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IN REPLY REFER TO:

September 19, 2003

Ansley Watson, Jr.
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e-mail: aw@macfar.com

VIA FEDEX

Blanca S. Bayo, Director
Division of Commission Clerk & Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

RECEIVED FPSC
3 SEP 22 AM 10:44
COMMISSION
CLERK

Re: Petition for approval of modifications to tariff provisions governing extension of mains and services, by Peoples Gas System

Dear Ms. Bayo:

Enclosed for filing with the Commission, please find the original and 15 copies of the petition of Peoples Gas System referenced above, together with a diskette containing the petition in Microsoft Word format. Enclosed also are five copies of revised tariff sheets containing the changes for which approval is sought by the petition, together with two legislative copies of the revised tariff sheets.

Please acknowledge your receipt and the date of filing of the enclosures, together with the docket number assigned, on the enclosed duplicate copy of this letter, and return the same to me in the preaddressed envelope which is also enclosed.

Thank you for your usual assistance.

Sincerely,

Ansley Watson Jr.
Ansley Watson, Jr.

2003 SEP 22 AM 9:39
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AWjr/a

Enclosures

cc: Mrs. Kandi R. Floyd
Ms. Angela Llewellyn
Mr. Wayne R. Makin

DOCUMENT NUMBER-DATE

09047 SEP 22 03

FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for approval of)
modifications to tariff provisions)
governing extension of mains and)
services, by Peoples Gas System)

Docket No. 030923-60

Submitted for Filing:
9-22-03

PETITION OF PEOPLES GAS SYSTEM

Peoples Gas System ("Peoples" or the "Company"), by its undersigned attorneys and pursuant to Rule 28-106.201, *Florida Administrative Code*, petitions the Commission for approval of revisions to its tariff provisions governing the extension of mains and services to provide gas service facilities to new customers. In support of its petition, Peoples states:

1. The name of the petitioner and the mailing address of its principal office are:

Peoples Gas System
702 North Franklin Street, 7th Floor
Tampa, Florida 33602

2. The names and mailing addresses of the persons authorized to receive notices and communications with respect to this petition are:

Ansley Watson, Jr., Esquire
Macfarlane Ferguson & McMullen
P. O. Box 1531
Tampa, Florida 33601-1531

and

Angela Llewellyn
Peoples Gas System
P. O. Box 2562
Tampa, Florida 33601-2562

DOCUMENT NUMBER-DATE

09047 SEP 22 8

FPSC-COMMISSION CLERK

EXTENSION OF MAINS AND SERVICES

3. Peoples extends main pipelines and service facilities in accordance with Rule 25-7.054, *Florida Administrative Code*, and the provisions of its Commission-approved tariff. The rule requires each utility to maintain a standard policy governing the amount of main and service extension that will be made at no cost to a new customer. It further declares that the amount of free extension invested by a utility should relate to the anticipated revenue to be received. When a customer and the utility disagree regarding the amount of free extension to be made, the rule provides that the Commission will be guided by the maximum allowable construction cost ("MACC"). The MACC is defined in the rule as being an amount equal to four times the estimated annual gas revenues to be derived from the facilities, less the cost of gas. The rule provides, however, that a utility may establish policies that are more favorable to the customer.

4. The specific Peoples tariff provisions governing main and service extensions were most recently approved by the Commission's Order No. PSC-94-1341-FOF-GU, issued October 31, 1994 in Docket No. 940960-GU.

5. For facility extensions involving both mains and services, the Company's tariff defines the MACC to be five times the annual revenue to be derived from the extended facilities, less the cost of gas, and requires a deposit from the customer for the amount by which the estimated construction cost for an extension exceeds the MACC calculated for such extension.

RELIEF REQUESTED

6. Peoples proposes to modify its tariff rules and regulations governing main

and service extensions to reduce the MACC (as calculated under the Company's tariff) from five times the estimated annual revenue (less the cost of gas) to four times the estimated annual revenue (less the cost of gas). The change proposed will be consistent with the Commission's Rule 25-7.054, and will also help to ensure that the Company is not required to make extensions of mains and services to the detriment of its existing ratepayers.

The Commission Rule

7. Paragraphs (1) and (2) of Rule 25-7.054 *require* that (i) each natural gas utility "develop a standard policy governing the amount of main and/or service extension which will be made free to connect a new customer," (ii) that "the amount of free extension made should be related to the investment that can prudently be made for the anticipated revenue to be received," and (iii) that such standard policy be filed by such utility as part of the rules and regulations in its tariff.

