to be the supplier of
10 last resort. However, that's not true for the larger
11 customers.

12 I agree with some of the other utilities
13 here. The real issue here is, you know, who's going
14 to pay those costs if there are days when the
15 marketers do not deliver on critical days. I agree
16 with Florida Public Utilities when they talk about the
17 large customers. We do need the ability to shut those
18 customers off on those days when the gas is not
19 delivered. Our tariffs currently provide for that.
20 We have no obligation to serve those customers, and we
21 can shut them off.

22 COMMISSIONER CLARK: I would like some
23 clarification of your position and I guess others'
24 position on the supplier of last resort. Do you think
25 that we should put on the pipelines the obligation of

1 being supplier of last resort, or should they be
2 permitted to be the supplier if they so choose?

3 MR. DeMOINE: Put that obligation on the
4 pipeline or the LDC?

5 COMMISSIONER CLARK: The LDC.

6 MR. DeMOINE: On the LDC? In the various
7 states that I'm familiar with, that issue has not been
8 resolved, fully resolved. Two states have addressed
9 it in legislation. In New Jersey they're commencing a
10 proceeding, and they're going to make a determination
11 in three years what our obligation will ultimately be.

12 COMMISSIONER CLARK: I can see where when
13 you're using gas that you might want to have the
14 obligation to serve. I'm just curious as to whether
15 or not that is appropriate here, because as Ms. Banks
16 I think pointed out, while you may serve them for some
17 period of time, it should be their obligation to find
18 another supplier, and there isn't the same need for a
19 supplier of last resort that there might be in a
20 telephone or electricity situation, because I guess to
21 some extent they could choose not to use gas anymore.

22 MR. DeMOINE: The difficulty there with
23 natural gas as compared with other utilities,
24 telephone and electric, if gas does not show up, if we
25 do not have enough gas in our system, it does not stay

1 pressurized. We have to literally go out -- in our
2 case, we would have to shut down 100,000 customers and
3 then go back in and relight 100,000 customers.

4 COMMISSIONER CLARK: Well, I appreciate
5 that. I think for some period of time you would as a
6 practical matter continue to supply the gas. My
7 question is, should we say to you, not only do you --
8 in those circumstances, you would continue to supply
9 the gas. But should we also say to you that if the
10 customer chooses and wants to come back to you as
11 their supplier, you have to serve them? That to me is
12 a supplier of last resort. Or should we not impose
13 that obligation on you that you should serve them?

14 MR. DeMOINE: I think initially we need to
15 continue to provide that service so the customers can,
16 you know --

17 COMMISSIONER CLARK: When the market is
18 more robust, you might say that you don't have
19 supplier of last resort obligations in the long term.
20 You might have it in the short term, but not in the
21 long term?

22 MR. DeMOINE: Until there is an alternative
23 proposal of a supplier of last resort.

24 COMMISSIONER CLARK: Well, should there be
25 a supplier of last resort, and should it be you?

1 MR. DeMOINE: Yes, I believe there should
2 be a supplier of last resort. And initially, yes, I
3 do believe it should be us.

4 COMMISSIONER CLARK: Why does there need to
5 be a supplier of last resort?

6 MR. DeMOINE: I know in our Brevard
7 division, we have two larger operating divisions here
8 in Miami. We do have heating load that would be a
9 concern, not the same concern that we have in our
10 northern divisions.

11 COMMISSIONER CLARK: Well, hopefully they
12 wouldn't freeze in Miami.

13 MR. DeMOINE: Well, hopefully not.

14 Also, it's just not practical, as has been
15 pointed out, to shut gas off at an individual, at a
16 small business or a residential customer. So we do
17 need to ensure that there is gas coming into our
18 system for those customers.

19 COMMISSIONER JACOBS: Staff mentioned in
20 the background presentation that there is an
21 opportunity for the LDC to offer backup service.

22 MR. DeMOINE: Yes.

23 COMMISSIONER JACOBS: Is that a way to
24 address this risk, which is not really your risk?
25 It's the customer's risk, but I understand what you're

1 saying, that de facto you're going to have to be the
2 one that addresses that risk. Is that a reasonable
3 way to do that? Do you understand what I mean by
4 backup?

5 MR. DeMOINE: Yes. That would be one way
6 to do it. And we do offer standby service in the
7 event that a marketer is unable to deliver.

8 COMMISSIONER JACOBS: And that's presently
9 offered in bundled service, isn't it?

10 MR. DeMOINE: Well, in bundled service we
11 have the obligation to provide the gas, so it's not
12 necessary. But we do have a provision in our
13 transportation tariffs, a standby provision that in
14 the event that the marketer is unable to get gas into
15 our system, we will stand ready to provide service.

16 COMMISSIONER JACOBS: What's the cost
17 recovery process for that?

18 MR. DeMOINE: Right now we don't have any
19 customer subscribing to it. They would pay us
20 essentially the cost of having the capacity available
21 to stand ready to serve that customer.

22 So we would essentially credit that back --
23 those costs that we -- we would charge the customer
24 the cost of our capacity to stand ready. Right now
25 all gas costs go into our PGA, and then we would

1 credit those standby revenues to the PGA.

2 COMMISSIONER JACOBS: You wouldn't recover
3 from them the cost of the gas you buy?

4 MR. DeMOINE: Not the commodity. The
5 commodity would be billed to those customers
6 separately at the time --

7 COMMISSIONER JACOBS: But it would be
8 billed to them?

9 MR. DeMOINE: Yes, they would be billed the
10 commodity at the time that they actually took service
11 under that standby obligation.

12 COMMISSIONER JACOBS: Okay. Thank you.

13 COMMISSIONER DEASON: Well, let me ask a
14 question at this point. In the exchange between
15 yourself and Commissioner Clark, I kind of got the
16 impression that there may have been a differing
17 assumption as to the time frames involved. I kind of
18 took Commissioner Clark's question to be a provider of
19 last resort kind of in the longer term, in the sense
20 that if nobody else wants to provide service to a
21 customer, is it your obligation. And I think you were
22 kind of answering in terms of, well, if there's an
23 hourly or a daily lack of capacity, you can't go
24 terminate service to this many smaller customers, and
25 you in fact just de facto become the provider of last

1 resort, so, yes, you are the provider of last resort.

2 I guess my question is, what time frame
3 were you talking about? Were you talking about
4 long-term, that if a customer becomes a transportation
5 customer and then their marketer goes out of business,
6 and no other marketer is interested in serving them?
7 Was it in that context, or was it -- just provide me
8 your comments on that, looking at the different time
9 frames involved.

10 MR. DeMOINE: I think the time frame would
11 be indefinite, until such time that there is someone
12 else that could stand in as that supplier of last
13 resort. I don't think we can put a time frame on it,
14 you know, two years, five years. I think it's until
15 there's someone there to stand ready to provide
16 service to those small commercial customers.

17 COMMISSIONER CLARK: How do you plan for
18 that, and who would bear the burden of making sure the
19 capacity is there to serve those customers who might
20 want to come back?

21 MR. DeMOINE: Okay. The real issue here --
22 and I was going to get to that with regard to supplier
23 of last resort -- is having the capacity into our
24 system. And I think we've already addressed that in
25 our tariff that was approved yesterday, in that we

1 require a comparable capacity. We don't require a
2 mandatory assignment of our capacity, but we require
3 comparable capacity. What we mean by that is that we
4 want to see that you have firm delivery throughout the
5 year, 365 days a year, into our system.

6 Now, that can either be primary firm
7 delivery points on our system, which they would
8 probably only be able to get from us in a released
9 capacity arrangement, or they could get firm capacity
10 downstream of our system. Essentially, I believe the
11 only company downstream in the Miami area would be
12 from Peoples that would have firm delivery into the
13 Miami area. But we are looking to ensure that the
14 marketer has firm deliverability into our system.

15 As I mentioned, other states are looking at
16 this. I'm not aware of anyone that has relieved the
17 local distribution companies of the obligation to
18 serve, particularly with the small commercial and
19 residential markets.

20 With regard to the larger customers, it is
21 necessary that we have telemetry equipment on
22 customers that can have an operational impact on our
23 system. Originally when we offered transportation in
24 another jurisdiction, we required all customers, and
25 we saw that that was a mistake. We learned real

1 quickly that we don't need telemetry equipment for the
2 smaller commercial customers. Therefore, those
3 requirements have been eliminated. We've come up with
4 average delivery quantities that marketers must
5 deliver 365 days to ensure the operational integrity
6 of our system. So supplier of last resort is an
7 important issue, but I think we have dealt with it in
8 our existing tariffs that are here today, here in
9 Florida today.

10 COMMISSIONER DEASON: Well, how do you
11 determine -- if you incur a situation where you're out
12 of balance with the pipeline, and you cannot measure
13 transportation, all of your transportation customers,
14 how do you know who's responsible for that? How do
15 you know how much of that is due to fluctuations in
16 load from your full requirements customers and how
17 much of that is due to fluctuations in load on your
18 smaller transportation customers if you can't measure
19 that?

20 MR. DeMOINE: You're going to have those
21 fluctuations, and that's the tradeoff. That's the
22 tradeoff that you're going to have by not requiring
23 the AMR. Those customers, their actual consumption is
24 never going to match, you know, exactly what the
25 marketer is bringing in. But we believe that through

1 our estimating routines that it's going to be -- the
2 delivery quantity is going to be a reasonable match
3 for the marketer's total pool of customers, and we
4 don't expect any significant imbalances there.

5 COMMISSIONER DEASON: So it's a process you
6 employ now, and you have to make some assumptions as
7 to -- do you true that up on a monthly basis, or how
8 do you do that?

9 MR. DeMOINE: Yes. Every month when we are
10 forecasting what the customer requirements are going
11 to be next month, when we're calculating what we call
12 the average daily delivery quantity, we look at their
13 previous history, and through algorithms we calculate
14 a forecasted demand for the upcoming month. We also
15 look at the previous month, and we compare their
16 actual consumption during that period to what we had
17 delivered in that period.

18 To the extent that they are overdelivered
19 or underdelivered in the previous month, that's
20 getting added in as a true-up. So there is a true-up
21 each month as part of the ADDQ calculation.

22 COMMISSIONER DEASON: The what calculation?

23 MR. DeMOINE: The average daily delivery
24 quantity or ADDQ, the average amount that the marketer
25 is going to be required to deliver to our system.

1 COMMISSIONER DEASON: And so that's part --
2 the marketer is responsible for recovering those
3 costs, or how does that work?

4 MR. DeMOINE: Yes. The marketer is
5 responsible for delivering that quantity of gas to our
6 system, and he would be responsible for securing the
7 capacity.

8 Now, he can either get that capacity from
9 us for the small commercials through a released
10 capacity arrangement, or he can go on the open market
11 and secure the capacity, as long as it's firm
12 capacity, comparable capacity into our system.

13 COMMISSIONER DEASON: But what about the
14 pipeline itself? When you're out of balance with the
15 pipeline -- and there's going to be slight variances,
16 and that's just the normal course of doing business.
17 But there are economic consequences from that. If
18 you're more than a certain percentage out of balance,
19 I suppose you have economic consequences; is that
20 correct?

21 MR. DeMOINE: That's correct. To the
22 extent that a marketer nominates gas on a system and
23 the marketer's delivery is not equal to what his
24 nominations were for the day, and City Gas gets billed
25 as the delivery point operator for balancing charges

1 on any given day, we have provisions in our tariff, in
2 our third-party supplier tariff to allow us to bill
3 that charge back to the marketer. And in fact, that
4 did happen. The last time I recall it happening was
5 when there was the FGT incident about a year ago.
6 There were some situations there where marketers
7 caused costs to happen on our system, and we billed
8 those costs directly to the marketer.

9 COMMISSIONER DEASON: Did you have any
10 problem collecting those?

11 MR. DeMOINE: Not to my knowledge.

12 COMMISSIONER DEASON: And is this something
13 that routinely happens every month, just maybe at a
14 lesser level than the August incident?

15 MR. DeMOINE: There's definitely cash-outs
16 each month. But whether there's penalty charges, I
17 don't know if that's a routine matter.

18 COMMISSIONER DEASON: Okay.

19 MR. DeMOINE: Okay. With regard to
20 stranded investment, the natural gas industry is
21 somewhat different than the electric industry when we
22 talk about stranded cost. The natural gas industry
23 doesn't have the physical assets like the electric,
24 which have the generating facilities. The stranded
25 assets that we're talking about are really our gas

1 supply portfolio. It's our capacity contracts and
2 possibly supply contracts. In our case, it's just
3 capacity contracts.

