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State of Florida



Public Service Commission

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COMMISSION
CLERK

-M-E-M-O-R-A-N-D-U-M-

DATE: October 7, 2004

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Competitive Markets & Enforcement (Brown, Bulecza-Banks, Casey, Makin) *SPB* *CRMB* *DM for BWS*
 Division of Economic Regulation (Kummer) *JOJ*
 Office of the General Counsel (Vining) *Walt*

RE: Docket No. 040975-GU – Petition for approval of revisions to Tariff Sheets Nos. 68-70, Alternative Fuel Discount Rider, by City Gas Company of Florida.

AGENDA: 10/19/04 – Regular Agenda – Tariff Filing- Interested Persons May Participate

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\CMP\WP\040975.RCM.DOC

Case Background

On August 30, 2004, City Gas Company of Florida, a Division of NUI Utilities, Inc., (City Gas or Company) filed a petition for approval of revisions to Tariff Sheets Nos. 68-70, Alternative Fuel Discount Rider (AFD). By this petition, City Gas seeks approval of tariff revisions to change the Company's AFD Rider. The Company explains that the proposed modifications are designed to clarify and simplify the AFD Rider to promote the use of cleaner burning natural gas. The proposed modifications will also enhance the Company's ability to compete with alternate fuels in its service territory. The AFD provides for a discount off the applicable tariff rates to compete with the customer's alternate fuel price. On September 28, 2004, the Company revised the proposed tariff sheets filed with its August 30, 2004, petition.

The implementation of natural gas tariffs that provide discounts for alternate fuels began in the mid-80's. In 1985, by separate petitions, Gulf Natural Gas Corporation (Docket No. 850204-GU), Peoples Gas System, Inc. (Docket No. 85203-GU), and Central Florida Gas Corporation (Docket No. 85213-GU) sought modifications to their interruptible rate schedules.

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that would allow them to adjust rates charged to individual interruptible customers in order to compete with alternate fuels available to those customers. Under the proposals, an interruptible customer would complete an application for the reduced rate and submit an affidavit stating the source of the alternate fuel and its cost. The petitions were filed in order to gain flexibility to meet the price of an interruptible customer's existing alternate fuel by lowering the company's energy charge and/or customer charge. Subsequently, the Commission approved the proposed tariffs on an interim basis, and announced that similar tariffs from the remaining natural gas utilities would be temporarily approved. Pursuant to Commission Order No. 14965 issued September 17, 1985, City Gas incorporated "contract interruptible service" into its tariffs effective April 1, 1986. The tariff has undergone modification over the years to update changes proposed by the Company.

Jurisdiction in this matter is vested in the Commission by several provisions of Chapter 366, Florida Statutes, including Sections 366.04, 366.05, and 366.06, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission approve City Gas's petition for Approval of Revisions to Tariff Sheets Nos. 68-70, the Alternative Fuel Discount Rider?

Recommendation: Yes. The Commission should approve City Gas's petition for Approval of Revisions to Tariff Sheets Nos. 68-70, the Alternative Discount Rider. (BROWN, BULECZA-BANKS, CASEY, MAKIN, KUMMER)

Staff Analysis: On August 30, 2004, City Gas filed a petition for approval of revisions to Tariff Sheets Nos. 68-70, AFD Rider. By this petition, City Gas seeks approval of tariff revisions to change the company's AFD Rider.

The Company's proposed modifications include eliminating the existing required quarterly price affidavits and allowing the company to set and periodically discount the tariff rate based on publicly available monthly indices for alternate fuels. The advantages of using published fuel price indices, when available, over the affidavits, include receiving real time pricing comparisons between natural gas and the alternative fuel, as well as pricing consistency among customers utilizing the same alternate fuel. This will deter customers from gaming the system when submitting affidavits. In rare cases when published prices for alternative fuel are not available, the customer, when requested, will assist the Company in identifying an appropriate methodology for determining the therm BTU equivalency value and price of the alternate fuel to be used. Additionally, when the customer does not have installed operational alternative fuel equipment, the customer would be required to provide the Company cost estimates to install alternate fuel equipment and appurtenances suitable for their applications, along with estimates of incremental costs to operate and maintain the customer's alternate fuel system. This information would be used by the Company in determining the appropriate AFD for the customer.

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The Company proposes that upon acceptance of service under the AFD Rider and for a period of one year after discontinuing service, the customer would be obligated to use natural gas exclusively unless directed by or with the prior agreement of the Company. The purpose of the AFD is to provide a discount when market conditions warrant. When the market does not support the need for a discount, the Company charges the tariff rate. The proposed provision is designed to prevent customers from receiving the discount and then temporarily leaving the system when market conditions no longer support the need for a discount. Finally, the Company clarifies its curtailment policy by identifying the types of situations where the customer would be subject to curtailment. These situations include: non delivery by the customer's transportation provider, supply shortages, operational constraints, or *force majeure* conditions.

Based upon its review of the petition, staff recommends that the Commission approve the Company's petition for revisions to Tariff Sheets Nos. 68-70, Alternative Fuel Discount Rider. Approval of the revised tariff would not result in any additional margin for the Company, or change any of the General Service rates under which customers would qualify for the AFD. The proposed tariff modifications would enhance the Company's ability to compete with alternate fuels in its service territory, retain firm revenue contributions, and prevent potential customers from gaming the system and gaining an unfair price advantage over other customers.

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Issue 2: Should this docket be closed?

Recommendation: Yes. If Issue 1 is approved, the revised Tariff Sheets Nos. 68-70 should become effective on October 19, 2004. If a protest is filed within 21 days of the issuance of the order, the tariff should remain in effect with any increase held subject to refund pending resolution of the protest. If no timely protest is filed, this docket should be closed upon issuance of a consummating order. (VINING)

Staff Analysis: If Issue 1 is approved, the revised Tariff Sheets Nos. 68-70 should become effective on October 19, 2004. If a protest is filed within 21 days of the issuance of the order, the tariff should remain in effect with any increase held subject to refund pending resolution of the protest. If no timely protest is filed, this docket should be closed upon issuance of a consummating order.