

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Purchased Gas :
Adjustment (PGA) True-Up :
_____ :

Docket No. 950003-GU
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DIRECT TESTIMONY OF HUGH M. GREY, III
On Behalf of Peoples Gas System, Inc.

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FPSC-RECORDS/REPORTING

1 Q. Please state your name and business address.

2 A. My name is Hugh M. Grey, III. My business address
3 is Suite 1700, 111 East Madison Street, Tampa,
4 Florida 33602.

5 Q. By whom are you employed and in what capacity?

6 A. I am Director of Gas Transportation and Rates for
7 Peoples Gas System, Inc. ("Peoples").

8 Q. Please summarize your educational background and
9 professional qualifications.

10 A. I graduated from Duke University in 1970 with the
11 degree of Bachelor of Science in Engineering. I am
12 a Registered Professional Engineer in the
13 Commonwealth of Pennsylvania. In 1980, I was
14 designated a Chartered Industrial Gas Consultant by
15 the American Gas Association and the Institute of
16 Gas Technology. I have 20 years of experience in
17 the utility field as well as four years of
18 engineering and energy consulting.

19 Q. What are your primary responsibilities in your
20 present position with Peoples?

21 A. As Director of Gas Transportation and Rates, I am
22 responsible for the Company's marketing and rate-
23 related services, including the acquisition and
24 transportation of Peoples' system gas supply, end-
25 use contract negotiation and maintenance, liaison

1 with end-use transportation customers, producers
2 and other suppliers, supply and demand forecasting
3 and planning, rate design, rate related records and
4 presentations, and coordination of pipeline and
5 Company gas supply operations.

6 Q. Have you previously testified in regulatory
7 proceedings?

8 A. Yes. I have presented testimony before the Florida
9 Public Service Commission in Docket Nos. 910003-GU,
10 910653-GU, 911150-GU and 920003-GU. I have also
11 presented testimony before the Pennsylvania Public
12 Utility Commission, the West Virginia Public
13 Service Commission and the Federal Energy
14 Regulatory Commission.

15 Q. What is the purpose of your testimony in this
16 docket?

17 A. The purpose of my testimony is to describe
18 generally the components of Peoples' cost of
19 purchased gas, and to explain how Peoples'
20 projected weighted average cost of gas ("WACOG")
21 for the April 1995 through March 1996 period was
22 determined.

23 Q. Please summarize your testimony.

24 A. I will address the following areas:

25 1. How and where Peoples will obtain its gas

- 1 supplies during the projected period.
- 2 2. How Peoples provides transportation to
3 certain end-users who purchase gas from
4 suppliers other than Peoples.
- 5 3. Estimates and adjustments used to
6 determine the amount of gas to be
7 purchased from Peoples' various available
8 sources of supply during the projected
9 period.
- 10 4. Projections and assumptions used to
11 estimate the purchase price to be paid by
12 Peoples for such gas supplies.
- 13 5. The components and assumptions used to
14 develop Schedules E-3 (A) through (C) of
15 Composite Exhibit HMG-2.
- 16 6. The components and assumptions used to
17 develop Schedule E-1 of Composite
18 Exhibit HMG-2, including how Peoples'
19 projected WACOG was determined.
- 20 Q. Have you prepared or caused to be prepared certain
21 schedules for use in this proceeding?
- 22 A. Yes. Composite Exhibit HMG-2 was prepared by me or
23 under my supervision.
- 24 Q. Please describe how Peoples will obtain its gas
25 supplies during the projected period of April 1995

1 through March 1996.

2 A. All natural gas delivered through Peoples'
3 distribution system is received through two
4 interstate pipelines. Gas is delivered by Florida
5 Gas Transmission Company ("FGT") through 38
6 interconnections ("gate stations") serving Peoples'
7 11 divisions throughout various areas of Florida.
8 In addition, Peoples' Jacksonville Division
9 receives gas delivered by South Georgia Natural Gas
10 Company ("South Georgia") through a gate station
11 located northwest of Jacksonville.

12 Q. How have components of Peoples' supply and
13 resulting cost of gas changed from periods prior to
14 August 1, 1990 to periods after November 1, 1993?

15 A. Until August 1, 1990, Peoples was able to purchase
16 gas only from FGT at its FERC-approved rates for
17 "G", or firm service, and "I", or interruptible
18 service. Beginning on August 1, 1990, Peoples
19 began obtaining a small portion of its total
20 requirements through transportation on FGT, and,
21 after May 17, 1991, through transportation on SGNG.
22 Each year, Peoples has converted an additional
23 portion of its firm service on FGT from sales
24 service to transportation service. Beginning on
25 November 1, 1993, Peoples completed that conversion

1 process and converted all remaining FGT sales
2 service to transportation service.