4 I believe that, you know, again, we've
5 addressed this in our tariff here. In the tariff that
6 was approved yesterday, we have a provision for a
7 transition adjustment charge in the event that there
8 is a large migration of customers to transportation.
9 If we see a lot of customers migrate, those costs that
10 we have incurred, we have the ability now through that
11 transition adjustment charge to bill all customers,
12 transportation and the sales, the cost of our
13 capacity. So we shouldn't see any cost shifts.

14 You know, we are concerned with cost
15 shifts. In all my customer classes here in Florida, I
16 have competitive ceilings. The customers in our
17 service territory enjoy very low electric rates.
18 There's significant competition from propane on the
19 commercial market. So I am concerned with shifts, and
20 I think we did address that in our tariff that you
21 approved yesterday.

22 With regard to slamming, I don't see this
23 as a real big issue. We've not experienced any
24 slamming on any of our systems. I feel that the
25 process that we have in place for small commercial

1 customers really would discourage it. I think the
2 issue here is that we do put provisions in our tariff
3 that would allow us to detect slamming in the event
4 that it occurs, and I think we should have provisions
5 in our third-party supplier or our marketer tariffs
6 that have significant consequences if it does occur.
7 But I really don't see it as a major issue.

8 With regard to excess capacity, this is
9 similar to the stranded investment. Our capacity is
10 reviewed annually in the PGA, or the PGA is audited
11 annually. And just with the competitive price
12 ceilings here, we really have no incentive to incur
13 additional costs for excess capacity. We have
14 incentives in our tariff to market it off-system to
15 other end use customers or other marketers or LDCs in
16 the state. So we do have incentives to reduce any
17 capacity.

18 And the last issue, marketing affiliate
19 rules, we currently operate -- NUI Corporation
20 currently operates in a number of states that do have
21 marketing affiliate rules. We support marketing
22 affiliate rules. We do believe that, you know, our
23 affiliate should be able to compete and it should be a
24 level playing field. We believe that there should not
25 be cross-subsidies, that there should not be any

1 preferential treatment of our affiliate, any
2 discounts, rebates, or anything of that nature, that
3 they are offered on a nondiscriminatory basis. We
4 don't believe the utility and affiliate should speak
5 on behalf of each other. There should not be tie-in
6 agreements and so forth.

7 But we do have an interest in keeping the
8 pipes in the ground full of gas. In Florida we
9 haven't moved to the point where anyone is suggesting
10 that we are not allowed to be in the merchant role as
11 a regulated utility, but we think that our affiliate
12 should be able to compete on a level playing field
13 with all marketers.

14 CHAIRMAN GARCIA: Let me ask you a
15 question. It's a basic question.

16 MR. DeMOINE: Okay.

17 CHAIRMAN GARCIA: Why are you in this
18 position? The other companies that own the assets in
19 Florida that are not marketers are telling us that
20 this is a very dangerous step that we're taking, that
21 the residents may be hurt, that all sorts of things
22 may happen.

23 Being a South Floridian, and having had
24 lunch with Mr. Palecki on many occasions, I've seen
25 his company down there, I've seen -- so you're in the

1 same position, I would assume, that TECO is in terms
2 of assets in the ground.

3 Why is it that your company doesn't see --
4 what makes your company different, or what makes your
5 company capable of adapting that doesn't make them
6 capable of adapting? Where do you see the distinction
7 comes in?

8 MR. DeMOINE: I think the primary
9 difference is that we have the experience in the other
10 states. You know, we're further along in the other
11 states. We've been developing the systems. We're
12 more comfortable with it.

13 And we've seen that, you know, marketers,
14 as long as there's the right terms and conditions, the
15 creditworthiness standards, the operational fitness
16 standards, so long as the right conditions are in our
17 tariffs, marketers can deliver and can deliver on a
18 reliable basis. So we have a comfort level there.

19 In Florida, you know, I'm concerned with
20 the competitive price ceilings. If marketers can give
21 my customers gas at a lower price, that's beneficial
22 to the customers, and it will keep gas flowing through
23 the pipes.

24 CHAIRMAN GARCIA: Tell me where their
25 argument doesn't work. I don't want to pit you

1 against everyone else, but you've taken a position,
2 and I guess you're in the middle, in the sense that
3 you do what TECO does, and their position is much more
4 radical. Where do they make the error in assuming
5 that their assets will be devalued to some degree and
6 the customers will be hurt?

7 MR. DeMOINE: I don't think the assets will
8 be devalued. We don't earn any money on the sale of
9 gas as a utility. The gas costs are a straight
10 pass-through. We earn our money on the gas moving
11 through the pipes or being transported through the
12 pipes. So we are financially indifferent. I don't
13 see how we would be harmed if the marketers serve our
14 uses.

15 There are a lot of issues that need to be
16 addressed, and I think we are addressing them here.
17 But, you know, I just don't see how they would be
18 harmed.

19 COMMISSIONER JACOBS: How many customers
20 did you say you have on the transportation --

21 MR. DeMOINE: In Florida, we have
22 approximately 100,000 customers.

23 COMMISSIONER JACOBS: And do you know how
24 many of those are transportation?

25 MR. DeMOINE: Not offhand.

1 COMMISSIONER JACOBS: A percentage?

2 MR. DeMOINE: I've guessing 300 to 500. It
3 may not be quite that many. I'm not sure of the
4 number. I would have to check.

5 CHAIRMAN GARCIA: I'm sorry. What was the
6 question again?

7 COMMISSIONER JACOBS: How many of those
8 were transportation?

9 MR. DeMOINE: I don't know the exact
10 number. It's a significant portion of our volume,
11 because we have some large volume customers.

12 COMMISSIONER JACOBS: That was my next
13 question, because I saw the --

14 MR. DeMOINE: I would think that it's in
15 excess of 50% of our volume, but I would need to
16 confirm that.

17 COMMISSIONER JACOBS: Okay. You indicated
18 that you essentially do the screening for the
19 marketers through your tariff.

20 MR. DeMOINE: That's correct.

21 COMMISSIONER JACOBS: How effective is
22 that?

23 MR. DeMOINE: Well, in our tariff, we have
24 fairly significant creditworthiness requirements.

25 Those creditworthiness requirements are

1 imposed by many of the major pipelines. Those
2 requirements enable us to look at financial
3 statements. We do Dun & Bradstreet checks on them to
4 make sure that they have a good credit rating. And to
5 date, in any of our jurisdictions, we've not had a
6 marketer default. We do have one marketer that I
7 believe we have required a corporate guarantee on, or
8 a bond, because we weren't comfortable with their
9 credit. But I think we've been successful.

10 COMMISSIONER JACOBS: Do you have to look
11 at -- or I guess do you look at their track record in
12 terms of customer service?

13 MR. DeMOINE: Generally that's not one of
14 our criteria when a marketer calls and signs up. It's
15 really their financial abilities.

16 COMMISSIONER JACOBS: Okay. Thank you.

17 COMMISSIONER DEASON: Have you rejected any
18 markers as being unacceptable from a financial
19 standpoint?

20 MR. DeMOINE: Not to my recollection. Not
21 to my recollection.

22 COMMISSIONER DEASON: Since you have a
23 marketing affiliate, if you have the ability to weed
24 out unacceptable marketers, is that a conflict?

25 MR. DeMOINE: No, I don't see that being a

1 conflict, because we would apply the same criteria to
2 all marketers. I don't see that as a conflict.

3 CHAIRMAN GARCIA: Mr. Schneidermann?

4 MR. SCHNEIDERMANN: Yes. If I can
5 interrupt for a second, I may have some information
6 that may help a little bit. Concerning the numbers of
7 transportation customers on NUI/City Gas's system, as
8 of the end of 1998, according to our 10K, it was only
9 125 customers out of 4,748 customers. So there was a
10 relatively small percentage of customers on
11 transportation in NUI/City Gas property.

12 MR. DeMOINE: At that time our tariffs were
13 limited. Only customers greater than 120,000 therms a
14 year could be -- could transport. And that's probably
15 a large percentage of those customers. As of
16 yesterday, I think we'll see a big change in that.

17 CHAIRMAN GARCIA: Thank you,
18 Mr. Schneidermann.

19 MS. PENNINO: Chairman Garcia, would it
20 constitute a free-for-all if I responded to your
21 question about the differences?

22 CHAIRMAN GARCIA: No. I'll allow it,
23 because I would like him to completely respond to my
24 question, and if you want to take that on, go ahead.

25 MS. PENNINO: Well, just a few things come

1 to mind as far as why we would view this rule
2 differently.

3 CHAIRMAN GARCIA: And, Mr. Palecki, I'm
4 going to ask your client to respond to her comments,
5 because it's really important to me.

6 MS. PENNINO: I don't know that we do have
7 totally different perspectives. I think our
8 perspective varies only when it comes to the need for
9 a rule. But I think we both see the benefits of
10 unbundled transportation service. But there are a few
11 differences. Number one, the size of our systems are
12 significantly different. I believe City Gas -- and
13 maybe you could help me -- has in the neighborhood of
14 4,000 to 5,000 commercial customers that this rule
15 would apply to.

16 MR. DeMOINE: That's correct.

17 MS. PENNINO: We have over 25,000.

18 We have 2,600, 2,700 transporting right
19 now, so we almost have as many commercial customers
20 transporting right now as they have on their total
21 system. So I don't know that our positions are
22 actually that different. So size is certainly a
23 concern.

24 Another thing is, via the NUI affiliation,
25 they have systems in place -- I'm assuming they do,

1 based on their response to the data request for costs
2 associated with this rule. They have the systems in
3 place, and they do, as he said, have the experience to
4 implement a system like this, where we're working our
5 way through it still, and that's a concern to us.

6 CHAIRMAN GARCIA: Don't you think that's an
7 artificial concern? You're wanting me to hold up
8 competition or not promote competition because you
9 don't feel that you're ready for it? I mean, aren't
10 you in the business of being ready for it? Aren't you
11 in the business of moving this issue forward? And why
12 should I sort of be protecting you when the market
13 across the country is moving very aggressively? Why
14 should I?

15 MS. PENNINO: And we are in the middle of
16 it. The gas management system that we -- the gas
17 management system gives us the ability to accept other
18 people's gas and move it around on our system. And
19 that system that Brent referred to as costing over a
20 million dollars is large enough to deal with
21 unbundling all the commercial customers. So we didn't
22 put a small system in place just to limp along. We
23 are planning for something larger than that.

24 But there are several processes that come
25 along with implementing on a large scale. We need to

1 be able to mainstream these activities into our call
2 center and into our regular processes for dealing with
3 customers, and we've not been able to do that yet.
4 All these things are in the works, and they're not
5 insurmountable by any means, and we're taking them
6 head on.

7 So it's not artificial. It's just a matter
8 of the process and the pace of the process for where,
9 you know, it makes sense with the customers and isn't
10 an Atlanta model, where it's so quick that it really
11 leads to a lot of confusion.

12 I think the other thing is, Florida is
13 simply different related to our loads. We have
14 one-third of the load of Atlanta, let alone the
15 northern states. And so --

16 CHAIRMAN GARCIA: Since it's such a limited
17 market, wouldn't you want to -- you know, I sort of
18 think of the long distance argument, you know, about
19 lowering long distance rates, that when I allow a lot
20 of players to come into the market, they're going to
21 stimulate this.

22 Part of the issue is technology, I think
23 which we all agree, and we all think that the future
24 holds tremendous benefits through distributed
25 generation and other things, and gas is going to be a

1 central issue too.

2 But don't I better your position and better
3 that of Florida by creating a little bit of chaos and
4 let them out there? I don't regulate long distance
5 rates and costs, and so when I let these guys go out
6 there -- I mean, AT&T doesn't give me seven cents a
7 minute because it thinks it's a good idea. It does it
8 because it has to.

9 And that being the case, if I do the same
10 thing here in Florida, I'm probably making your system
11 stronger, and at the same time offering all sorts of
12 advantages, at least to the larger customers in
13 Florida, and making sure to some degree that I can
14 protect the residential customers.

15 But in the broader sense, I do your
16 business good. It may hurt right now. I mean, all
17 competition hurts. If you were here yesterday when we
18 ended at 7:30, you saw that even the thought of
19 competition is very frightening. But I think in the
20 long run, you're in the ground, you have your assets
21 there. I don't see how this hurts you, and I don't
22 see how in the long term it doesn't benefit us all,
23 including you, in fact, in particular you.

24 MS. PENNINO: And again, I'll state our
25 position that we believe that unbundled supply is a

1 great thing. You've got the graph in front of you to
2 show you that we're doing it, and we've done it. Our
3 FTA-2 program is an example of how we firmly believe
4 that letting competition in will encourage -- will
5 stimulate the marketplace. You know, the point there
6 was to let the marketers in to market and to sell more
7 natural gas, and we firmly believe that that potential
8 exists.

