

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: August 3, 2006

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

FROM: Division of Competitive Markets & Enforcement (Broussard, Bulecza-Banks) *CB*
Office of the General Counsel (Brown) *MCB*

RE: Docket No. 060482-GU – Petition for approval of tariff modifications related to alert days and monthly balancing of deliveries, by Peoples Gas System. *MB*

AGENDA: 08/15/06 – Regular Agenda - Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 08/28/06 (60-Day Suspension Date)

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\CMP\WP\060482.RCM.DOC

Case Background

On June 28, 2006, Peoples Gas System (“Peoples” or the “Company”) filed a petition to modify sections of its Natural Gas Tariff relating to alert days and monthly balancing of gas deliveries. These sections apply to Peoples’ transportation customers. Transportation customers purchase their gas supplies from an entity other than the gas company. The gas company, in this case Peoples, provides the delivery of the gas. (Sales service customers purchase gas from the gas company and have it delivered by the gas company as a bundled service.)

Peoples has proposed several changes to its tariff. Of most significance is the addition of a provision that would allow Individual Transportation Service (ITS) customers an optional method to manage their gas supplies. Currently, during periods of operational constraint, ITS customers may be faced with penalties if the amount of gas consumed varies significantly from the amount of gas delivered into the pipeline. Under the optional method, ITS customers would

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have the choice to be members of a "pool." By participating in a pool, customers would be able to offset their usage variance against other customers. The ITS customers who overburned (consumed more gas than was delivered into the pipeline) could have their variance offset by the customers who underburned (consumed less gas than was delivered into the pipeline). Offsetting such variances serves to reduce or possibly eliminate penalties.

Peoples is also proposing to reduce the penalty rates it assesses on customers during times of operational constraints. Given the price of natural gas today, Peoples believes its current penalty rates may be too stringent when assessed on individual customers. While penalties will continue to be assessed when transportation customers exceed the usage tolerances, the penalty rates will be reduced to a level Peoples believes is more reasonable.

Peoples has also included a provision specifying the procedure to be used to account for penalty revenues. As proposed, any penalty revenues received by Peoples in excess of any penalty monies Peoples must pay to the interstate pipelines will be credited to Peoples purchased gas adjustment (PGA), thus, lowering the cost of gas to Peoples' sales service customers. The credit to the PGA would be net of regulatory assessment fees due on the penalty revenue.

One final tariff modification proposed by Peoples pertains to the calculation of monthly variances and the time frame for the customer to settle its monthly variance. Under its proposal, Peoples will calculate the monthly variance (imbalance) based on the amount of gas the customer consumed versus the amount delivered into the pipeline. The customer is responsible for resolving the monthly imbalance amount.¹

The Commission has jurisdiction pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

¹ Peoples will post a list of monthly imbalance amounts on its web site by noon on the 10th calendar day of each month. If the 10th calendar day of the month falls on a federal banking holiday or a weekend, then the Company will post a list of monthly imbalance amounts on the next succeeding business day. Customers shall have a "book out" period (the period from the date of such posting until 5 p.m. Eastern Clock Time on the 4th business day of the month following the company's posting of the monthly imbalance amount) within which to utilize the book out provisions. To book out, a customer with a variance in one direction (overage or underage) contacts a customer of Peoples with a variance in the other direction.

Discussion of Issues

Issue 1: Should the petition by Peoples Gas System for approval of tariff modifications related to alert days and monthly balancing of deliveries be approved?

Recommendation: Yes. The Commission should approve Peoples Gas System's proposed tariff modifications related to alert days and monthly balancing effective August 15, 2006, the date of the Commission vote in this matter.

Staff Analysis: Peoples has proposed several tariff modifications related to alert days and monthly balancing. The most significant modification relates to the inclusion of a provision that would allow individual transportation service (ITS) customers to participate in a customer pool. For purposes of this proposal, an ITS Customer Pool means a group of individual customer accounts, each of which receives transportation service from the Company and each customer is grouped together for the purpose of determining any alert day penalties.

Currently, on a daily basis, ITS customers (or their designated agent, such as a marketer) designate an amount of gas to be transported to an interstate pipeline for delivery in Peoples' distribution system. In most instances, the gas consumed by the ITS customer will not be the same as the amount of gas delivered into the pipeline. During operational constraints, if the difference between the amount delivered into the system versus the amount consumed varies significantly, penalties can be imposed. The penalty provisions are designed to encourage customers to appropriately manage their gas supplies so that the interstate pipeline and distribution companies operate effectively and efficiently. For example, if a customer designated a particular volume of gas to be delivered into the pipeline and then used significantly more than was delivered, the pressure in the pipe would drop, which could lead to operational difficulties.