3 Q. What is the significance of November 1, 1993?

4 A. That is the effective date of FGT's restructuring,
5 as required by the FERC's Orders 636, 636-A and
6 636-B.

7 Q. In general, how does Peoples determine its sources
8 of supply?

9 A. Peoples evaluates sources of supply on the basis of
10 its "best value" gas acquisition strategy. For a
11 source of supply to be identified as a "best
12 value," it must offer the best combination of
13 price, reliability of supply and dependable
14 operations, consistent with Peoples' obligation as
15 a public utility to provide safe, adequate and
16 efficient service to the general public. Toward
17 this end, Peoples has developed, and is continuing
18 to enhance, a portfolio of supply sources which
19 reflect a balance between cost, reliability and
20 operational flexibility. Before November 1, 1993,
21 this supply portfolio included purchases of firm
22 and preferred interruptible sales service volumes
23 from FGT as well as purchases from suppliers other
24 than FGT which were delivered to Peoples either for
25 transportation at various receipt points on the FGT

1 system in Texas and Louisiana, or directly into the
2 Peoples system via the South Georgia gate station
3 near Jacksonville. On and after November 1, 1993,
4 all purchases of firm and preferred interruptible
5 sales service have been eliminated since they are
6 no longer available from FGT. From that date
7 forward Peoples has obtained its gas entirely from
8 third party supplies which include both firm and
9 interruptible purchases, various pricing mechanisms
10 and purchase periods, and include spot, short term
11 and long term arrangements.

12 Q. Why doesn't Peoples purchase all third party
13 supplies from one source at one location?

14 A. For several reasons. Due to both operational and
15 regulatory considerations, access to the delivery
16 capacities of individual receipt point
17 interconnects among various interstate and
18 intrastate pipeline systems is limited. There are
19 significant differences between receipt points in
20 terms of the cost of gas, reliability of
21 deliveries, choice of producer or marketer, the
22 availability of firm or interruptible supply, and
23 administrative considerations such as scheduling
24 and balancing. Also, purchasing third party
25 supplies at multiple receipt points helps to reduce

1 the risk of loss of supply in the event of line
2 breaks, compressor failures, construction problems
3 or other force majeure events.

4 In addition, there can be wide variations in
5 quality among the supply sources themselves.
6 Different producers and marketers offer varying
7 degrees of reliability, and differ in terms of cost
8 and types of purchasing arrangements available.
9 Some provide additional services such as upstream
10 pipeline transportation arrangements, the ability
11 to aggregate supplies from a variety of sources and
12 the flexibility to reroute gas to an alternate
13 receipt point when pipeline operating problems
14 occur. Finally, some suppliers are just easier to
15 work with, and provide better service and
16 responsiveness than others.

17 Q. Why doesn't Peoples purchase all third party
18 supplies in advance for a long term at the lowest
19 available fixed price in order to avoid rising gas
20 prices and provide increased stability to its cost
21 of gas?

22 A. Peoples' requirements for system supply gas at its
23 gate stations vary significantly, not only from
24 season to season or month to month, but from day to
25 day as well. Often, the demand for gas on the

1 Peoples system can vary dramatically within a month
2 from the lowest to the highest requirement of its
3 customers. In addition, since Peoples transports a
4 large portion of its throughput of gas for end-user
5 customers who purchase their own supplies directly
6 from producers and marketers, Peoples receives
7 large quantities of transportation gas purchased by
8 its transportation customers for delivery to
9 Peoples' gate stations on a relatively uniform
10 basis from day to day within a month, while the
11 actual takes of gas out of the Peoples system by
12 its transporting customers at their end-use meters
13 can and does vary significantly from day to day.
14 In other words, since a significant portion of the
15 total throughput volumes is received by Peoples at
16 a uniform daily rate, Peoples is forced to increase
17 or decrease the purchases of its own system supply
18 volumes by significant increments in order to
19 maintain a balance between receipts and deliveries
20 of gas each day. As a consequence, Peoples must
21 buy a significant portion of its total system
22 requirements under swing contract arrangements, and
23 meet extreme variations in delivered volumes by
24 relying on swing gas, peaking gas, pipeline
25 balancing charge volumes and pipeline no notice

1 service at the prevailing rates for such services.

2 Q. Please explain how Peoples' end-use transportation
3 customers purchase their own third-party gas for
4 transportation to and on the Peoples system?

5 A. A number of Peoples' interruptible customers are
6 purchasing a portion of their supplies from third
7 parties at various FGT receipt points. The volumes
8 are transported on the FGT system using either the
9 end-users' own FGT transportation contract capacity
10 or Peoples' FGT transportation contract capacity.

11 Q. Please explain how and why Peoples permits its end-
12 users to transports gas on FGT using Peoples' firm
13 transportation contract capacity.

14 A. When FGT became an open access pipeline on August
15 1, 1990, only a limited amount of firm
16 transportation service was available to FGT's
17 customers. While FGT's sales service customers
18 have been permitted to continue converting sales
19 service to transportation service until the process
20 was completed on November 1, 1993, virtually no
21 additional firm transportation service has been
22 made available or will become available prior to
23 the in-service date of FGT's Phase III expansion.
24 Typically, the FGT pipeline is capacity constrained
25 during most of the year. This means that only firm

1 service and some preferred service volumes can flow
2 through the pipeline. Occasionally, during mild
3 "shoulder" months of the year, or during periods
4 when residual oil prices are exceptionally low
5 compared with natural gas prices, some
6 interruptible capacity is available and, during
7 those periods, interruptible transportation service
8 is available. Several of Peoples' end-users who
9 transport have interruptible transportation
10 contracts with FGT and occasionally transport third
11 party gas on an interruptible basis. Most of
12 Peoples' end-users have no firm transportation
13 contract capacity of their own on FGT and,
14 therefore, have elected to obtain access to firm
15 transportation on FGT by utilizing a limited
16 portion of Peoples' own firm capacity.