9 So I'm in agreement with you. I just think
10 the point is that as it relates to why Florida is
11 different and the size of the load, the issue is
12 whether or not the marketers will even be interested
13 in the area, whether that will be a long-term, viable
14 solution for customers, with very low margins to be
15 made, and as well, whether or not we've got the
16 resilient customer base who doesn't even spend that
17 much money on gas in the first place. Are they even
18 going to want to be bothered with, you know, suppliers
19 calling them and the confusion and the complexity that
20 gets added when you have --

21 CHAIRMAN GARCIA: That reminds me of the
22 calls I get at 6:00. You know, when I speak to my
23 grandmother, she says, "People call me at 6:00 to
24 offer me long distance. I don't make long distance
25 calls. I don't care. I don't want to" -- it's sort

1 of like saying why do we need 24 coffee brands. It's
2 just confusing. It's aggravating. It takes up shelf
3 space at the store. It makes us walk five feet longer
4 every time we go to the market. But why not? I mean,
5 how does that hurt the customer to have a choice? It
6 may not be a big choice, and the margin may be low,
7 but the customer is clearly benefited if the
8 possibility exists; right?

9 MS. PENNINO: Well, I agree. And again, we
10 believe that the transportation service makes sense.

11 COMMISSIONER JACOBS: Let me ask you this,
12 although it may be better to ask the marketers. Are
13 you aware if they do aggregation or not?

14 MS. PENNINO: Excuse me?

15 COMMISSIONER JACOBS: Do you know if
16 marketers do aggregation or not?

17 MS. PENNINO: On our system they aggregate,
18 yes.

19 COMMISSIONER JACOBS: I would think that
20 that would be a countervailing factor, if you will, to
21 the fragmentation issue that you addressed. I would
22 think the marketer is going to want to find as much as
23 possible customers that they can aggregate to give you
24 the firmest load that they can give you.

25 MS. PENNINO: We agree. We believe that

1 aggregation makes sense. It helps us somewhat from an
2 administrative perspective, and we agree that it makes
3 sense.

4 CHAIRMAN GARCIA: Mr. Palecki?

5 COMMISSIONER DEASON: Well, let me just
6 make an observation. Mr. Chairman, you've made some
7 very good points, and there probably are 24 different
8 brands of coffee in all the supermarkets. But you
9 probably don't have 24 different suppliers of
10 snowmobiles in Miami either, and you may have that
11 many in Minnesota or Canada. I don't know how many
12 people make snowmobiles. And at some point, it's just
13 economically not feasible. It's more efficient to
14 limit choice and provide the service as most
15 cost-effectively as possible to customers, and we're
16 trying to reach that balance.

17 CHAIRMAN GARCIA: Right. I understand.

18 MR. PALECKI: I would just like to make two
19 very quick responses. Aggregation system-wide is
20 great. But if you're a marketer and you're trying to
21 serve Publix, aggregation statewide is much better
22 because it allows the marketer to get a lower price
23 for the entire state.

24 As far as the difference between City Gas
25 Company and NUI and some of the other companies, I

1 think the main difference is that because of our
2 experience, we have reached the realization that lower
3 gas rates for our customers is better for NUI. It
4 helps us better compete with other energy sources,
5 better compete with oil, coal, propane, and
6 electricity. And we've found that unbundling is a
7 benefit, and it has taken us several years of
8 experience to realize that. We were originally forced
9 to unbundle in the early stages.

10 COMMISSIONER JACOBS: Does it add to your
11 bottom line?

12 MR. PALECKI: It adds to our throughput. I
13 believe it does. Ray can probably answer that.

14 CHAIRMAN GARCIA: I would assume you
15 wouldn't be here if it didn't add to your bottom line;
16 right?

17 COMMISSIONER JACOBS: Right.

18 CHAIRMAN GARCIA: I mean, you wouldn't --

19 MR. PALECKI: I think that's correct.

20 CHAIRMAN GARCIA: -- do something that
21 would hurt your stockholders; right?

22 MR. PALECKI: I think that's correct.

23 CHAIRMAN GARCIA: Or you wouldn't be doing
24 this for very long.

25 COMMISSIONER DEASON: But does it add to

1 your LDC company's bottom line or to your parent
2 company's bottom line?

3 MR. DeMOINE: The actual rate design does
4 not. It's revenue neutral in all of our
5 jurisdictions. However, by keeping the prices low,
6 hopefully we increase throughput or will keep
7 customers on the system. You know, if we lose a
8 customer to oil, propane, electricity, we lose all of
9 our revenue. So in that respect, it's a good
10 retention, as well as possible improvement of revenue.

11 MR. PALECKI: We have had customers -- our
12 largest customer about six years ago went over to
13 coal, and remains on coal. We're trying to get that
14 customer back. Through unbundling, we may be able to
15 get a rate that's low enough to get them to come back
16 to our system, which would be a wonderful thing for
17 our company. It would increase our throughput
18 significantly.

19 Anything that can be done to increase the
20 competitiveness of natural gas is beneficial to our
21 company.

22 CHAIRMAN GARCIA: Okay.

23 MS. BANKS: I think we're -- does anybody
24 else have any other comments? Because I think we need
25 to finish with the marketers here for their comments

1 on the issues.

2 MR. SCHNEIDERMAN: This is Marc
3 Schneidermann.

4 CHAIRMAN GARCIA: No, you've had your shot.
5 You can come back when we have the free-for-all.

6 MR. SCHNEIDERMAN: Okay.

7 CHAIRMAN GARCIA: Okay. We'll start at the
8 left and move right. Do you want to make a comment,
9 Mr. Lorenzo?

10 MR. LORENZO: We just would like to make a
11 comment. The Florida Department of Management
12 Services, as far as the obligation to serve and the
13 supplier of last resort concern, as the Department
14 sees state-owned facilities take part in the state
15 term contract, we believe that the LDCs -- and we
16 agree with Staff's view that the LDC would
17 automatically be the supplier of last resort.

18 However, we are concerned and we do believe
19 that contractually the customers that do buy the
20 transportation gas through the marketer should be
21 fully made aware that the LDC will not be responsible
22 for the firm gas delivery, just the same as the LDC's
23 own interruptible customers cannot hold the LDC
24 responsible for the firm gas delivery itself. Just a
25 general comment on that.

1 And as far as the aspect pertaining to the
2 stranded investment and the excess capacity, we see
3 that it will have an impact, yet to be determined, on
4 the captive customers. And there is a need, however,
5 that there be a fair method used to be implemented to
6 cover some of the major portions of whatever impact
7 there may be. And perhaps there is a need to look at
8 what other state commissions have done.

9 That's just our department's view of these
10 two issues. I apologize for not actually contributing
11 or offering anything in concrete, but it's just
12 general observations of some things that we're just
13 sitting back and waiting to see how it's going to
14 develop.

15 MR. BLAZER: Once again, Rich Blazer with
16 Infinite Energy.

17 On the issue of obligation to serve and
18 supplier of last resort, I think what we're looking at
19 right now is the LDCs unbundling further from the
20 point that they are currently. And from that point
21 would be more of the firm commercial, small industrial
22 size loads.

23 I've been supplying gas on TECO's FTA
24 program since the inception. I have a requirement to
25 deliver a certain amount of decatherms every day, 365

1 days a year, to my customers on the FTA program. If
2 the decatherms do not show up, I as a pooler on their
3 system will have between a \$10 to \$15 decatherm
4 penalty, which is three to four times the cost of the
5 gas.

6 COMMISSIONER JACOBS: Let's say that you're
7 operating legitimately, and for some reason there are
8 issues with the pipeline, and you have to go out on
9 the spot market. You have the option to do that
10 independent of the LDC.

11 MR. BLAZER: Correct.

12 COMMISSIONER JACOBS: So you can replace
13 something that would not normally show up with your
14 own alternative source; is that right?

15 MR. BLAZER: You are correct.

16 The actual volume of my supply that goes to
17 the small industrial, commercial, and my industrial
18 loads on Florida is very minimal. That gas when I
19 schedule it is my highest priority gas, meaning if I
20 lose supply in the supply or the pipeline has
21 problems, that gas is the last gas to get cut. So if
22 I have 50% of my supply I lose, and the other 50%
23 keeps going, that is one of my number one priority gas
24 to go, because I have penalties, \$10 to \$15 a
25 decatherm for that gas to show up.

1 Every day since January of 1996 that I've
2 been serving gas supply for my customers, my gas has
3 shown up, because I'm avoiding \$10 to \$15 penalties,
4 which will eat up my margin very quickly.

5 Now, you may have suppliers that don't
6 supply their gas every day of the year. The LDC could
7 look at being the supplier of last resort. Or if the
8 gas doesn't show up, I'm willing to supply the gas at
9 \$15 a decatherm and take the charge that they would
10 charge the marketer, and I'll do that within the day.

11 I have to buy my gas today for tomorrow for
12 it to show up. If I find out tomorrow that my gas did
13 not show up, I resupply my gas, find other suppliers
14 and get the gas to my markets. I can do that that
15 next day. If the supplier's gas didn't show up, as a
16 supplier of last resort, I would supply the gas to the
17 LDC that they would need for a \$15 charge.

18 So as a supplier of last resort, yes, the
19 LDC could be there, but also, if the LDC did not
20 receive the volumes and did not want to be, I believe
21 you could bid out marketers, and marketers would give
22 bids on being a supplier of last resort.

23 COMMISSIONER CLARK: You know, it sounds
24 like to me you're saying you don't need a supplier of
25 last resort.

1 MR. BLAZER: The LDC needs the volume to
2 serve the customers. If the gas is not in their
3 system as they're sitting there, they're going to lose
4 pilot lights. We're going to have to turn pilots off.
5 And that's a lot of cost for the LDC to go out and
6 turn suppliers off, turn off the customers.

7 COMMISSIONER CLARK: Let me be clear. A
8 supplier of last resort in the long term -- I would
9 agree that for some short term they would need to
10 provide that gas. But it doesn't appear that they
11 need to be the supplier of last resort in the long
12 term.

13 MR. BLAZER: I would agree.

14 Some of the LDCs have a balancing charge
15 daily to their interruptible customers that are large
16 volumes -- that have large volumes and moving volumes
17 on their systems. And they can look at those volumes,
18 and if the gas doesn't match on how much volume you're
19 sending to how much the customer is using, that
20 customer can receive a daily balancing penalty for not
21 having the correct amount of gas or have to buy system
22 gas from the distribution company that day.

23 The distribution company did not -- as an
24 example, on this day, the distribution company may not
25 receive a penalty from the pipeline, the interstate

1 pipeline, but yet they're charging the interruptible
2 customer who is moving gas just because they were 10%
3 off of their volume a penalty, even though they didn't
4 get a penalty on the interstate pipeline.

5 Sorry to go off on a tangent.

6 Also, as to the obligation to serve, I have
7 been a supplier of last resort for an LDC in the
8 state. My gas showed up for my interruptible
9 customer, and then it was taken away from the
10 interruptible customer because the LDC needed the
11 volume. So my volume was taken away, and I believe I
12 was looked at as a supplier of last resort because the
13 LDC could not get the volume to the facility.

14 COMMISSIONER JACOBS: That's the
15 confiscation issue?

16 MR. BLAZER: Confiscation, yes.

17 COMMISSIONER JACOBS: Okay. I understand
18 the rule that we're proposing says that that can only
19 occur in force majeure situations. Is that present
20 practice?

21 MR. BLAZER: Yes.

22 COMMISSIONER JACOBS: So somebody declared
23 force majeure?

24 MR. BLAZER: Yes.

25 COMMISSIONER JACOBS: Whatever that fancy

1 legal term is.

2 MR. BLAZER: Yes.

3 COMMISSIONER JACOBS: Okay. How do you --
4 what kind of controls can you put on that to ensure
5 that it is absolutely necessary? Because it sounds to
6 me that could start a chain reaction.

7 MR. BLAZER: I don't know how to put the
8 controls on to make sure if a force majeure should
9 have been called or not. My gas was able to show up
10 at the facility, at the city gate.

11 COMMISSIONER JACOBS: So it didn't disrupt
12 your delivery.

13 MR. BLAZER: No. At the time it happened,
14 gas prices were much higher than they were at the
15 beginning of the month. But, you know, there's no way
16 for a marketer to go in and see why exactly a force
17 majeure was called and their gas was confiscated to
18 the interruptible customers.