Penalties are also imposed to prevent customers from manipulating deliveries based on gas prices. Under current tariff provisions, each month, ITS customers are required to balance the volume of gas delivered into the pipeline with the volume of gas actually consumed. As the price of gas changes daily, and at times significantly, penalties are established to prevent the opportunity for customers to use more gas when prices are lower and less gas when prices are higher.

During operational constraints, ITS customers whose consumption varies from what was delivered, can be assessed penalties. As it is sometimes difficult to project the amount of gas to be consumed on a single day, ITS customers may face penalties. To assist these customers, Peoples is offering ITS customers the opportunity to participate in a customer pool. By participating in a pool, an ITS customer would have the benefit of offsetting overages or underages with other customers. Such offsets can serve to reduce or mitigate penalties.

Peoples is also proposing to reduce its current alert day charges. The interstate pipeline, as well as Peoples, may issue an "Alert Day Notice." The purpose of the notice is to inform customers that due to operational constraints, deliveries and consumption must be kept within a specified level. For example, an alert day notice could be issued requiring the customer to consume no more than 10 percent above his actual deliveries into the system. If the customer

consumes more than 110 percent of the gas delivered into the pipeline, the customer would be faced with penalty assessments. Peoples' current penalty provision requires a transportation customer to pay significant penalties if the customer does not meet the requirements of the Alert Day Notice.² Peoples is proposing to essentially reduce its penalty rate by 50 percent. Peoples has determined that its penalty rates may be too great to impose on an individual customer because those rates are based on the current gas price and gas prices have been notably high. As such, Peoples has proposed a reduction to its penalty rates. By maintaining a penalty provision, customers will still have the incentive to strive for a balance between deliveries and consumption, but at half the existing rate, and they will not be overly burdened if they find themselves in a variance situation.

Alert Day Penalties can be assessed by interstate pipelines, as well as Peoples. The interstate pipeline assesses Alert Day Penalties on the Delivery Point Operators (DPO). In this case, Peoples is the DPO and will be assessed any Alert Day Penalties. Peoples is also entitled to assess Alert Day Penalties on transportation customers. Under its proposed tariff modification, any penalty revenue that Peoples obtains from its transportation customers will be used to satisfy penalties assessed by the interstate pipelines. Any monies remaining (after considering regulatory assessment fees that are due on the penalty revenue) will be applied as a credit to Peoples PGA, thus reducing the gas costs to Peoples sales service customers. Staff believes this is an appropriate use of the penalty revenues.

Through its petition, Peoples seeks approval to calculate customers' monthly imbalance amounts based on the difference between gas consumed and gas delivered to the interstate pipeline. The difference between these two volumes would be the "imbalance" amount for which the customer would be responsible for resolving. Staff believes this is an appropriate method to calculate the imbalance.

Peoples seeks to clarify that the book out period extends from the time Peoples posts a list of the monthly imbalance amounts (the 10th calendar day of the month) until 5 p.m. Eastern Clock Time on the 4th business day of the month following the company's posting of the monthly imbalance amount. This change is not significant as the change in due dates from the 10th calendar day of the month to the 4th business day following the month result in the same due date or in certain instances, slightly extends the period of time for the customer to take action.

Staff believes that Peoples' proposed tariff modifications are reasonable and will provide benefits to both Peoples transportation customers and its bundled sales service customers. Allowing ITS customers to participate in a pool provides a new service offering that transportation customers may wish to take advantage of. Further, the reduction in penalties will also serve to benefit customers during times when they are unable to adjust their consumption levels to match their delivered volumes. Using the penalty revenues as a credit to Peoples PGA also provides benefits to Peoples sales service customers by reducing their cost of gas. The remainder of the proposed changes either clarify, simplify, or correct existing provisions. Based

² An Alert Day Charge per MMBtu equal to two times the higher of (i) the highest Daily Midpoint price for Gas in any FGT Zone as published in *Gas Daily* for the Day on which the Alert Day Account was established, plus Florida Gas Transmission's (FGT) FTS-2 100% load factor rate, or (ii) FGT's City Gate Delivered price for Gas as published in *Gas Daily* for the Day on which the Alert Day Account was established.

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on the above analysis, staff recommends that Peoples proposed tariff modifications be approved effective August 15, 2006, the date of the Commission vote in this matter.

Issue 2: Should this docket be closed?

Recommendation: Yes. If no person whose substantial interests are affected, timely files a protest of the Commission's Tariff Order, the docket may be closed upon the issuance of a Consummating Order. If a timely protest is filed, the tariff should remain in effect pending resolution of the protest, with revenues held subject to refund. (Brown)

Staff Analysis: If no person whose substantial interests are affected, timely files a protest of the Commission's Tariff Order, the docket may be closed upon the issuance of a Consummating Order. If a timely protest is filed, the tariff should remain in effect pending resolution of the protest, with revenues held subject to refund.