8. Paragraph (3) of the rule provides that if a utility and a consumer cannot agree in regard to an extension, either party may appeal to the Commission for a review, and that the Commission, unless special circumstances prevent,¹ will be guided by the general principles set forth in Paragraph (3) in resolving the appeal. One of those general principles is the concept of the MACC for an extension, which the rule states will be four times the estimated annual revenue, less the cost of gas. Paragraph (3)(c) of the rule appears to permit a natural gas utility to establish extension policies more favorable to consumers (presumably more favorable than those contained in the

¹ Nothing in the rule suggests what may constitute "special circumstances" that may "prevent" the Commission from being guided by the principles set forth in Paragraph (3) of the rule in resolving a disagreement between a utility and a consumer with respect to an extension of facilities.

guiding principles set forth in Paragraph (3)) so long as no discrimination is practiced between consumers.

9. Various Florida natural gas utilities have established extension policies pursuant to Rule 25-7.054 with different multipliers of the estimated annual revenue to be derived from an extension. For example, City Gas Company of Florida and the Central Florida Division of Chesapeake Utilities use a multiplier of six, St. Joe Natural Gas uses a multiplier of 10, and Florida Public Utilities Company uses a multiplier of four, consistent with the guiding principle set forth in the Commission's rule. Peoples seeks to reduce the multiplier set forth in its extension policy to four for purposes of calculating the MACC, and submits that such reduction is consistent with the guiding principle set forth in the Commission's rule.

Effect on Peoples' Customers

10. As mentioned in Paragraph 6 above, the reduction of the multiplier will also help ensure that Peoples' existing customers are not detrimentally affected by the multiplier used to calculate the MACC for extensions of the Company's facilities needed to serve potential new customers.

11. Most of the facilities extensions needed to serve potential new customers are to serve commercial customers. Exhibits A (using the Company's existing five-year multiplier) and B (using the four-year multiplier for which approval is sought) attached to this petition show estimates (based on current economic conditions) of the effects on the Company's existing customers for typical extensions for typical commercial customers in the commercial rate classes. As indicated by these two exhibits, extensions using a five-year multiplier generally produce a return on equity below the

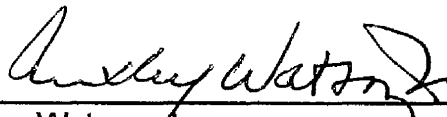
Company's currently authorized range, while those using a four-year multiplier would generally produce a return on equity at or slightly above such range. Clearly, under current conditions, extensions using the existing five-year multiplier would have the potential to adversely affect the Company's existing ratepayers. Peoples seeks to avoid such potential by reducing the multiplier used to calculate the MACC for extensions to serve new customers from five to four.

REVISED TARIFF SHEETS

12. Revised tariff sheets reflecting the single modification to Peoples' main extension policies for which approval is sought accompany this petition. Legislative copies, showing that change are also filed herewith.

WHEREFORE, Peoples Gas System respectfully requests that the Commission grant the relief sought by this petition, and enter its order approving the modified tariff provision which has been submitted with this petition, such approval to become effective as of the date of the Commission's vote.

Respectfully submitted,



Ansley Watson, Jr.
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E-mail: aw@macfar.com
Attorneys for Peoples Gas System

**Peoples Gas System
Main & Service Extension
Feasibility Analysis**

EXHIBIT A

Project Payback Years

5	5	5	5	5
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Assumption:

Adding 1 Commercial Customer - Annual Therms	10,000	35,000	175,000	350,000	650,000
Rate Class	GS-1	GS-2	GS-3	GS-4	GS-5
Customer Charge	\$ 30.00	\$ 35.00	\$ 45.00	\$ 85.00	\$ 150.00
Base Rate	\$0.23045	\$0.22267	\$0.19533	\$0.17828	\$0.10041
Annual revenue	\$ 2,665	\$ 8,213	\$ 34,723	\$ 63,418	\$ 67,067

Maximum Allowable Construction Cost (MACC)

\$ 13,323	\$ 41,067	\$ 173,614	\$ 317,090	\$ 335,333
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Capital Structure:

	Ratio	Cost Rate (1)	Amount	Amount	Amount	Amount	Amount
Shareholders' Equity	51.68%		\$ 6,885	\$ 21,224	\$ 89,724	\$ 163,872	\$ 173,300
Long Term Debt	34.90%	7.73%	4,650	14,332	60,591	110,664	117,031
Short Term Debt	1.64%	3.40%	218	674	2,847	5,200	5,499
Customer Deposits	6.11%	6.76%	814	2,509	10,608	19,374	20,489
Tax Credits	5.67%		755	2,329	9,844	17,979	19,013
	100.00%		\$ 13,323	\$ 41,067	\$ 173,614	\$ 317,090	\$ 335,333

Income Statement:

Net Revenue			\$ 2,665	\$ 8,213	\$ 34,723	\$ 63,418	\$ 67,067
Less: O&M Expense		(2)	474	1,313	2,999	9,414	13,515
Depreciation Expense	@	4.59% (3)	612	1,885	7,969	14,554	15,392
Taxes Other (Property)	@	1.80% (4)	240	739	3,125	5,708	6,036
Taxes Other (Revenue)	@	0.50% (5)	67	205	868	1,585	1,677
Income Tax	@	38.58%	328	1,069	5,502	8,531	7,649
Net Operating Income			944	3,002	14,259	23,625	22,798
Interest Expense			422	1,300	5,498	10,041	10,619
Net Income			\$ 523	\$ 1,702	\$ 8,762	\$ 13,584	\$ 12,180

Implicit Return on Equity	7.59%	8.02%	9.77%	8.29%	7.03%
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- (1) Actual Capital Structure and Cost Rates at June 30, 2003
- (2) Based on Cost of Service Study in last Rate Case
- (3) Overall effective depreciation rate based in plant at 12/31/02
- (4) Actual effective rate for 2002
- (5) Regulatory Assessment Fee

**Peoples Gas System
Main & Service Extension
Feasibility Analysis**

EXHIBIT B

Project Payback Years	4	4	4	4	4
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Assumption:					
Adding 1 Commercial Customer - Annual Therms	10,000	35,000	175,000	350,000	650,000
Rate Class	GS-1	GS-2	GS-3	GS-4	GS-5
Customer Charge	\$ 30.00	\$ 35.00	\$ 45.00	\$ 85.00	\$ 150.00
Base Rate	\$0.23045	\$0.22267	\$0.19533	\$0.17828	\$0.10041
Annual revenue	\$ 2,665	\$ 8,213	\$ 34,723	\$ 63,418	\$ 67,067

Maximum Allowable Construction Cost (MACC)	\$ 10,658	\$ 32,854	\$ 138,891	\$ 253,672	\$ 268,266
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Capital Structure:	Ratio	Cost Rate (1)	Amount	Amount	Amount	Amount	Amount
Shareholders' Equity	51.68%		\$ 5,508	\$ 16,979	\$ 71,779	\$ 131,098	\$ 138,640
Long Term Debt	34.90%	7.73%	3,720	11,466	48,473	88,532	93,625
Short Term Debt	1.64%	3.40%	175	539	2,278	4,160	4,400
Customer Deposits	6.11%	6.76%	651	2,007	8,486	15,499	16,391
Tax Credits	5.67%		604	1,863	7,875	14,383	15,211
	100.00%		\$ 10,658	\$ 32,854	\$ 138,891	\$ 253,672	\$ 268,266

Income Statement:							
Net Revenue			\$ 2,665	\$ 8,213	\$ 34,723	\$ 63,418	\$ 67,067
Less: O&M Expense		(2)	474	1,313	2,999	9,414	13,515
Depreciation Expense	@	4.59% (3)	489	1,508	6,375	11,644	12,313
Taxes Other (Property)	@	1.80% (4)	192	591	2,500	4,566	4,829
Taxes Other (Revenue)	@	0.50% (5)	53	164	694	1,268	1,341
Income Tax	@	38.58%	432	1,387	6,849	10,991	10,250
Net Operating Income			1,025	3,249	15,305	25,535	24,817
Interest Expense			337	1,040	4,398	8,033	8,495
Net Income			\$ 687	\$ 2,209	\$ 10,907	\$ 17,502	\$ 16,322