19 Also, we're a marketer in Georgia behind
20 Atlanta Gas Light, and Atlanta Gas Light every day
21 tells us how much volume to send to the facility, to
22 Atlanta Gas Light for our customer base. And if one
23 decatherm does not show up for that in Georgia, we'll
24 get a \$30 per decatherm penalty.

25 I believe in putting penalties for gas not

1 showing up by suppliers. I think it's a good
2 incentive for the marketers to make sure their gas
3 shows up. It gives them no reason or no way to
4 undersupply or oversupply the facility. And it's a
5 good way to keep companies out of the market that
6 aren't going to serve the customer well. And if they
7 don't serve the customer well, then they won't be able
8 to be there much longer with all the penalties.

9 Also on supplier of last resort, as a
10 marketer, I want my customer to use as much gas as
11 possible. The more gas they use, the more money I
12 make, because I'm charging on a per therm usage, the
13 same as the LDC. We both want the customer to use as
14 much gas as possible. The LDC gets paid on
15 throughput. The LDC doesn't want to go and turn off
16 small commercial customers because the supplier's gas
17 did not show up. They want that gas to keep flowing
18 to the customer, because, (1), they want to keep the
19 customer happy, and (2), they want the volume for
20 their throughput so they can make it on their
21 transportation charge.

22 On the stranded investment, we acquire
23 capacity on a daily basis from TECO and City Gas to
24 serve our small industrial and commercial customers.
25 So both systems do it a little differently, but we

1 pick up the capacity at a rate that they have decided
2 from the interstate pipeline and supply the gas to the
3 customer, and then the LDC gets paid. They alleviate
4 that cost from them having to pay for that capacity.

5 I have no problem as a marketer picking up
6 capacity at max rate from the distribution companies
7 to serve the firm and commercial loads.

8 On the potential for slamming, in AGL, our
9 customers have been slammed up there, our commercial
10 customers. There's a \$15,000 fine per incident per
11 day, so if they had switched -- had slammed your
12 customer for the whole month, that's \$15,000 times 30
13 days for that one customer.

14 I believe in punitive damages to marketers
15 for slamming. We do not slam customers. The reason
16 it's easy to slam customers in Georgia is because they
17 have -- the way that you can switch a customer is just
18 type in their account number. And all you have to do
19 is provide this new account number to switch to you,
20 and that customer has become a customer of yours.
21 There's no paperwork that needs to go. The LDC
22 doesn't have to see that this is correct that that
23 customer is signing up.

24 If the penalty is large enough and there's
25 a way for -- an easy way for the slamming to be

1 reported, you can even have the marketers policing the
2 system themselves.

3 Currently in AGL, I have to get the end use
4 customer to send a request to the PSC and to Atlanta
5 Gas Light to tell them of the slamming incident.
6 We've got customers that are making burgers and
7 waffles, and they're working on other stuff, and
8 watching -- it's just an aggravation to them. They're
9 still getting their gas supply. Someone else is just
10 supplying it now. Maybe even something to the effect
11 that if they're slammed, they don't have to pay the
12 bill from the company that slammed them.

13 What we do in Atlanta Gas Light is, we make
14 sure we have signatures from all the customers on file
15 before they're switched so we have something to show
16 that that customer did agree to choose us as a
17 supplier, because one incident of \$15,000 for 30 days
18 would hurt my bottom line.

19 Also on the slamming issue, one of the
20 things to do is to keep out the companies from
21 marketing that are not, for lack of a better term,
22 good marketers, or people that are preying on people
23 that don't know what they're doing.

24 To be a natural gas marketer on Florida Gas
25 Transmission system and to pick up capacity to serve

1 the customers, the firm loads, behind these
2 distribution companies, you have to have capacity -- I
3 mean, you have a credit at Florida Gas Transmission,
4 the interstate pipeline, before you can move one
5 decatherm of gas. The intrastate pipelines, the LDCs,
6 also require creditworthiness before they will let you
7 supply their gas customers.

8 The business is very capital intensive.
9 You have to have credit to buy your supplies. You
10 have to have credit to move your gas transportation on
11 the interstate and on the intrastate pipelines. And
12 those credit requirements at the interstate and
13 intrastate levels should keep out many companies that
14 can't perform or will not be able to provide the
15 services that they're letting their customers --
16 telling them that they're going to serve.

17 One of the other -- someone else brought
18 up something about the Peachtree Natural Gas Chapter
19 11 in Georgia. Peachtree filed for Chapter 11 for
20 protection from creditors, and Atlanta Gas Light and
21 the Public Service Commission turned to an interim
22 pooler, somebody that was going to be assigned all
23 their accounts to serve so the customers continued to
24 get their gas supply.

25 Originally Atlanta Gas Light said that they

1 wanted to be the interim pooler, and the Public
2 Service Commission said, "Well, let's bid it out and
3 see what we get on our bids." They bid it out, and
4 they gave it to another company to be the interim
5 pooler. If someone has credit problems or there's
6 problems that the gas is going to show up from a
7 certain customer, that interim pooler is designated to
8 serve the supply.

9 COMMISSIONER CLARK: Sounds like the
10 interim pooler is the supplier of last resort.

11 MR. BLAZER: Yes.

12 One of the -- on excess capacity, on that
13 issue, one of the speakers mentioned that if they have
14 a customer that changes their load requirement by
15 adding new boilers, adding a new facility, adding a
16 new building, this is not volume that they had
17 anticipated. It increases the load for the system,
18 and it's good for a marketer, and it's good for an
19 LDC. What you want to continue to do is increase
20 throughput. The more volume the customers use, the
21 more volume your customer uses, the more volume you
22 can bill them on.

23 I believe the LDCs when they signed up for
24 capacity 10, 20 years ago and are resigning up for
25 capacity now, they're looking down the road to make

1 sure they have enough capacity to serve volumes when
2 customers ask for more volume or are increasing their
3 load. There will always be ---I mean, the goal of the
4 marketer is to keep your customer using gas. I have
5 customers that I have to compete against waste oil. I
6 have customers that I've got to compete against oil,
7 customers that I've got to compete with electric. And
8 I make sure with the LDCs that we supply the gas at
9 the best rate to make sure that the customer stays on
10 gas, because if the customer switches to an alternate
11 fuel, I lose a customer, and so does the LDC.

12 On the issue of marketing affiliations,
13 that's a tough one. We compete against marketing
14 affiliates in different areas. And one of the things
15 that I've seen in all the areas is that when the
16 marketing affiliate uses the distribution company's
17 name, it's very hard for the customer to see any
18 delineation between the two. They do not see a
19 difference between Company A Marketing and Company A
20 Lessee.

21 This was fought for in Atlanta Gas Light's
22 area for Atlanta Gas Light not to be able to use
23 Atlanta Gas Light Services or Atlanta Gas Light
24 Marketing. And the PSC in Georgia decided to let
25 Atlanta Gas Light market in their area, but they had

1 to have a different name, and they go as Georgia
2 Natural Gas, still being able to use their logo and
3 still being able to say they have an affiliation with
4 the LDC, but not using their name.

5 That's one of the tough things of selling
6 to a customer, is that the customer thinks that if
7 they're buying from so-and-so gas services or
8 so-and-so marketing services that they are getting
9 their same supply from the same company that has been
10 supplying them for 20 years, and it's just not true.
11 They're getting the same transportation and the same
12 services to make sure that that pilot light is lit and
13 that they have the gas supply at their restaurant to
14 do whatever they're doing, but that marketing company
15 is a new -- should be a new company and a completely
16 different subsidiary, out of the same building, not on
17 the same computer system.

18 Any information that the LDC's marketing
19 affiliate has should be shared with all marketers
20 marketing in those areas. That's one of the really
21 tough things to separate, is the feeling for the
22 marketers that are marketing in the area, is that the
23 marketing affiliate has almost all the information
24 that they need. Trying to market in areas where you
25 don't have customer lists, knowing where the pipeline

1 goes, knowing who to call that uses natural gas -- I
2 mean, you can look in a phone book and call anybody in
3 that phone book, and I'll bet you 100% of them use
4 electricity. But you can't do the same thing with
5 natural gas. So as a marketer, you're looking trying
6 to find who are the customers that could be using
7 natural gas.

8 Once again, as Infinite Energy, we're for
9 the opening of deregulation and further opening
10 deregulation for the customers. I have customers that
11 are on the transportation agreements, the FTA in TECO,
12 and customers that are on the SETS in City Gas. Many
13 of my customers will be happy when they find out that
14 it was approved yesterday.

15 It has been very tough telling one
16 customer that you can't transport, you can't buy your
17 gas from somebody besides the LDC because you're not a
18 propane customer. You're not a current customer of
19 the system, so you can't do it. But if you were, if
20 you switched and we switched you to natural gas, then
21 you could start receiving natural gas from me. But if
22 you've been on the system for 20 years and you missed
23 the FTA window in April and you've been paying that
24 PGA for 20 years, you can't transport until they
25 reopen that FTA or you find a marketer that can bring

1 some load on in the TECO system, and then you can
2 transport. But it has been very difficult for the
3 customers to understand why they can't transport when
4 they know restaurant B down the street is able to buy
5 their gas from somebody else.

6 That's all my comments.

7 CHAIRMAN GARCIA: Okay. Sir?

8 MR. RICHARDS: This is Allan Richards with
9 End Users Natural Gas again.

10 Regarding obligation to serve, I think
11 this chart Peoples has produced depicts the 80-20
12 rule, where if you have 20% of your customers that are
13 the largest load and they transport, then you probably
14 have 80% of your throughput. And if you look at this
15 on a cursory basis, '92, '93, '94, '95, prior to the
16 FTA beginning, it appears that, say, 60 to 70% of
17 their load was transporting. These are the larger
18 customers. I believe that the threshold for those
19 prior to 1996 would have been 500,000 therms per year
20 load requirement.

21 Getting back to the Metritech or the
22 automatic meter reading device that some others had
23 said is essential for system integrity, if you take a
24 look at the mix of customers on distribution's system
25 and classify that as industrial, commercial, and

1 residential, and the large load has telemetering, if
2 there is a system problem of non-performance by the
3 marketer, that telemeter is going to tell operations
4 on the distributor that the system is being sacrificed
5 and who's doing it. You're going to see the delta
6 between the consumption and the delivery, the daily
7 requirement that the marketer is required to deliver
8 on a daily basis versus the consumption. And if that
9 delta widens on a daily basis, the integrity is going
10 to be harmed by the large 20% of the on-system users,
11 the large industrials, whereas the 80% of the
12 customers who consume 20% of the load, it's going to
13 be less meaningful. And as a consequence, in most
14 situations, the LDCs and the marketers have found that
15 daily balancing, telemetering, to give contemporaneous
16 time of use is not essential for small commercial
17 customers.

18 In NUI's case in Elizabethtown Gas, when
19 they had to have unbundling in 1994 for
20 non-residential customers, they required time of use
21 meter be implemented at the onset. This caused a
22 significant amount of resources to be put on NUI for
23 its implementation. The marketer and also the
24 customer rang the phone lines, having access to the
25 meter to put this on.

1 One year later, they realized that it
2 wasn't essential, that by having AMRs for the small
3 commercial customers really didn't give them any more
4 control of their system that they would otherwise have
5 if they used city gate balancing, balancing for the
6 small commercial customers based on a monthly basis,
7 that is, the estimated requirement of the small
8 commercial customer relative to the actual
9 consumption.

10 So it's my contention that system integrity
11 will not be harmed where you have a mix of customers
12 on the system where the large industrials are the
13 highest load, are 70, 80% of the load, and the small
14 commercial customers are a much, much smaller
15 percentage.

16 If it is a requirement that all customers
17 who transport have an automatic meter reading device,
18 which is really not necessary, from experience -- now,
19 all systems may be different, but I'm speaking
20 generally -- then this could be looked at as a barrier
21 to entry. This can be a way that an LDC can stop the
22 system from opening up by requiring a \$600 meter, a
23 \$1,000 meter or greater to be installed, when in
24 reality, the highest percentage of the LDC system is
25 by large industrials. And in that case, a telemeter

1 on the large industrial is certainly warranted from an
2 operational standpoint.

3 As far as the supplier of last resort, if a
4 customer decides that they don't want to use a
5 marketer, that they want to stay with the LDC, whether
6 they pay more or what have you, they should have that
7 choice. That should be an included choice also. I
8 mean, if the distributor really wants to get out of
9 the business, then there should be a provision when
10 they put their tariffs together, if they have the
11 flexibility, that they want to go to a third party to
12 be the system supplier. There are third parties who
13 will provide the merchant function for the local
14 distribution company.

