	11	. 1	
1		BEFORE THE	
2	FL(ORIDA PUBLIC SERVICE COMMISSION	
3	In the Matter of:	DOCKET NO. 080072-GU	
4	PETITION FOR APPROVAL OF A RESIDENTIAL		
5	STANDBY GENERATOR RATE SCHEDULE, BY FLORIDA PUBLIC UTILITIES COMPANY.		
6		/	
7			
8			
9			
10			
11			
12			
13			
14			
15	PROCEEDINGS:	AGENDA CONFERENCE ITEM NO. 12	
16	BEFORE:	CHAIRMAN MATTHEW M. CARTER, II	
17		COMMISSIONER LISA POLAK EDGAR COMMISSIONER KATRINA J. McMURRIAN COMMISSIONER NANCY ARGENZIANO	
18		COMMISSIONER NATHAN A. SKOP	
19	DATE:	Tuesday, September 16, 2008	
20	PLACE:	Betty Easley Conference Center	
21	PLACE:	Room 148 4075 Esplanade Way	
22		Tallahassee, Florida	
23	REPORTED BY:	JANE FAUROT, RPR	
24		Official FPSC Reporter (850) 413-6732	
25		DOCUMENT NUMBER -DATE	
		ე 9 0 3 Ļ SEP 2 5 ზ	
	FLORIDA	PUBLIC SERVICE COMMISSION	

FLORIDA PUBLIC SERVICE COMMISSION

FPSC-COMMISSION CLERK

PARTICIPATING: NORMAN H. HORTON, JR., ESQUIRE, and MARK SEAGRAVE, representing Florida Public Utilities Company. KEINO YOUNG, ESQUIRE, ELIZABETH DRAPER, CHERYL BULECZA-BANKS, and CONNIE KUMMER, representing the Florida Public Service Commission Staff.

PROCEEDINGS

2

3

4

5

6

8

7

9

10 11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

CHAIRMAN CARTER: Now, Commissioners, we are on Item Number 12. Let's give staff a moment to get set up there.

Staff, you are recognized. '

MS. DRAPER: Commissioners, this is Elizabeth Draper with the Commission staff.

Item 12 is FPUC's petition for a gas-fired generator-only rate schedule. Staff is recommending that the proposed rate be approved for new customers only and existing customers be allowed to remain on the residential rate at least until FPUC's next rate case, which will be before you for decision next year.

Staff is also recommending that FPUC develop in its rate case a generator-only rate schedule based on cost of service to such customers. Staff is here to answer your questions and so is the company.

CHAIRMAN CARTER: Commissioner Argenziano.

COMMISSIONER ARGENZIANO: Thank you.

Let's see how I can make it as short as possible. The recommendation that staff has today is to allow the company to charge a base rate to those people who are not using gas on a daily basis from the company, but only those who have a generator in case of emergencies, is that correct?

MS. DRAPER: Currently customers that have only a generator are taking service under the residential rate. That is the only rate the company has available for those customers.

COMMISSIONER ARGENZIANO: My question is why would there be a rate at all if they are not using the product?

MS. DRAPER: Well, there are still costs the company incurs to serve those customers.

COMMISSIONER ARGENZIANO: And could you break that down for me.

mean, the customer -- in a rate case, the cost of service lays out all the costs. The distribution costs, the operation and maintenance costs, the rate of return, those are all costs that are considered in a rate case and the company incurs to serve those customers. The distribution system is there whether the customer uses any gas or not.

COMMISSIONER ARGENZIANO: But don't the customers who have the generator, aren't they paying for the line from the distribution center to their home?

MS. DRAPER: They pay for the company to install the line, that's the CIAC they are paying, but that does not recover the company's cost for the rest of the distribution system that is being used for the gas to be

delivered to the customer.

2.0

2.3

COMMISSIONER ARGENZIANO: All right. Well, then how many consumers have generators that would be charged for a base rate that everybody else pays, I guess? How many? Because I would like to know that the breakdown, the ratio was proper. If you are going charge for a distribution line, then I would think that the customers who are not using gas every day, who I would think the company would like to have as additional customers when the time comes that they do need to use the generators, what is the breakdown? How many customers are there and how many customers have generators? What would the distribution rate be to those? I mean, how does it break down?

MS. DRAPER: At the end of 2007, the customers (sic) served 432 generator-only customers.

COMMISSIONER ARGENZIANO: 442?

MS. DRAPER: 432. Since then, in 2008, the company informed me they added about another 20 generator-only customers.