Implicit Return on Equity	12.47%	13.01%	15.19%	13.35%	11.77%
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- (1) Actual Capital Structure and Cost Rates at June 30, 2003
- (2) Based on Cost of Service Study in last Rate Case
- (3) Overall effective depreciation rate based in plant at 12/31/02
- (4) Actual effective rate for 2002
- (5) Regulatory Assessment Fee

VI

MAIN AND SERVICE EXTENSIONS

A. MAIN EXTENSIONS

Whenever a prospective Customer or other person, such as a real estate developer, municipality, township, county, or other authority ("Depositor"), requests Gas Service at a location where the Company does not have a Main, the Company will extend its Mains and Services to serve the prospective Customer or Customers under the following conditions (for provisions governing installation of service lines only, see VI.B):

1. The extension of Gas Service to the prospective Customer will not jeopardize Gas Service to existing Customers.
2. The maximum capital cost to be incurred by the Company for an extension of Main and Service facilities shall be defined as the Maximum Allowable Construction Cost. The Maximum Allowable Construction Cost shall equal four (4) times the estimated annual revenue to be derived from the facilities less the cost of Gas. Where the Company, in its reasonable discretion, believes that there is significant uncertainty regarding the revenues to be derived from service provided through the requested extension of Main and Service facilities, the Company shall use reasonable efforts to calculate the MACC giving due consideration to such uncertainty.
3. Where the facilities to be installed will require an investment by the Company in excess of the Maximum Allowable Construction Cost, the Company will construct the necessary facilities provided the Customer or Depositor deposits with the Company an amount equal to the excess of the estimated construction cost over the Maximum Allowable Construction Cost. In this case, the Company and the Depositor will then enter into a Construction Deposit Agreement which will provide for either a) the receipt of the deposit by the Company and including terms and conditions for refund to the Depositor or b) a mutually agreeable pay arrangement that will provide for the guaranteed throughput for prospective customer or project. In consideration of the Company's having to use the deposit to finance the installation of facilities, the deposit made by the Depositor will be non-interest bearing.
4. Refund of Deposits: Deposits shall be refunded to Depositors in accordance with the following procedures.
 - a. At the end of the first year following the date on which Gas Service to the Depositor is initiated by the Company, the Company shall recalculate the Maximum Allowable Construction Cost. A re-estimation of the annual revenue (considering the actual revenue derived during the first year) shall be used in such recalculation. The Company shall refund

MAIN AND SERVICE EXTENSIONS (Continued)

to the Depositor an amount equal to the positive difference (if any) determined by subtracting (i) the Maximum Allowable Construction Cost as determined under section A.(2) above from (ii) the Maximum Allowable Construction Cost as recalculated utilizing actual revenue pursuant to this paragraph.

- b. For each additional Customer taking Gas Service from any point on the extended Main or Service facilities within a period of four (4) years from the date of construction, the Company shall refund to the Depositor the amount by which the Maximum Allowable Construction Cost of the new Customer exceeds the cost of connecting such new Customer, provided that an additional Main extension shall not have been necessary to serve such additional Customer. Where the Depositor and the Company agree that new Customers are likely to connect to the extended facilities over a period longer or shorter than four (4) years, the Depositor and the Company may agree, within the Construction Deposit Agreement, to provide for refunds over such longer or shorter period as the parties agree is reasonable and appropriate under the circumstances.
- c. The aggregate refund to any Depositor made through the provisions of (a) and (b) above shall not exceed the original deposit of such Depositor.
- d. The extension shall at all times be the property of the Company, and any unrefunded portion of said deposit at the end of four (4) years, or such longer or shorter period as may be agreed by the Depositor and Company pursuant to section (4)(b) above, shall accrue to the Company.

B. SERVICE EXTENSIONS FROM EXISTING MAINS

The Company will install, at no charge to the Customer, the Gas Service Facilities, commencing from an existing Main, necessary to serve a Customer applying for Gas Service, where the cost of such service extension does not exceed the Maximum Allowable Construction Cost as defined in section VI.A. (2) above. Customers not meeting the above criteria will be required to make a non-refundable contribution in aid of construction based on the difference between the cost of the required service facilities and the Maximum Allowable Construction Cost as calculated for each respective Customer.

C. RELOCATION OF GAS SERVICE FACILITIES

When alterations or additions to structures or improvements on premises to which the Company renders Gas Service necessitate the relocation of Company's metering equipment or service line, or when such relocation is requested by the Customer for whatever reason, Customer may be required to reimburse the Company for all or any part of the costs incurred by the Company in the performance of such relocation.