15 We believe that there should be significant
16 penalties on the marketers for a failure to perform.
17 If they don't meet their daily requirement, then there
18 should be a penalty. The penalty should be backed up
19 by a guarantee, whether it's a letter of credit,
20 whether it is surety bonds, whether it is securities
21 that are held in escrow by the LDC, a corporate
22 guarantee, or what have you. If that marketer does
23 not perform and the customers are harmed by their
24 non-performance, then in the pooling agreement, which
25 I believe -- the aggregation agreement, which I

1 believe is essential, the penalties should be levied
2 such that the LDC or their third-party contractor can
3 break those securities, as in the case of Peachtree
4 right now where the \$11 million surety bond
5 potentially could be broken right now. And that LDC
6 should be able to go out and liquidate as damages to
7 provide for gas for those on-system customers.

8 Relative to the daily volumes -- or excuse
9 me, the monthly volumes, where you have consumption
10 different than the delivered amount, that delta, there
11 should be bands whereby if you're within the 5%
12 window, the cash-out is done at some index, NYNEX,
13 inside FERC, what have you. If it is 10%, that
14 increases the penalty, 20% -- this can all be worked
15 out. That's not a problem. That's something the
16 distributors can put into their tariffs, which can
17 work out that problem.

18 There are programs in place right now, such
19 as Park and Ride on FGT, if I can't perform, something
20 happens where my intrastate pipeline in Louisiana,
21 Texas, or whatever, goes down, then I can draw upon a
22 contract with FGT to make up for that shortfall. I
23 can also replenish my Park and Ride or that agreement
24 based on market conditions. If gas prices I believe
25 are relatively inexpensive, maybe I don't want to move

1 my production to market at these prices, I can
2 replenish Park and Ride, or I can buy third-party
3 storage. I can put it into storage and be able to
4 draw upon that storage on an as-needed basis.

5 If a marketer fails to deliver and we have
6 trading amongst poolers, at the end of the month, I'll
7 be glad to sell \$25 gas to a marketer who failed.
8 You've got a market there. We would love to have that
9 trading amongst ourselves if there is a failure to
10 perform by the marketers. When you make the penalties
11 high enough, that will ensure the delivery.

12 If they're high enough, you may find a
13 marketer putting a peak shaving unit in. It's
14 possible that you could have a facility in Tampa or
15 Miami which could be propane driven, or you could have
16 liquefied natural gas. This potential does exist.
17 There's a liquefied natural gas line that's going to
18 be brought up from Trinidad that's going to terminate
19 probably in Louisiana. It wouldn't be hard to pull a
20 branch of that and run that into Tampa.

21 This is some of the innovation that would
22 occur if the penalties were high enough and the
23 marketplace was left to provide for the supply if a
24 marketer fails or if there was a market there.

25 Regarding stranded assets, and also excess

1 capacity, the gentleman from Infinite Energy had made
2 a statement that he doesn't mind paying max rates.
3 Well, we don't mind paying max rates on take-back
4 capacity from the LDC if the LDC is paying those
5 maximum rates as well.

6 We firmly believe and we support that with
7 unbundling, that the assets that were acquired prior
8 to deregulation be passed through as they are now on
9 Peoples' FTA and on the small commercial
10 transportation service at City, that transportation be
11 charged to the marketer by way of the native pipeline
12 at their weighted average cost. And in doing so, the
13 distributor who acquired those assets prior to
14 deregulation is margin neutral, that their
15 stockholders are not harmed. And we support that.
16 But we don't support being charged the maximum rate
17 of, say, 63 cents per decatherm when the weighted
18 average cost of gas of the on-service customer is,
19 say, 43 cents.

20 As far as slamming goes, I would urge that
21 the distributor would have a letter of authorization
22 which requires a signature by the customer, the
23 ultimate customer, not just a verbal, "Here's my
24 account number," that allows the potential of
25 slamming, but the customer has to sign the letter of

1 authorization. If that is done and a marketer signs
2 the letter of authorization for him or makes a
3 misrepresentation, that's a fraud issue. We've got
4 the Attorney General coming in there. We're talking
5 about criminal penalties here.

6 I don't think you're going to see the issue
7 of slamming if the customer has to sign the paperwork
8 and the marketer has to sign the paperwork, whereby if
9 they made that customer change when they didn't want
10 to, that was fraud. As long as the paperwork is in
11 place, those penalties are really significant. So I
12 don't see that as being a real problem.

13 Here again, the distributor in their tariff
14 should have creditworthy requirements guaranteed by
15 some kind of backup security so that if an abuse
16 occurs, there could be a remedy.

17 Regarding the affiliate question, this is a
18 difficult one. This is one where most marketers
19 really don't want to be here making statements,
20 because we have to work with the distributors.
21 Understand that when we say things that are possibly
22 not in the number one interest of the LDC, that it may
23 harm our long-term relationship. We have to work with
24 these people, and we value those relationships. We
25 believe that the distributor should have an

1 affiliate. If they want to participate in that, they
2 should have that option.

3 There can be a lot of abuse, and you can
4 imagine, being a marketer since 1986 in many, many
5 different areas, we have seen some pretty tough
6 abuses. We think in the long run, the market is
7 harmed by it, and therefore, we really feel that
8 affiliate rules -- and there are many different states
9 that have adopted those. Or you could follow the
10 National Association of Regulatory Utility
11 Commissioners, the NARUC guidelines regarding them,
12 so that we have transactions which are done at arm's
13 length and guaranteed by the rule.

14 I think that if we try to make the
15 unbundling issue very complex and we put a lot of
16 caveats in this rule or this mechanism that it could
17 forestall customer choice. I think that you can
18 implement customer choice here in an expeditious
19 manner if the LDCs were to propose tariffs for
20 unbundling which have the safeguards of marketing
21 affiliation, adopting the rules in there, supplier of
22 last resort, where we have the guarantees that the
23 marketer is going to perform by way of economic costs
24 if they default. Slamming issues can be prevented by
25 having the proper forms and documentations by the

1 customers.

2 And you can move on very, very quickly to
3 achieve the vibrant, competitive arena that I believe
4 you desire. And you can do it quickly. You can do it
5 without harm to the LDCs and their stakeholders. You
6 can do it by keeping it very simple so it doesn't get
7 bogged down in a lot of different dockets. And you
8 can have a market where the ultimate consumer can
9 really get fabulous rates, access to the market, which
10 is going to benefit the Florida consumer.

11 We will beat our brains out trying to
12 deliver gas at the lowest cost rate to the Florida
13 consumer if we have to compete. We'll compete against
14 the affiliate, we'll compete against one another, and
15 we will perform.

16 And if we don't perform, then hit us with
17 the penalties. Put us out of business. If we can't
18 perform, the penalties should be substantial enough
19 where they're not there anymore. This ensures the
20 safeguard that the consumer is going to be protected,
21 that he's going to have the choice to be able to
22 reduce their costs if they want, and that the LDC is
23 going to maintain their margin and have a partnership
24 with the marketers so that they can defend against
25 alternate fuel.

1 Thank you.

2 MS. BANKS: Commissioners, I think we're
3 doing pretty good on time. I think that you might
4 want to -- you said like a free-for-all. But can I
5 get my five minutes?

6 CHAIRMAN GARCIA: Sure. But let's do
7 this. You're going to get your five minutes, and we
8 want to let them have a free discourse. You may end
9 up being part of this, so why don't we take a quick
10 lunch break, come back, you get your five minutes, and
11 we'll let all of them take shots at what you said, and
12 how you said it, and why you're wrong and why you're
13 right, and then we'll close this up, if that's all
14 right with you.

15 Commissioners, is that all right?

16 All right. So we're going to take a break
17 now. We will come back at 1:45, and then we will go
18 no more than an hour after that. Okay?

19 (Proceedings recessed at 1:10 p.m. and
20 resumed at 2:00 p.m.)

21 CHAIRMAN GARCIA: All right. We're going
22 to let Cheryl give her position or the issues she
23 wanted to discuss. And then what we'll do is -- we're
24 going to try to take less than an hour. And what
25 we'll do is, we'll let all those who want to make a

1 comment about what she said and the specific issue
2 that you may want to take with that. That's fine.
3 And then we will close up and maybe give you five
4 minutes apiece to make a comment on this, if that's
5 all right with everyone. And, of course, the
6 Commissioners can ask as much as they want to anyone
7 they want.

8 Cheryl?

9 MS. BANKS: First I would like to thank
10 all the parties for coming once again here. I know
11 this has been a long process, and I do appreciate your
12 comments. Even if I don't necessarily agree with all
13 of them, I still think that's a great tool and that
14 the Commissioners are hearing a lot about the
15 industry, which I think is really great.

16 In general, what I just wanted to say was
17 that I think -- you know, we've talked about and
18 you've heard a lot about the different sides of the
19 issues, but I think the bottom line is that these are
20 all items that can be worked out. I think it's just
21 going to take some work on all the parties' parts, and
22 I think they can be resolved.

23 There are a few comments that I did want to
24 make, such as an obligation to serve.

25 Commissioner Jacobs made the comment about

1 backup service. That was one of the items that we had
2 put in the model tariff that says -- we had required
3 the utility to offer backup service to these
4 customers, but it would have been the customer's
5 choice whether they chose to take that service.

6 This was similar to the FERC requirement
7 that they did when they opened up the system and they
8 required the pipelines to provide no-notice service to
9 very small customers. This was to get them on board
10 and get them used to the process, and there was a time
11 limit for which this would be in place until they felt
12 the small customers were accustomed to this. And that
13 is definitely one possibility.

14 One thing that I think we need to remember
15 is that all LDCs right now, they have provisions in
16 their tariffs for all these issues, essentially. And
17 they all screen for marketer criteria, because they
18 have marketers on their system right now, and they
19 have to have something that screens them right now.
20 So these aren't necessarily new issues. Perhaps the
21 only issue that I don't know if it's addressed in some
22 of them that I haven't necessarily seen is the issue
23 of slamming, but that indirectly is done through the
24 signing of contracts.

25 So I just wanted to mention that it's not

1 necessarily new, and that we are addressing these
2 now. And they have to be, because they're offering
3 transportation service right now.

4 Another thing to keep in mind is that when
5 we were talking about operational tools, is that 75 to
6 80% of the gas on FGT is for electric generation.
7 There's a very -- if you look at the big scheme of
8 things, there's a very small amount for LDC, and even
9 a smaller amount that could actually impact the system
10 integrity of FGT. In fact, from previous
11 conversations with FGT, TECO/Peoples is the only one
12 who takes enough load that could possibly impact their
13 system dramatically if everything messed up on their
14 system and there was no gas coming through. Then at
15 that point, FGT's integrity, you know, has a potential
16 to be in jeopardy.

17 But collectively, when you talk about,
18 well, if the marketer's gas didn't get in and then we
19 jeopardized the system of this, that, and the other, I
20 don't think that's a possibility. The LDCs on a whole
21 don't use enough gas collectively.

22 One of the comments that was made, you were
23 talking about threshold that I know that Brian Powers
24 had mentioned from Indiantown. When we were first
25 working with the rule, we had originally done this and

1 said a 50,000 a year therm threshold. And after we
2 discussed this and thought about it a lot and talked
3 to a lot of people, Wayne Makin and I determined that
4 that was probably not a good idea. And the reason why
5 is because what happens when you get to somebody who's
6 got 49,500? What do you have at 37,000? I mean, why
7 50,000? We're trying to find, you know, is there a
8 break here.

9 You know, if you've got really small
10 customers in your small commercial category, if it is
11 not cost-effective, they're not going to transport.
12 That's plain and simple. The marketer is not going to
13 be able to make it cheap enough for him, so it's not
14 going to even be a possibility. So if you offer it to
15 all, only the ones that it's going to end up being
16 cost-effective to the customer and the marketer is
17 going to offer are ones that are going to actually
18 take place.

19 So I don't think that poses a problem when
20 you say, well, gosh, all these people are small, well,
21 then it won't happen, unless, of course -- here's
22 another instance. I may have a small fast food
23 restaurant, and I think, gosh, he's so small, why
24 would he do this. But if he's got six other ones that
25 are 20 miles away in another LDC's territory and this

1 marketer can aggregate all of it, it just may become
2 cost-effective. So it's not necessarily -- it's hard
3 for the LDC to look beyond the scope of its own
4 operations. And in my opinion, if the utility's
5 transportation rates are cost based and reflect the
6 actual cost, then they will not be at a loss.

7 Now, maybe that will require some of them
8 to come and re-evaluate the costs that are in the
9 rates that are embedded right now. LDCs haven't been
10 in for a rate case in a long time. And what we've
11 seen is that -- you know, how the transportation rates
12 were originally set was that they took the base rate
13 that was sales service and just -- it became now the
14 transportation rate. And the only difference is that
15 they didn't pay a PGA.