COMMISSIONER ARGENZIANO: And how many total customers?

MS. DRAPER: 52,000.

COMMISSIONER ARGENZIANO: 52,000.

MS. DRAPER: Yes. It is less than one percent.

FLORIDA PUBLIC SERVICE COMMISSION

COMMISSIONER ARGENZIANO: So did you figure out what the distribution rate would be to the less than one percent? Shouldn't it be less than the \$18 base rate?

MS. DRAPER: Well, the company's proposal is to charge those customers what an average residential customer would pay.

objection. They are not an average customer, and I'm trying to figure out why we would charge them an average rate when they are not using the system except for emergencies. And I can understand a fair proportionate share, but I don't see that here.

MS. DRAPER: And that's why staff is recommending, since we have a rate case coming up, that the company look at the actual cost to serve such a customer as opposed to just taking the average residential usage and develop a cost of service to serve those generator-only customers, which may be different from what it costs them to serve an average residential customer. I think we have an opportunity with the upcoming rate case.

COMMISSIONER ARGENZIANO: But you are also recommending allowing them to charge that base rate now until then?

MS. DRAPER: For new customers only, yes. Not for the existing customers.

2

4

5

3

6

8 9

7

10

12

11

13 14

15

16

17

18

19

20

21

22 23

24

25

COMMISSIONER ARGENZIANO: Even though you don't know the correct proportional rate for distribution?

MS. DRAPER: Well, staff believes that in between rate cases the company's approach to develop a rate is reasonable. But until the next rate case, then the company will have an opportunity to develop a more accurate and more cost-based rate. But until then, staff believes that the company's proposed rate is reasonable for new customers.

MS. BULECZA-BANKS: Commissioners, if I could probably add something here.

My name is Cheryl Banks on behalf of Commission staff. And everything that Elizabeth said is true, what I have told you, but perhaps I could interject. I worked with the gas utilities for many, many years. Though I don't do so much now, I mean, historically that's where my background has been.

When you are serving someone, regardless if they are using gas every day or intermittently, the same costs for the distribution lines and maintaining those or maintaining your service line, they have to still read the meter, they have to do the same things if I'm taking gas or if I'm not. They still have to do leak surveys, and every element that you see that has been costed out historically for residential would be the exact same for a

generator-only customer. That's why it makes sense in this intermediary time to use the same rates that are in effect for the residential customers.

2.2

There is no differentiation in what I have to do to serve that customer. In fact, overall it's a premium service. I have to have gas supply available at a moment's notice, so I have to pay a higher rate for standby fuel because these people may not be on for years, or they may be on four weeks. Those are -- actually rise and make it more costly to serve them.

COMMISSIONER ARGENZIANO: How much gas does the average customer consume, the non-generator?

MS. BULECZA-BANKS: About 20 therms a month.

Very small.

COMMISSIONER ARGENZIANO: And the generator customer?

MS. DRAPER: 2.4 therms per month.

MS. BULECZA-BANKS: Yes. But the problem is they are not going to consume that daily or monthly. They are going to consume it in a three-week period, or a two-week period, or maybe only a few days period while they are out of electricity. So it's very hard to spread those kind of costs and say, well, I only have to provide you service these few days. I have to be available to provide you service for whatever reason because it may not

be just a storm. It may be that your neighborhood had an outage, or somebody knocked down a power pole, and I have to provide service and I decide I want to kick on the generator.

Those are very hard for a utility to plan for and you really can't. So taking really on an average a month is kind of hard because that is not how the service is provided. Again, I have to go out there every month and read the meter. I still have to issue a bill. I still have to leak test your line and make sure everything is running properly. You still would be served by all the distribution lines that hook up to the pipeline, and I have to make sure I maintain those. So it really is -- if anything, it is no cheaper to serve them. If anything, it is more costly.

And when you talk about the fuel, and hopefully when they do the rate case they can start looking at this, because I have to have that standby service available from a producer and I have to pay a premium for having that standby fuel available, when that happens, and I do plug it in, and I have to rely on that standby fuel, my fuel rate goes up. But they are going to pay the same fuel per therm charge that every other customer paid.

Now, granted right now you said, you know, it's like 10 percent, it's kind of small. If you get those

numbers increasing, it could actually have your other customers who are not generator are actually subsidizing them.

2.2

I could look at it two ways. I guess what I was trying to get was what is the cost to these people? Is it different to the average homeowner who uses gas a daily basis, or is it the same cost, and that's what I was trying to get.

Give me a basis for your charge, and I didn't get that.

