

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: September 22, 2005

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

FROM: Division of Competitive Markets & Enforcement (Makin, Bulecza-Banks, Beard)
Office of the General Counsel (Fleming, Brown)

RE: Docket No. 050003-GU – Purchased Gas Adjustment (PGA) True-up Petition for Approval of Mid-Course Correction to PGA Cap by Peoples Gas System

AGENDA: 10/04/05 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Bradley

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\CMP\WP\050003.RCM.DOC

Case Background

The Commission has adopted a method for recovery of purchased gas costs by regulated natural gas utilities to be used for the recovery of such costs for the calendar year commencing January 1 through December 31. For calendar year 2005, the Commission has approved for each investor-owned natural gas utility a levelized Purchased Gas Adjustment (PGA) factor, which serves as a cap, or maximum recovery factor.

By Commission Order No. PSC-93-0708-FOF-GU, issued May 10, 1993, in Docket No. 930003-GU, In Re: Notice of Proposed Agency Action Order Establishing Annual Purchased Gas Cost Recovery Hearing, the Commission determined that a utility may, at its option, request a mid-course correction if revised projected expenses for the remainder of the period significantly exceed projected revenues for the period when using the Commission approved cap.

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The Commission has previously approved mid-course corrections to the PGA cap for recovery for several utilities under similar circumstance when the amount of projected underrecovery was substantial.¹

On September 9, 2005, Peoples Gas System (Peoples Gas or the Company) filed a petition for approval to increase its current PGA cap from \$0.99037 to \$1.50017 per therm due to increasing natural gas prices. This recommendation addresses that petition.

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

¹ See, Order No. PSC-00-1910-PCO-GU, issued February 19, 2001, in Docket No. 010003-GU, In Re: Purchased Gas Adjustment (PGA) True-up Chesapeake Utilities Corporation Mid-Course Correction, Order No. PSC-00-1422-PCO-GU, issued February 19, 2001, in Docket No. 010003-GU, In Re: Purchased Gas Adjustment (PGA) True-up City Gas Company of Florida Mid-Course Correction, Order No. PSC-00-2137-PCO-GU, issued February 19, 2001, in Docket No. 010003-GU, In Re: Purchased Gas Adjustment (PGA) True-up Florida Public Utilities Mid-Course Correction, Order No. PSC-00-1524-PCO-GU, issued February 19, 2001, in Docket No. 010003-GU, In Re: Purchased Gas Adjustment (PGA) True-up Peoples Gas System Mid Course Correction, Order No. PSC-00-1909-PCO-GU, issued February 19, 2001, in Docket No. 010003-GU, In Re: Purchased Gas Adjustment (PGA) True-up Indiantown Gas Company Mid Course Correction, Order No. PSC-00-2138-PCO-GU issued February 19, 2001, in Docket No. 010003-GU, In Re: Purchased Gas Adjustment (PGA) True-up St. Joe Natural Gas Company Mid-Course Correction.

Discussion of Issues

Issue 1: Should the Commission grant the petition of Peoples Gas for an increase in its Purchased Gas Adjustment (PGA) cap from \$0.99037 per therm to \$1.50017 per therm?

Recommendation: Yes. The Commission should approve the Company's proposed PGA cap of \$1.50017 per therm effective for all meter readings taken on or after October 4, 2005, the date of the Commission's vote in this matter. The new cap should remain in effect through December 31, 2005. Staff also recommends that the Company should include a statement on the customers' bills that explains the change in the PGA cap because of increasing natural gas prices resulting from weak natural gas supply production and the effects of Hurricane Katrina. (Makin, Bulecza-Banks, Beard)

Staff Analysis: On September 9, 2005, Peoples Gas filed a petition for approval of a mid-course correction to its currently authorized PGA cap to become effective the date of the Commission vote in this matter, and remain in effect through December 31, 2005.

By Order No. PSC-04-1182-FOF-GU, issued December 1, 2004, in Docket No. 040003-GU, Re: Purchased Gas Adjustment (PGA) True-up, the Commission approved Peoples Gas' existing PGA cap factor for the period January 1, 2005 through December 31, 2005 of \$0.99037 per therm. This factor was derived by dividing projected purchased gas costs of \$150,273,520 by projected therm sales of 152,875,591, for the 2005 recovery period.

Currently Peoples Gas projects to have an underrecovery of \$14,297,993 for the current recovery period, January 1, 2005 through December 31, 2005. The proposed increase in the PGA cap to \$1.50017 per therm for October 4, 2005 through December 31, 2005, will not eliminate the full amount of the projected underrecovery. The increase will, however, reduce the amount of gas costs to be included in the projected January 2006 through December 2006 recovery period. Increasing the PGA cap from \$0.99037 to \$1.50017 per therm during the remainder of this recovery period will result in an increase of \$12.75 per month for residential customers using 25 therms if actual natural gas costs require the Company to increase its PGA to the proposed new cap.

Peoples Gas' purchased gas costs have increased because of substantial increases in the price of natural gas during recent months. Since the Company's cap was approved by the Commission in December 2004, a convergence of fundamental factors has resulted in an extraordinary environment affecting natural gas pricing. High oil prices and weak natural gas supply production have contributed significantly to an unprecedented increase in natural gas costs on a national basis. Exacerbating the situation, Hurricane Katrina has had a major impact on Gulf of Mexico supply production. Damage assessments are currently on-going, and the full breadth of the damage and ensuing price signals may not be known for some time. In addition, during and after the hurricane the gas market depended heavily on natural gas storage inventories to replace their interrupted supplies. These storage inventories are traditionally ear-marked for the winter peaking demand. Over the next several weeks the market will attempt to replenish the storage inventories, thus putting further pressure on natural gas prices.

In light of these circumstances, staff recommends approval of the requested mid-course correction to become effective with all meter readings taken on or after October 4, 2005, the date of the Commission vote in this matter, and to remain in effect through December 31, 2005. Staff also recommends that the Company should include a statement on the customers' bills that explains the change in the PGA cap because of increasing natural gas prices resulting from weak natural gas supply production and the effects of Hurricane Katrina.

Staff recognizes there will not be time to conduct a prudence review of Peoples Gas' revised projections of purchased gas costs prior to implementing the increase in the PGA factor. However, a prudence review will occur in preparation for the hearing in Docket No. 050003-GU, scheduled for November 2005. If the increase in the PGA cap is ultimately found imprudent, Peoples Gas' ratepayers will suffer no harm since any costs found imprudent will be disallowed for recovery and will flow back to the ratepayers through the PGA true-up mechanism.

The Company informed staff on September 13, 2005, that it has notified its customers of the proposed change in the PGA cap for the period of October through December 2005.

Issue 2: Should this docket be closed?

Recommendation: No. The Purchased Gas Adjustment True-up docket is ongoing and should remain open. (Fleming, Brown)

Staff Analysis: The Purchased Gas Adjustment True-up docket is ongoing and should remain open.

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