16 Over time, there's been a lot of additional
17 costs that have been incurred. You know, you have
18 people that you had to hire to do nomination and
19 balancing for these customers. Those costs probably
20 aren't anywhere in there in the base rates as they are
21 designed, because they are old. And it may have costs
22 that are in there now that shouldn't be. I can't tell
23 you if they're right, because I don't know. But that
24 is one thing that, if the costs are based on the
25 actual cost to serve the transportation customers, the

1 utility should be unharmed.

2 You know, we talked a lot about
3 bankruptcies and potentials for this, that, and the
4 other. And when you talked about Peachtree going out
5 of business, I mean, these things happen. Peachtree
6 was brand new. It wasn't an established marketer.
7 That situation is being resolved. Here in Florida we
8 had an LDC go bankrupt. Those situations may occur,
9 and they will be addressed, and we'll work those out.

10 The force majeure was another issue that I
11 kind of laughed about, because when Infinite -- Rich
12 Blazer had mentioned about his gas being confiscated.
13 An LDC at one of the workshops told me that there is
14 no force majeure for a marketer. Nothing is a force
15 majeure. If he doesn't get his gas, he failed. And I
16 found that interesting, because in this situation,
17 apparently there was something happened on the LDC
18 that considered it a force majeure.

19 But like I said, these are all issues that
20 I think, you know, we've talked about at length. I
21 think they can be resolved. A lot of them we're
22 already addressing in the tariffs as they are now.

23 I think that the rule is necessary, and the
24 rule is necessary for several reasons. It's necessary
25 because it's unfair now for certain customers to be

1 able to transport and others not. It is confusing to
2 the customer who owns a Wendy's in one area and he can
3 transport, but in another he can't.

4 I think a lot of the utilities will agree
5 that if some concessions aren't made to bring
6 transportation to these customers, they will either go
7 out of business, they will leave, or they will move to
8 another territory. We have seen it actually happen.
9 When one customer who used 400,000 therms could not
10 get transportation service years ago, he moved his
11 business about 100 miles so that he could get it on
12 another system. This will happen. People want the
13 choice.

14 Right now, again, it says, well, people may
15 not want it. That's possible. But again, you don't
16 know that until the service is offered.

17 I do want to ask, if I could, the marketers
18 something, because this was brought up. And I made an
19 assumption since you did that you were interested in
20 serving these customers that we were talking about,
21 these small commercial. But I do need ask this.
22 Infinite, End Users, if anybody else would like to
23 comment, are you interested in serving the small
24 commercial customers in Florida?

25 MR. BLAZER: Infinite Energy does want to

1 serve the small commercial customers, and is currently
2 in the areas where we can.

3 MR. RICHARDS: End Users Natural Gas
4 currently serves small commercial customers and will
5 continue to do so.

6 MS. BANKS: Okay. That was the question
7 that was apparently -- you know, are the customers
8 even interested?

9 I also would like to ask the marketers one
10 question, the same question. Do you have currently
11 customers that are on your system who would like to
12 transport now but are unable to because of the
13 threshold requirements in areas or who do not offer
14 transportation service at all?

15 MR. BLAZER: Infinite Energy does have
16 customers, potential customers on distribution systems
17 in the State of Florida that are not allowed to
18 transport because of thresholds and because the
19 programs that were available to others at a certain
20 time were closed.

21 MR. RICHARDS: End Users Natural Gas was
22 encouraged by Staff to continue to market in Florida
23 to small commercial customers. And based on the needs
24 of the consumers and wanting to have access to
25 wholesale natural gas supplies, we continued to market

1 in areas that are closed. And we do have a number of
2 small commercial customers that want to have access to
3 the wholesale markets. These are on-system customers.
4 And currently they cannot, and they are very
5 frustrated because of it. We have not directed their
6 irate calls that we get as to why they can't have
7 access to Staff or to the Commission nor to the LDCs,
8 but we have tried to arrest their concerns of not
9 having access by saying that this is not a simple
10 process, but it will be coming shortly.

11 CHAIRMAN GARCIA: Do we have that? I think
12 part of the issue is that, you know, we don't know
13 what's out there. Would you suggest that we have
14 hearings with some of your customers to get a better
15 feel of what's out there?

16 I mean, it amazes me, for example, that the
17 Chamber of Commerce isn't here asking or clamoring for
18 this, or Enterprise Florida is not clamoring for
19 this.

20 MR. RICHARDS: If I could respond to that,
21 Chairman.

22 CHAIRMAN GARCIA: Okay.

23 MR. RICHARDS: They have their businesses
24 to run. And if you take a small commercial customer,
25 a restaurant, he's got all kinds of problems. He's

1 got labor problems, he's got environmental problems,
2 he's got permitting problems, he's got food supplier
3 problems. He has a shortage of resources, and a lot
4 of them operate on a day-to-day basis with no plan.

5 To put it in perspective, at the FERC First
6 Notice of Inquiry back in 1980 to deregulate the
7 interstate pipelines, there was just a handful of the
8 large, large industrial users that showed up. General
9 Motors wasn't there, Ford wasn't there, Weyerhaeuser
10 wasn't there, DuPont wasn't there. To not have the
11 end users here right now filling the space, clamoring
12 for it, doesn't surprise me at all. They have enough
13 problems just keeping their doors open, let alone
14 trying to get access to the wholesale markets. They
15 look to third-party vendors and suppliers to do the
16 job for them. I mean, they will write letters, and
17 we can get letters sent to you. That's no problem at
18 all. They'll do that. But physically taking time out
19 of their day to testify in front of you --

20 CHAIRMAN GARCIA: No, I meant should we be
21 going to see them. But let me tell you, if you're not
22 referring them here, you should. I mean, we --

23 MR. RICHARDS: Quite frankly, the Staff has
24 limited resources. They have enough to do, and I know
25 that you do. You've got a full plate, and you really

1 don't need calls coming from --

2 CHAIRMAN GARCIA: But I think it gives us a
3 sense of what's out there. I'm not arguing. I just
4 -- I assume --

5 MS. BANKS: We do get a few.

6 CHAIRMAN GARCIA: I assume as a natural
7 thing that you're precisely right, that if I'm a small
8 customer, or I'm a small customer in an area and I'm
9 trying to create advantages, you're absolutely right.
10 Among getting lettuce for a cheaper price, getting gas
11 for a better price is one of the things you do if
12 you're managing a small restaurant or a chain of
13 restaurants. So when you can get it in one part of
14 the state, you want to get it in every part of the
15 state, because, you know, 3% doesn't seem like a lot,
16 but 3% over 10 stores is significant.

17 MR. RICHARDS: It is significant. And from
18 their perspective, if they don't have access and they
19 want access, they'll take it out on you. They will
20 blame the marketer first. "You're not giving me
21 access. There's others across the street that have
22 access. They're realizing the savings. What the heck
23 are you doing where I'm not getting access?" That's
24 the first blame.

25 And at that point in time, trying to be a

1 good corporate steward, we do not say that the program
2 is closed and it's up to -- you better go to the LDC.
3 We try not to do that. What we try to do is say, "The
4 program is going to open. You're going to get access.
5 It has taken us 100 years to get here. It's going to
6 come. You're going to need to be patient." But I can
7 tell you that the intensity level of some of these end
8 users to want to get on can be pretty aggressive, and
9 sometimes the language a little less than
10 professional.

11 You know, we have to answer to them right
12 now as to why they're not getting on. And it's very
13 frustrating for them, because these savings go right
14 to the bottom line. And they have a competitive
15 disadvantage versus the guy across the street who has
16 access. You know, they don't really want to know the
17 whys and the wherefores as to why they're being barred
18 from the wholesale market. They don't want to hear
19 that. They just want to get the access, and they want
20 to be able to run their business and go on with it and
21 hopefully keep their doors open.

22 CHAIRMAN GARCIA: All right. Thank you.

23 COMMISSIONER JACOBS: I have a question
24 for Staff real quick. I assume by your comments you
25 don't agree with the premise -- and I can't remember

1 who stated it, but one of the LDCs said that there is
2 a breakeven -- well, I shouldn't say breakeven point.
3 There is a threshold point where transport is not
4 cost-effective. Could you --

5 MS. BANKS: I would agree with that
6 statement. I would definitely agree with that
7 statement, because if I'm a residential user and I'm
8 only using 12 therms, unless you've got a marketer who
9 can actually aggregate every residential customer in
10 Florida, he's not going to make any margin on it. The
11 customer's bill is averaging only \$25 a month, so he's
12 not going to save anything, you know, substantial,
13 because probably \$7 to \$9 of that is a customer
14 charge. And between that and the transportation
15 charge, he's not going to save any money.

16 COMMISSIONER JACOBS: Would one of those
17 customers naturally look to somebody who's going to
18 aggregate them, or are they going to try and go and do
19 their own arrangement? How is that going to happen?

20 MS. BANKS: I don't envision any small
21 commercial customer will buy on their own. In fact, I
22 was a little amazed at the beginning of the process of
23 looking at unbundling in general at how large the
24 customers are that still go to marketers.

25 They don't want to be in the day-to-day

1 business of buying gas supply every day and
2 nominating. It would take a lot of time and a lot of
3 expertise to have somebody do that. I mean, it's a
4 full-time daily job. So they would rather leave it up
5 to a marketer who's taking care of everything. They
6 specify, they know the rate they're going to pay, they
7 know what their savings are, and so they're
8 comfortable with that. I don't envision any small
9 commercial customer, unless they were part of one big
10 corporate entity that had, you know, 600 restaurants
11 nationwide, that would do that.

12 In fact, Indiantown and South Florida
13 Natural Gas don't buy any gas supply themselves. All
14 their gas is bought by a marketer. So if the LDC
15 itself isn't going to take the time and the expertise
16 to buy its gas supply, it's giving it to a marketer, I
17 surely can't envision a small commercial doing that.

18 Just a couple more comments, and I will be
19 finished here, if I can remember where I was after
20 that.

21 We do get calls from companies, small
22 commercial companies that are seeking to transport.
23 Through several transfers, they'll finally get to
24 Wayne or I. And we do talk to them and explain the
25 situation. I have had situations where I had two

1 competitors call me in a conference call and ask was
2 there any way they could aggregate as commercial
3 customers to meet thresholds, because while they were
4 in competition with one another, at least they could
5 both get a better price on the energy services. I
6 thought that was pretty original. But I think that's
7 the extent that some customers are willing to go.

8 The point I really wanted to drive home was
9 that it is necessary for the rule to make the playing
10 field equal. I mean, if you've got some that are
11 going forward, I think that's absolutely great. It
12 benefits the customers in that area. But it is
13 difficult to explain to a customer why he can buy it
14 here, but he's got another business 40 miles away, and
15 he can't aggregate both. I have a hard time with us
16 skewing competition based on location, based on the
17 utilities' offering of such service.

18 Understand, the utilities have done this
19 volutarily back in the late '80s. They have been
20 doing this a long time. This is nothing new. We have
21 been discussing this for many years even before the
22 docket was opened in 1996. We had a large workshop
23 here in 1994. In fact, the Department of Energy was
24 represented, where we had marketers and LDCs present
25 here to go through -- originally to go through and get

1 feedback on unbundling generally when we were starting
2 the process.

3 So it's not nothing that the LDCs haven't
4 been exposed to, haven't been actually doing
5 themselves. And I guess we keep waiting, and I guess
6 after 10 years it's getting a little old waiting. And
7 I think that the issues can be worked out, and I think
8 there can be a way to do this that the utility doesn't
9 feel burdened by 6,000 customers coming on. But the
10 rule -- if totally every person that could possibly
11 transport because of this rule came on the system,
12 you're talking about 32,000 customers. And that's not
13 going to be the case, because we know that
14 historically the industrial customers, they're not
15 100% right now either. So the people who are actually
16 going to take advantage of this, I will generally --
17 and this is just my professional opinion, is going to
18 be less than 50%.

19 I mean, it's not like we're dealing with
20 the electricians where, you know, you've got 6 million
21 customers. We're talking about a very small amount of
22 customers here, but just giving them the option,
23 giving small customers the chance to lower their costs
24 and compete within Florida. And I think that we tend
25 to broaden this and make it a lot bigger of an issue

1 than it really is.

2 And depending on how hard it's marketed,
3 you can see -- I mean, there's a set number of
4 marketers who have been actively involved in the
5 state. And if we open this up a little bit more, you
6 may have more active participants coming in. And the
7 people that we have seen, these are the ones that are
8 in the industry publications. They're familiar, and
9 they will probably come down here and start marketing
10 in Florida.