And the other thing is it could be a benefit to the company, too, to have more of these consumers on. Because if they are paying the line to get to the company, and those times when there are outages, the company has these extra customers who are going to be using their gas. So there is benefit there, too.

I guess really what I am looking for is give me a basis to the charge. If it is say cost for meter reading, what does that add up to per customer? That's what I'm looking for.

MS. BULECZA-BANKS: And I right now I guess the best rate that you have is the rates that were developed in the last rate case is what they are being paid, because that would have been the best numbers you have as far as all the costs when you do a cost study, and Elizabeth is very -- you know, she is the expert on that, is allocating

all the costs by all those different functions and coming out with the rate. So for right now without the current data for the rate case, the best rates you will have to determine the cost to serve would be that of the residential customer that they actually pay right now.

commissioner argenziano: And, Mr. Chair, if I can, because I see it going both ways. I understand what you are saying. I guess if I had a better understanding of the cost per customer. To me it seemed like the customer who uses gas on a daily basis is going to cost the company more, and that's what I was looking for. And the other way to look at it, I guess the way I felt in one respect is I understand the base rate for everybody shares the total cost, but the other way I was looking at it is if you have people who are not using the system but once in a great while, they are kind of held hostage. If you want our gas when you need it, you have to pay this base rate. And I just wanted to make sure that it was the cost to that person, or the legitimate cost, I guess.

And that's what I was looking for, if the costs are the same. And I guess you are pointing to the last case, the rate case, and I guess I have to go by that one. I see it working both ways. I see a benefit to the company, too, to have additional customers at the time when, you know, these people wouldn't even be using any

fuel, but I also understand there are costs to the company to distribute. But I just have some concern about the distribution to people who hardly ever use the service, if it's equal to those who use it on a daily basis.

McMurrian.

MS. BULECZA-BANKS: I can see where one of the cost elements that possibly would be more on a variable cost basis on your compressor stations that perhaps there may be a very small differential there. Mostly all the fixed costs will be the same regardless of what kind of service, if it is generator-only or residential. You may get a little bit on the variable cost side, and hopefully they'll address that when they file their rate case.

COMMISSIONER ARGENZIANO: Okay, thank you.

CHAIRMAN CARTER: Thank you. Commissioner

COMMISSIONER McMURRIAN: Thank you. I wanted to ask the company how they came up with the \$18.72 customer charge that you propose to use going forward?

MR. SEAGRAVE: Good morning. My name is Mark Seagrave, I'm with Florida Public Utilities. How we came up with that cost was based upon our 2004 rate case. Our cost of service requirements indicated that we had \$224 in revenue per customer, that divided by 12 months is \$18.72, which is equivalent to our regular every day residential customer. So the revenue requirement was equated to what

an average residential customer would provide us. And, you know, within those revenues we're able to maintain systems, paying for operations and maintenance expenses, building a system that has the capacity to be able to serve those customers.

is it because you -- I'm trying to collect my thoughts here. When you started having the hurricanes seasons, you had customers that approached you about having this sort of setup so in case they got into that predicament again. Was it just that, of course, you didn't have an approved rate for that service by the Commission so you just put them on the \$8 customer charge for the average residential customer? Do I understand that right?

MR. SEAGRAVE: That's correct. The only residential rate that we had available to anyone falling under a residential class is the \$8 a month customer charge and the .48340 cents per therm base rate charge.

COMMISSIONER McMURRIAN: Okay. So I think what you said about the 2004 cost of service, you said that justifies the \$18.72. So I guess I'm confused, and I will come back to Ms. Banks. If that \$18.72 is based on the cost of service, is it -- I'm trying to think of what my question is. I guess I need help understanding why the recommendation is for new customers only if we think we

have got a cost basis for the \$18.72. I mean, I don't like increases for the customers, either. I mean, if I were a customer and had this I would want to pay the \$8 charge and not pay the \$18.72, but maybe I'm getting confused about the cost of service issue.

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

2.2

23

24

25

MR. SEAGRAVE: I think I can answer that for you. One of the things that we can accurately predict with our residential customers that have regular use appliances is consuming 20, 21 therms a month in natural gas on average. With a customer that utilizes a generator-only, that generator, generally speaking, only operates in times of an emergency. So the variable component of our revenue income is not there. So a significant portion of the revenue requirement is not met by these generator-only customers, which, in effect, puts an unfair burden on those who either cannot afford or choose not to install a generator on their home, or existing customers, because they are having to bear the operations and maintenance, depreciation, rate of return expenses. It's kind of unfair to them when a customer that has the -- much to Commissioner Argenziano's point, that they have the luxury of having the fuel when they need it, but yet the company is not receiving the revenue that it needs to be able to sustain the facilities to provide them with reliable service. The other customers,

in effect, would have to be subsidizing that revenue requirement so we can provide them with reliable service.