VI

MAIN AND SERVICE EXTENSIONS

A. MAIN EXTENSIONS

Whenever a prospective Customer or other person, such as a real estate developer, municipality, township, county, or other authority ("Depositor"), requests Gas Service at a location where the Company does not have a Main, the Company will extend its Mains and Services to serve the prospective Customer or Customers under the following conditions (for provisions governing installation of service lines only, see VI.B):

1. The extension of Gas Service to the prospective Customer will not jeopardize Gas Service to existing Customers.
2. The maximum capital cost to be incurred by the Company for an extension of Main and Service facilities shall be defined as the Maximum Allowable Construction Cost. The Maximum Allowable Construction Cost shall equal four (4) ~~five (5)~~ times the estimated annual revenue to be derived from the facilities less the cost of Gas. Where the Company, in its reasonable discretion, believes that there is significant uncertainty regarding the revenues to be derived from service provided through the requested extension of Main and Service facilities, the Company shall use reasonable efforts to calculate the MACC giving due consideration to such uncertainty.
3. Where the facilities to be installed will require an investment by the Company in excess of the Maximum Allowable Construction Cost, the Company will construct the necessary facilities provided the Customer or Depositor deposits with the Company an amount equal to the excess of the estimated construction cost over the Maximum Allowable Construction Cost. In this case, the Company and the Depositor will then enter into a Construction Deposit Agreement which will provide for either a) the receipt of the deposit by the Company and including terms and conditions for refund to the Depositor or b) a mutually agreeable pay arrangement that will provide for the guaranteed throughput for prospective customer or project. In consideration of the Company's having to use the deposit to finance the installation of facilities, the deposit made by the Depositor will be non-interest bearing.
4. Refund of Deposits: Deposits shall be refunded to Depositors in accordance with the following procedures.
 - a. At the end of the first year following the date on which Gas Service to the Depositor is initiated by the Company, the Company shall recalculate the Maximum Allowable Construction Cost. A re-estimation of the annual revenue (considering the actual revenue derived during the first year) shall be used in such recalculation. The Company shall refund

MAIN AND SERVICE EXTENSIONS (Continued)

to the Depositor an amount equal to the positive difference (if any) determined by subtracting (i) the Maximum Allowable Construction Cost as determined under section A.(2) above from (ii) the Maximum Allowable Construction Cost as recalculated utilizing actual revenue pursuant to this paragraph.

- b. For each additional Customer taking Gas Service from any point on the extended Main or Service facilities within a period of four (4) five (5) years from the date of construction, the Company shall refund to the Depositor the amount by which the Maximum Allowable Construction Cost of the new Customer exceeds the cost of connecting such new Customer, provided that an additional Main extension shall not have been necessary to serve such additional Customer. Where the Depositor and the Company agree that new Customers are likely to connect to the extended facilities over a period longer or shorter than four (4) five (5) years, the Depositor and the Company may agree, within the Construction Deposit Agreement, to provide for refunds over such longer or shorter period as the parties agree is reasonable and appropriate under the circumstances.
- c. The aggregate refund to any Depositor made through the provisions of (a) and (b) above shall not exceed the original deposit of such Depositor.
- d. The extension shall at all times be the property of the Company, and any unrefunded portion of said deposit at the end of four (4) five (5) years, or such longer or shorter period as may be agreed by the Depositor and Company pursuant to section (4)(b) above, shall accrue to the Company.

B. SERVICE EXTENSIONS FROM EXISTING MAINS

The Company will install, at no charge to the Customer, the Gas Service Facilities, commencing from an existing Main, necessary to serve a Customer applying for Gas Service, where the cost of such service extension does not exceed the Maximum Allowable Construction Cost as defined in section VI.A. (2) above. Customers not meeting the above criteria will be required to make a non-refundable contribution in aid of construction based on the difference between the cost of the required service facilities and the Maximum Allowable Construction Cost as calculated for each respective Customer.

C. RELOCATION OF GAS SERVICE FACILITIES

When alterations or additions to structures or improvements on premises to which the Company renders Gas Service necessitate the relocation of Company's metering equipment or service line, or when such relocation is requested by the Customer for whatever reason, Customer may be required to reimburse the Company for all or any part of the costs incurred by the Company in the performance of such relocation.