11 But I don't think you're going to have this
12 massive, all of a sudden 15,000 customers coming and
13 knocking on your door. I think it's going to be --
14 and I think that there's a way -- I know one of
15 TECO/Peoples' concerns is what happens if the
16 floodgates open and we've got all these people? Well,
17 I think there's ways around that. I mean, you say,
18 "Okay. We do it just like we did their FTA. We'll
19 take 500 a month or 500 a quarter." I mean, I think
20 there are ways to do it that will work. And each
21 utility may be different, but I honestly do not think
22 that this is as massive an undertaking as it might
23 appear.

24 And I guess that's it.

25 CHAIRMAN GARCIA: Okay.

1 COMMISSIONER CLARK: Let me ask you one
2 question. What about addressing the issue of whether
3 or not there are companies that are too small for this
4 to be cost-effective? If you could address the
5 Indiantown.

6 MS. BANKS: It's hard to even address
7 entities like Indiantown, because they don't even buy
8 any gas supply themselves. So again, if he's telling
9 me he's got 21 potential customers, I suspect that not
10 even half of them would probably go to begin with.

11 Now, when we were talking about Y2K issues
12 that could come up, we said, "What would happen if
13 your system went down?"

14 They said, "Well, we could manually bill
15 everybody."

16 So I think those are the issues with a
17 small area like Indiantown. I mean, you could
18 actually go out and look at the 10 meters every day.
19 I don't think it would be a real big issue. I think
20 you could actually -- he doesn't even need to buy a
21 program. He could actually sit down there at the
22 computer and do a simple spreadsheet on billings.

23 So when you have something that small, I
24 still don't see a real difficulty there.

25 COMMISSIONER CLARK: Would it make sense to

1 provide them the opportunity, to let them come -- that
2 it applies to them unless they come in and make a
3 showing as to why the rule should be waived for them?

4 MS. BANKS: I think that would be
5 reasonable. I mean, that's why originally we put out
6 that small unbundling tariff, to actually help them
7 out by saying, "Hey. If you don't want to spend the
8 money coming in and filing this and getting this all
9 together, here, we're giving you something to work
10 with, and then let's sit down and see what you think
11 doesn't work for you, and let's see if we can modify
12 that and work with you."

13 Again, I don't think the massive interest
14 is going to be there. I mean, there's going to be,
15 again, a select number within that small commercial
16 classification that will be cost-effective for the
17 customer and the marketer to do so, and those will be
18 the ones that go.

19 CHAIRMAN GARCIA: Okay. We're going to --
20 I think we've heard it all, but if you need to say
21 something, you've got five minutes. Say something to
22 close it up.

23 Mr. Schiefelbein is indicating that he will
24 say something, so I guess he's the final authority on
25 what your lips do. So we'll begin with you, and then

1 anybody else who wants to add something else, and then
2 we'll close up this hearing.

3 MR. SCHNEIDERMANN: Thank you very much.
4 Again, it's Marc Schneidermann, Florida Public
5 Utilities Company.

6 From FP's perspective, as we mentioned
7 before, and I'll just sum it up, marketer regulation
8 is an essential part of an unbundling scheme. As
9 Mr. Richards indicated, the commercial customers have
10 a lot of things to deal with day to day. Lots of
11 problems come up. Where will these commercial
12 customers be without someone to turn to to handle any
13 sort of problems that may arise, whether it's problems
14 with the marketer being responsive, billing, general
15 customer service questions between the commercial
16 customer and the marketer? Marketer regulation is
17 essential.

18 In states that we've heard about where
19 unbundling has occurred, you may check, but most of
20 those states have forms of marketer regulation. So
21 whereas we're talking about the topic with slamming,
22 it goes well beyond slamming. It's not just pure
23 slamming. It's making sure the marketers perform
24 properly.

25 Even when the information came up before

1 about NARUC, in NARUC's guide for customers out
2 looking for energy suppliers, they even indicate to
3 ask your energy supplier if they're licensed or
4 certified by the state. And this is a key item that
5 has been presented by NARUC in a couple of different
6 publications for customers. It's on their Internet
7 site also for customers to ask that key question, and
8 they call it a key question.

9 As far as marketers operating the system, I
10 look at the group that has the largest potential for
11 gain being the marketers, not necessarily the
12 customers. Obviously, Mr. Blazer, we're familiar with
13 his firm, and we're very happy with his firm. But he
14 indicated he would come in and take care of supplying
15 that penalty case at \$15 an MM/BTU. It's marketers
16 that stand to have the biggest gain as opposed to the
17 customers' potential savings.

18 Things that we really need to make sure
19 would be included if a rule was proposed is the
20 allowance to be able to monitor customers' daily
21 consumption, to be able to be sure that we're not
22 going to shift costs from transportation customers to
23 our core residential customers and other customers
24 that are not transporting.

25 When I look at my customer base in sales,

1 87% of our sales go to commercial accounts. If
2 there's even a small fluctuation in additional cost
3 that's added to serve those accounts for
4 transportation service, if that was put on the backs
5 of our non-transportation customers, that could have a
6 serious impact, and also could cause a loss of
7 customers. We want to make sure everyone is happy
8 with our services and the services of any supplier
9 that they may buy their gas from.

10 COMMISSIONER DEASON: So how do we do
11 that? How do we assure there's not going to be a cost
12 shift?

13 MR. SCHNEIDERMAN: The only way you can
14 be certain that there wouldn't be a cost shift is by
15 allowing utilities to use the necessary metering
16 equipment to monitor the transportation customers'
17 usage every single day so it can be compared to how
18 much gas is being put on the system for the
19 transportation accounts.

20 COMMISSIONER DEASON: And you disagree with
21 the argument or the position that many small customers
22 -- first of all, that it's not economic to meter them,
23 and that you can make an estimated -- an educated
24 estimate as to what they're going to be using and
25 aggregate all that together, and the fluctuations are

1 going to be small, and it's not going to be a major
2 cost shift?

3 MR. SCHNEIDERMAN: When you look at the
4 customer profiles, individual customers, small
5 customers may have minimal effect on additional costs
6 that are incurred to provide the transportation
7 service swings. But when you add up all those small
8 customers, it could have a dramatic effect on your
9 entire system.

10 If I look at our commercial customers, as I
11 mentioned, we have about 3,700 commercial customers,
12 and about 1,100 of those customers use less than 1,000
13 therms a year. So if I multiply that 1,100 customers
14 by 1,000 therms a year, that adds up pretty quickly
15 and could have a significant impact on the company's
16 PGA when we have to go to buy gas to cover those
17 customers' requirements when they're not met by the
18 supplier, or by not having the proper telemetry and
19 not knowing how much that customer going to be using
20 on any day.

21 COMMISSIONER DEASON: Now, do you suffer
22 economic consequences because -- well, you do not
23 suffer economic consequences because one customer does
24 not utilize the amount that his supplier anticipated
25 he was going to use or used a little more than what

1 his supplier anticipated. It's the aggregate of all
2 those small customers how it impacts the marketer in
3 total for that given hour or day. Do you agree with
4 that?

5 MR. SCHNEIDERMAN: I agree with that.
6 What we need to do is look at the effects of all
7 these small customers in total. Yes, we do not suffer
8 any --

9 COMMISSIONER DEASON: But at the city gate,
10 you can tell what's happening for that particular
11 marketer, whether he's supplying the amount he should
12 be supplying or not, or you can't tell without looking
13 at the other side of that equation and determining how
14 much his customers are using?

15 MR. SCHNEIDERMAN: We can tell how much is
16 coming to our city gate for the marketer and the
17 marketer's account and our accounts. What we can't
18 tell without the proper telemetry is how much are
19 those accounts actually using every single day on the
20 system. And that's what causes us to get out of
21 balance, and that's what causes us to buy additional
22 gas supplies or pay pipeline penalties at times if we
23 were to unbundle without having the proper telemetry
24 in place.

25 And as far as questions that came up before

1 about LDCs being revenue neutral, we are an LDC. We
2 would be revenue neutral in this. If we were an LDC
3 with a marketing arm, we would only stand to gain.

4 COMMISSIONER DEASON: Let me ask you this.
5 If metering, the type metering you referred to is
6 required, how much annual consumption would a customer
7 have to have to even -- to have savings enough to just
8 pay for the additional cost of the metering?

9 MR. SCHNEIDERMAN: The breakeven would
10 probably be somewhere around the number that Staff was
11 suggesting before, around 50,000 therms a year. So in
12 summary --

13 MS. BANKS: If I could just ask one
14 question. What kind of telemetry cost was that
15 incorporating? Can you give me a dollar?

16 MR. SCHNEIDERMAN: Sure. Right now the
17 telemetry that we're using, based upon the customer's
18 site and installation cost, runs between \$3,000 and
19 \$3,500 per site.

20 MS. BANKS: Excuse me. Could I ask City
21 Gas just one question real quick? How much is the
22 telemetry you normally put in place for the customers?

23 MR. DeMOINE: Our large industrial --
24 large commercial and industrials, I believe it's
25 between \$600 and \$800. There are some large

1 industrial applications that can be more expensive
2 that could go up to 2,000, but that's very limited.

3 MS. BANKS: Is that like solar or satellite
4 or --

5 MR. DeMOINE: I don't know the specific
6 ones that would be that expensive. But the majority
7 of ours in all our states are between \$600 and \$800.

8 MR. SCHNEIDERMAN: I think a key question
9 to also ask is, is that the cost of your telemetry, or
10 is that what you charge the customer?

11 MR. DeMOINE: That's the cost to install.
12 That includes the serviceman's time to go out and
13 install it, as well as the actual cost of the meter.

14 CHAIRMAN GARCIA: Okay.

15 MR. SCHNEIDERMAN: Thank you.

16 In summary, we're not against competition.
17 Wherever the price of natural gas can be reduced for
18 our customers, we agree it is good. But we need to
19 make sure the safeguards are set in place to protect
20 our customers and also to protect the remainder of our
21 customers who do not transport.

22 And one thing that hasn't really been taken
23 into account is if the majority or a large portion of
24 our commercial customers were to convert to
25 transportation service, the utility itself, the LDC

1 would have a severe loss in its buying power and
2 negotiating power to be able to supply low cost gas to
3 the rest of its non-transportation customers. We
4 would not be buying in the same bulk that we currently
5 buy in.

6 CHAIRMAN GARCIA: Very good.

7 COMMISSIONER CLARK: But you could go to a
8 marketer, couldn't you?

9 MR. SCHNEIDERMAN: What benefit would that
10 have?

11 COMMISSIONER CLARK: A lower price.

12 MR. SCHNEIDERMAN: Well, we buy gas right
13 now through gas marketers every single day.

14 COMMISSIONER CLARK: I was just thinking
15 that you could become part of an aggregation that a
16 marketer does and get a lower price if you found that
17 buying on your own was not cost-effective.

18 MR. SCHNEIDERMAN: If we were to go to a
19 marketer, we would obviously be paying whatever the
20 cost of gas normally is plus whatever administrative
21 charges the marketers have also. So I see that as
22 actually driving our cost up additionally.

23 COMMISSIONER JACOBS: How do you respond to
24 the claim that if proper penalties are established
25 against the marketer that it would spur sort of a

1 trading process whereby the marketers would take care
2 of this process themselves?

3 MR. SCHNEIDERMANN: The penalty would
4 resolve issues such as if the marketer was told to put
5 a certain amount of gas -- deliver a certain amount of
6 gas every day or on particular days. The penalty
7 would not help us determine the imbalances between the
8 small customers if they did not have telemetry at
9 their site and --

10 COMMISSIONER JACOBS: I understand. What
11 they're saying is that they're going -- if there's a
12 penalty out there against a marketer for failing to
13 put the capacity into the system, they're going to
14 know about it, or probably that marketer is going to
15 fine them, because they're going to want to defray
16 those penalties, and they're going to go out and
17 search for alternatives, and other marketers will
18 provide those alternatives. They could still find a
19 price in the marketplace that would help them supply
20 their customers and still come in at a price lower
21 than what they pay for the penalty.

22 MR. SCHNEIDERMANN: And for the most part,
23 that would just benefit the marketer.

24 COMMISSIONER JACOBS: It's not going to
25 cure your imbalance problem?

1 MR. SCHNEIDERMAN: That would not cure the
2 imbalance problem between the daily imbalances and
3 what is actually put on the pipe by the marketer.