2.1

COMMISSIONER MCMURRIAN: Ms. Banks.

MS. BULECZA-BANKS: And I think that was something that would have to be looked at in the rate case as far as what are the appropriate variable costs that need to be allocated to that particular class to be able to come up with what truly is the appropriate rate for them.

is -- I mean, it sounds like the company is saying that the \$8 charge now is not compensatory, given the type of service. That it is not covering the cost of providing that service, or that availability of service that they may use in the storm. I guess I'm still confused as to how the recommendation came to for only new customers given that, but I realize we don't have a new cost of service study. So is it just the fact that those numbers are a little bit out of date and we don't feel comfortable putting in the \$18.72 customer charge now, and we know that the rate case is coming so quickly, so we can wait and get those better numbers? Because it seems a little odd to me to not put in the customer charge that is based on the cost of service information we have now.

MS. DRAPER: Commissioner, if I may. I agree,

and staff was weighing both options. I think one reason is that we did receive some customer comments that 2 objected to the increase. In light of those comment 3 customers -- staff felt like those comments should be 4 considered. And, second, the rate case is right around 5 the corner. So if there was no rate case coming, staff 6 would probably have considered putting all customers on 7 the new rate, existing and new customers. But there is no 8 right or wrong. I mean, you could really go either way, it's just staff felt like given the comments received and that the rate case is coming up.

MS. KUMMER: This is Connie Kummer. If I could jump in.

CHAIRMAN CARTER: One second.

Commissioner Argenziano.

9

10

11

12

1.3

14

15

16

17

18

19

2.0

21

22

23

2.4

25

COMMISSIONER ARGENZIANO: If I recall, we had something similar to this, and the reason not to do that to the current customers was because they had no ability to make a decision prior. They did not know that they would be charged. So they may have had the ability -- so it does make a difference. They may have had the ability to say, well, you know what, I don't want to pay that money every month, and I will use a different type. I'll go to some other type of mechanism to support my generator.

2.4

So I think there is a very good reason why that took place. And only adding the newer customers actually gives me less heartburn than doing that to the people who had no clue that would be coming at them and didn't have the ability to make a decision before buying their generator.

CHAIRMAN CARTER: Thank you.

Ms. Kummer and then I will come back to you, Commissioner McMurrian.

MS. KUMMER: Commissioner Argenziano made exactly the point that I was going to add, was that this program was sold to the existing customers at the existing residential rate, and we didn't really believe it was fair to raise their rate because had they known that in the beginning, they may have made a different choice.

CHAIRMAN CARTER: Thank you.

Commissioner McMurrian.

COMMISSIONER McMURRIAN: Thank you. That helped.

And thank you, Commissioner Argenziano, because I hadn't taken that into account. Because I was sort of stuck in the quagmire of having that statutory responsibility for compensatory rates and the company based on the cost of service study that we have now. But I agree with you that whenever they were faced with that

decision I guess they were told that it would be an \$8 customer charge, and they made the decision based on that. And perhaps the decision would have been different if they had known it was the \$18.72.

2.1

2.2

2.5

I do have one more question for staff, and it's about the statement on Page 6. It is the second full paragraph, and it says currently generator-only customers may avoid paying the monthly customer charge by disconnecting service and then requesting reconnection.

And, of course, you know that there could be an issue with not getting it quickly enough if they waited to do that.

But you say that currently they can do that. Even as the tariff changes and we get the cost of service information, will the customer still be able to disconnect and reconnect? And is there a -- and maybe I should ask the company this -- is there a reconnection charge for doing that?

MR. SEAGRAVE: We view the rate as being a 12-month rate. One of the things that we don't want to see is that if we, in a sense, are going to be recouping the appropriate revenue from these customers via an \$18.72 per month charge, we would want to discourage somebody from just on a whim disconnecting and reconnecting, and disconnecting and reconnecting, putting an undue burden on the company in terms of meeting the customers'

expectations of getting their service reactivated when a storm is approaching and we are trying to prepare for the storm. So we are trying to discourage customers from doing that unless they are moving out, or somebody passes away, or something like that and they are no longer going to use natural gas.

COMMISSIONER McMURRIAN: So under your proposal they would have to sign up for a year at a time, is that right, under the tariff?

MR. SEAGRAVE: That's right.

COMMISSIONER MCMURRIAN: Thank you.

CHAIRMAN CARTER: Commissioner Argenziano.

COMMISSIONER ARGENZIANO: Thank you.

What is to stop a customer, if I'm in your community saying, okay, maybe there is a storm that is going to come around once every four years, hopefully not. What's going to stop me from just -- you know, I know the storm is coming, I don't sign up for the year because I only have a generator, and I say, well, you know, right before the storm comes I think I will call up and say, okay. And at that point then signing up, I guess, for the year.

And I guess the other thing I'm concerned with is -- and I guess it comes up when the rate case is filed, or when we deal with that, but is the proper amount.

Because if those same customers all say, well, you know what, we don't want to pay this amount for a generator.

We are going to go out and get a generator that runs and operates on something else. Then does that mean that your current users, daily users' rates would go up because those people are not on your system anymore?

2.

MR. SEAGRAVE: I guess, theoretically, if you have to maintain a system that has the capacity to serve all of those that are connected with the equipment that they have connected, then, theoretically, yes. You know, those costs have to be borne by somebody in order for us to maintain that system.

To your other question is what would preclude somebody from turning off their service and kind of gauging, based upon some prediction of the storm, you know, the number of storms or something, they would say, well, this is going to be a frequent season, so I'm going to go ahead and reactivate my service.

This may sound a little hokey, but I think it is kind of like, you know, if you have a boat and you don't start that motor every once in a while it is not going to run. And most of these generators when they are installed, the consumer has a considerable investment there, and a lot of these generators come on on an exercise cycle to make sure that they will run when they

need it. And I think that the manufacturer's instructions and everything that the consumer is being told about taking care of the maintenance of those generators would preclude them from doing that. I don't think you would want to invest 25,000 and then not run it and it not work when you needed it.

2.4

COMMISSIONER ARGENZIANO: That's true. And that's a good point. And that is probably very, very accurate.

I had one other question. Let's see if I lost it. Okay. Have there been -- let's see, you have 432 or 62 generator-only customers now. Have there been substantial -- just out of curiosity, not for today's decision, have there been substantial upgrades to accommodate for those 432, or did your existing plant --

MR. SEAGRAVE: Are you speaking about our investment in our distribution systems?

COMMISSIONER ARGENZIANO: Yes.

MR. SEAGRAVE: We have had to make adjustments in certain areas where -- actually, I will give an example. In the Town of Palm Beach, which is an area that we started serving back when we were manufacturing gas in the 1920s. Some of those areas have older gas distribution lines. Some of them are smaller than what we would put in nowadays. We found some areas that were

constrained and we had to go in and make adjustments. And 2 in some cases actually go in and replace some of that 3 system in order to have the capacity. 4 There was an outage actually in Palm Beach they 5 experienced and we had some low pressure areas that were 6 discovered as a result of that outage, and which caused us 7 to make those adjustments. So the answer to your question 8 is absolutely. 9 COMMISSIONER ARGENZIANO: Thank you. 10 CHAIRMAN CARTER: Thank you. Commissioners, anything further? Hearing none, we're open for 11 disposition on this matter. 12 Commissioner McMurrian. 13 14 COMMISSIONER McMURRIAN: I move the staff recommendation on all issues. 15 **COMMISSIONER SKOP:** Second. 16 17 CHAIRMAN CARTER: It has been moved and properly seconded that we go with the staff recommendation on all 18 19 issues in Item 12. Commissioners, any further discussion 20 or debate? Hearing none, all those in favor let it be 21 known by the sign of aye. (Simultaneous affirmative vote.) 22 23 **CHAIRMAN CARTER:** All those opposed, like sign? Show it done. 24

25

1 STATE OF FLORIDA 2 CERTIFICATE OF REPORTER 3 COUNTY OF LEON 4 5 I, JANE FAUROT, RPR, Chief, Hearing Reporter Services Section, FPSC Division of Commission Clerk, do hereby certify 6 that the foregoing proceeding was heard at the time and place 7 herein stated. IT IS FURTHER CERTIFIED that I stenographically 8 reported the said proceedings; that the same has been 9 transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings. 10 I FURTHER CERTIFY that I am not a relative, employee, 11 attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel 12 connected with the action, nor am I financially interested in 13 the action. DATED THIS 25th day of September, 2008. 14 15 16 Official FPSC Hearings Reporter 17 (850) 413-6732 18 19 20 21 22 23

24

25