4 COMMISSIONER JACOBS: Thank you.

5 CHAIRMAN GARCIA: Very good. Who wants to
6 go up next? Mr. Palecki?

7 MR. PALECKI: Just a very brief
8 observation. In Florida today, we have limited
9 pockets of competition, very limited areas where
10 transportation service is available. As a result, we
11 have a limited number of marketers interested in
12 serving Florida. We have limited competition between
13 the marketers. There are price benefits that are
14 achieved by the customers, but they are not as great
15 as they could be.

16 If we saw statewide competition in Florida,
17 if we saw transportation service available statewide
18 to all commercial and industrial customers, we would
19 have more marketers interested in serving the State of
20 Florida. We would see greater competition between the
21 marketers. We would see greater price benefits
22 achieved by the customers. And in addition, the
23 customers would have statewide aggregation available
24 to them.

25 We believe that it is a win-win situation,

1 a win for the companies and a win for the customers,
2 and we support the rule.

3 Thank you.

4 CHAIRMAN GARCIA: Okay.

5 COMMISSIONER DEASON: I have a quick
6 question. At what level of usage does City Gas
7 determine that special metering is required, and at
8 what level are you unconcerned about special metering
9 and just believe that it will all average out?

10 MR. DeMOINE: Several years ago we split
11 our commercial group into small and large commercial.
12 Any customer that consumes greater than 120,000 therms
13 a year requires the AMR. Customers in the small
14 customer category do not require it. So it's
15 approximately 12,000 decatherms a year.

16 CHAIRMAN GARCIA: Okay.

17 Any more volunteers? Go ahead.

18 MR. CALDWELL: Mary Jo and I both have a
19 couple of comments, but the one part I just wanted to
20 point out, there has been a significant presumption
21 here about savings. And I think what we're really
22 talking about, if you look at the fundamentals, the
23 LDC is buying gas in a market that is already in
24 wholesale competition. We acquire the capacity and
25 transfer those costs to customers through the PGA with

1 no markup. So you're already getting the benefit of
2 competition on the gas supply side for the customer.
3 But as a regulated utility, you charge one price,
4 total costs divided by total therms. That's what
5 everyone pays. The savings frequently are merely that
6 some customers with a high load factor are lower cost
7 to serve.

8 So to the extent that there is an
9 arbitrage opportunity between the PGA and that lower
10 cost, the marketer may make -- you know, it's
11 savings. What that means is that the remaining
12 customers on the PGA are paying more.

13 So, granted, competition may stimulate the
14 gas supply and may provided some benefits. But if the
15 cost of providing that competition is too great, then
16 there aren't any total system benefits.

17 CHAIRMAN GARCIA: Okay. Thank you. You
18 want to go ahead?

19 MR. RICHARDS: Yes. This is Allan Richards
20 with End Users Natural Gas. A couple of rebuttals to
21 Mr. Schneidermann's comments, in particular, regarding
22 the remote telemetering. Quite candidly, I feel that
23 this is a barrier to entry for small commercial
24 customers, that experience has shown that it is not
25 essential for operational integrity of the system.

1 Furthermore, I think that relative to the
2 throughput on Florida Gas Transmission, as Staff has
3 indicated, the throughput of Florida Public Utilities
4 or most other LDCs in Florida is really a drop in the
5 bucket relative to the throughput for electric load,
6 and that the delta, that is, the estimated forecast of
7 the monthly aggregated daily delivery for that month
8 relative to the small customers' actual consumption,
9 that delta is even significantly smaller. So in the
10 scheme of things, the amount of gas between the
11 estimated required amount to be delivered by the
12 marketer versus the customers' actual consumption is
13 negligible. And there are a variety of suppliers that
14 would require that delta at spot market on a daily
15 basis relative to Zone 1, 2, or 3 on FGT's system.

16 It's our view that because the delta is so
17 small, that requiring the small commercial customer to
18 install telemetering is burdensome on the customer, on
19 the distributor, and on the supplier, and adds
20 incremental costs which have to be passed on to the
21 customer.

22 The second position is relative to
23 licensing. If you go into licensing, currently End
24 Users Natural Gas operates in New York and has to meet
25 the licensing requirements. We operate in New Jersey

1 and have to meet the licensing requirements. We
2 operate in Connecticut and have to meet the licensing
3 requirements, as well as other states as well.

4 Essentially, in our view it amounts to
5 administrative burden on the state as well as the
6 marketer. And these costs have to be passed on and
7 borne by someone.

8 The protections to the ultimate consumer
9 can be built into the tariff itself. And this is what
10 I was alluding to earlier. It's not necessary for you
11 to open dockets for slamming, dockets for marketer
12 certification. Just make sure that the safeguards are
13 built into the required tariffs to prevent a marketer
14 from not performing. If you put the provisions in
15 there where they have to get a signed contract by the
16 customer, if they slam the customer and somewhere in
17 there that's misrepresentation or fraud, if you put
18 penalties in for their non-performance, which is
19 backed up by guarantees, a surety bond, security,
20 which can be broken to meet the gas consumptions of
21 that marketer's pool, then the distributor will break
22 that security and provide for the gas so that the
23 customer is not harmed in any way.

24 There is nothing in the rule, there is
25 nothing physically which stops the unbundling to

1 proceed which can't be done within the tariffs. It's
2 just a matter of putting the safeguards in there for
3 your concerns, reliability, supplier of last resort,
4 slamming, and making sure that the suppliers or the
5 LDCs are maintained whole so that they are compensated
6 for the actual cost of service to provide this option
7 to the customer without hurting their stockholders.

8 Thank you.

9 CHAIRMAN GARCIA: Okay. Go ahead.

10 MR. BLAZER: Rich Blazer with Infinite
11 Energy.

12 I would like to restate that Infinite
13 Energy is supportive of the proposed rule. I would
14 also like to see if the Commission can set up a phone
15 number or something for customers to call that are
16 wanting or waiting for deregulation. I did have a
17 customer call the Commission last week -- it was
18 either last week or the week before -- and get hold of
19 somebody.

20 And when the customer called me back, he
21 told me he couldn't believe I had him call the
22 Commission because of what the Commission told him.
23 He didn't speak to any Commissioners. I guess they
24 talked to a Commissioner's aide. That looked very
25 poorly on me. I believe I wanted the customer to call

1 the Commission because all you hear from is the
2 marketers and the LDCs, and I know you want to hear
3 from the end use customer. But if I have a specific
4 phone number or a specific person that the person
5 could call, I can have the people call. At this
6 point, I'm not going to have them call, because I
7 don't want it to look bad on me anymore. Or, as
8 Mr. Richards said before, an address and a person's
9 name to put on the letter.

10 CHAIRMAN GARCIA: That's fine. We'll do
11 that for. And when we close the hearing, I want to
12 know who your customer spoke to just so we have an
13 idea of what's going on there.

14 MR. BLAZER: Sure. And Infinite Energy
15 doesn't see any need to meter all the firm accounts
16 now if you go down to a small commercial level on the
17 commercial side. The LDCs don't do it now. They
18 guess at the volume the customer is going to use and
19 supply that volume on a daily basis. There's no way
20 they can put in the exact amount of gas that that
21 commercial load is using. So there is an imbalance
22 that's created, but as the Florida Public Utilities
23 said, Mr. Schneidermann, it's a very small volume that
24 these customers could be out on a daily basis.

25 Thank you.

1 CHAIRMAN GARCIA: Okay.

2 MS. PENNINO: Chairman Garcia, we had
3 intended to share our five minutes, so if I could just
4 take two more.

5 As we stated earlier, we support
6 transportation service to the extent that it is
7 responsive to market demands. That's why we have as
8 much as we do. With the exception of the
9 implementation cost, which we're optimistic that those
10 will be recoverable, we don't have anything to lose
11 here. We are revenue neutral, and we recognize that
12 point that was made by others here. We would love to
13 have marketers marketing natural gas in our service
14 territory. That only helps us.

15 In response to the question you asked,
16 Chairman Garcia, about where are the customers today,
17 I've asked the same question. I've been responsible
18 for regulatory for Peoples Gas for two years now, and
19 I have yet to have a customer call me and say, "Please
20 reconsider where you are on your tariffs, and please
21 consider opening something up."

22 So I encourage those of you who do receive
23 those calls to please send them my way. We are a
24 company that will respond to the market forces. We
25 have to. We're in business to do that, and we want to

1 hear from our customers. I would hate to think that
2 we are that out of touch with our customers that
3 there's a cry out there that we're just flat out not
4 hearing.

5 We will respond to the market, and you as
6 Commissioners have permitted us to do so by enabling
7 us to transport as much we have, and that's why we
8 feel that the rule is not necessary.

9 MR. LANGSTON: Mr. Commissioner,
10 Mr. Chairman, my name is Mike Langston. I haven't
11 spoken before. I'm here on behalf of South Florida
12 Natural Gas. I just would like to comment that we're
13 basically in favor of this rule and would be
14 supportive of it.

15 There's two issues that we haven't heard
16 discussed today that I just wanted to throw out. One
17 is the issue of timing. To the extent the Commission
18 elects to order LDCs to file tariffs to implement this
19 transportation, we would prefer to have the
20 flexibility to make sure that that implementation
21 occurs in the summertime and not in the middle of
22 wintertime.

23 The second issue is customer education. We
24 went through a similar process in our Missouri
25 operations, and our survey showed that even the small

1 commercial and industrial customers did not fully
2 actually understand their gas bill and understand when
3 they converted to transportation exactly what that
4 meant, which part of their gas bill was going away,
5 which part of that gas bill they would be contracting
6 with others. So we would just ask that you make sure
7 that in your rule you provide enough time for those
8 activities.

9 CHAIRMAN GARCIA: Very good.

10 All right. Thank you all. Where does this
11 put us?

12 MS. HELTON: The way I see it, there's I
13 guess three options.

14 CHAIRMAN GARCIA: Okay.

15 MS. HELTON: The first one, which is
16 obviously the preferable one for Staff, would be that
17 we would bring the rule back again, and you all would
18 vote to propose it.

19 CHAIRMAN GARCIA: Okay.

20 MS. HELTON: The second one would be that
21 we would have direction from you that there are some
22 changes that you would like to see in the rule. We
23 would work those out, then bring that rule back to
24 you. Or the third is, which is obviously the least
25 preferable to Staff, you don't think that the rule is

1 necessary at all and you direct us to close the
2 docket.

3 CHAIRMAN GARCIA: Well, Commissioners,
4 what's your pleasure? I was thinking that what we
5 should perhaps do is have Staff come back to us with a
6 recommendation. They already have, but I think you
7 should address some of the issues that I think the
8 Commissioners have brought up today. It will give us
9 an opportunity to refine it.

10 Because this is a rule, I guess we can talk
11 about it to some degree with the industry as well as
12 with you. So maybe you should speak to each
13 Commissioner about what you're going to be filing, if
14 there's going to be any change in it, and then we'll
15 go from there to put it on an agenda, if that's all
16 right with you all, Commissioners.

17 MR. RICHARDS: Mr. Chairman, excuse me.
18 This is Allan Richards with End Users.

19 CHAIRMAN GARCIA: Yes.

20 MR. RICHARDS: I would like to open up a
21 suggestion for possibly a fourth option, that during
22 some time period, 30 days, 60 days, or what have you,
23 that the companies would be permitted to submit a
24 pro forma tariff that could meet some of the concerns,
25 if not all the concerns put into the rule, and if

1 these pro forma tariffs met the spirit and the
2 necessity of the rule, that possibly that could make
3 it much easier to move forward.

4 COMMISSIONER CLARK: You can always file a
5 tariff.

6 CHAIRMAN GARCIA: You can always do that.
7 But if you want to do something with Staff on this,
8 they're going to have to take a little bit of time,
9 and I don't think we're going to be looking at this in
10 the middle of Christmas, so I think --

11 MS. BANKS: I would anticipate now maybe we
12 would shoot for a recommendation due in February.

13 CHAIRMAN GARCIA: That's more than --
14 that's fine. And maybe that gives you an opportunity
15 to work something out in terms of filing a tariff that
16 maybe they'll like and the whole industry can live
17 with.

18 I want to thank Staff for this. It was
19 very enlightening. Thank you all.

20 (Proceedings concluded at 2:54 p.m.)

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STATE OF FLORIDA)

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CERTIFICATE OF REPORTER

COUNTY OF LEON)

I, MARY ALLEN NEEL, RPR,

DO HEREBY CERTIFY that the workshop in Docket
No. 960725-GU was heard by the Commissioners listed at
the time and place herein stated; it is further

CERTIFIED that I stenographically reported the
said proceedings; that the same has been transcribed
under my direct supervision; and that this transcript,
consisting of 174 pages constitutes a true
transcription of my notes of said proceedings.

DATED this 30th day of November, 1999.

Mary Allen Neel

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