17 Peoples has provided firm transportation
18 contract capacity to a number of end-users to move
19 their third party gas from FGT receipt points to
20 various Peoples gate stations from which Peoples
21 provides transportation on its distribution system
22 to the end-users' gas burning facilities. By
23 providing its end-users access to transportation,
24 Peoples is providing them with a means to obtain
25 more competitively priced energy, which helps

- 1 assure they will remain on the Peoples system, thus
2 retaining or increasing throughput to the benefit
3 of all of Peoples' ratepayers.
- 4 Q. How does Peoples recover the cost of Peoples' FGT
5 firm transportation capacity used by Peoples' end-
6 users?
- 7 A. Prior to November 1, 1993, all end-users who used
8 Peoples' firm transportation capacity on FGT
9 reimbursed Peoples dollar-for-dollar for both FTS-1
10 reservation and usage charges, as well as any and
11 all other related FGT charges which are associated
12 with transportation on behalf of those end-users.
13 Beginning November 1, 1993, most of Peoples' end-
14 use transportation customers have elected to
15 acquire firm capacity from Peoples through the
16 Order 636 capacity release program of FGT and
17 therefore pay FGT directly for their use of
18 Peoples' firm capacity.
- 19 Q. How did Peoples estimate the amount of gas to be
20 purchased from various sources during the projected
21 period of April 1995 through March 1996 ?
- 22 A. We began with total actual throughput of therms
23 delivered to customers during a "base period" of
24 April 1993 through March 1994, including both sales
25 of Peoples' system supply and transportation

1 deliveries of third party gas purchased by end-
2 users of Peoples. Next, all volumes purchased or
3 transported for major electric power generation
4 were deducted, since such usage is expected to be
5 delivered entirely as transportation volumes during
6 the projection period.

7 Q. What adjustments were made to the remaining actual
8 system throughput volumes?

9 A. Peoples anticipates additional end-users will be
10 converted from sales to transportation service
11 during the projection period. The total actual
12 system throughput, less major electric power
13 generation volumes, was decreased to allow for such
14 conversions to transportation. The resulting
15 remaining amount, therefore, is adjusted projected
16 period throughput.

17 Q. What other adjustments were then made?

18 A. Based on the amount of firm transportation capacity
19 expected to be used by end-users, total estimated
20 end-user transportation volumes (other than for
21 major electric generation) for the projection
22 period were deducted from the adjusted projected
23 throughput. The remaining amount represents the
24 total estimated amount of system supply volumes to
25 be purchased by Peoples from third party sources

1 for transportation through FGT and SGNG. Separate
2 estimates, based on available transportation
3 capacity, were made for the following categories of
4 purchases by Peoples:

- 5 1. Third party transportation volumes
6 purchased for direct delivery at the
7 South Georgia gate station near
8 Jacksonville.
- 9 2. Third party transportation volumes
10 purchased at various FGT receipt points
11 and transported to Peoples' gate stations
12 via firm FTS-1 and FTS-2 transportation
13 service.
- 14 3. Third party transportation volumes
15 purchased at various FGT receipt points
16 and transported to Peoples' gate stations
17 via preferred interruptible PTS-1
18 transportation service.
- 19 4. No Firm or Preferred Interruptible sales
20 service volumes will be purchased from
21 FGT at Peoples' gate stations after
22 November 1, 1993 since those sales
23 services have been eliminated.
- 24 5. No Notice Transportation Service (NNTS)
25 and FGT Balancing Charge volumes will be

1 purchased on FGT Alert Days when Peoples
2 is required by FGT to keep actual
3 deliveries within scheduled deliveries
4 (within tariff tolerance levels).

5 Q. How were the No Notice Transportation Service
6 (NNTS) and FGT Balancing Charge volumes -- item 5
7 above -- determined?

8 A. Peoples purchases its allocated quantity of NNTS
9 whether or not the service is actually used. FGT
10 Balancing Charge volumes may be purchased on as
11 many as 10 days per month during the projected
12 period.

13 Q. Does Peoples expect to utilize all of its available
14 firm transportation capacity during the projection
15 period?

16 A. That depends on the amount of gas purchased or
17 transported for electric power generation. The
18 projection period volumes are based upon the
19 assumption that the demand for gas from such
20 markets will be weak as a result of lower oil
21 prices, higher gas prices, and the uncertainties
22 inherent in forecasting demand for gas for electric
23 generation.

24 Q. How did you estimate the purchase price to be paid
25 by Peoples for each of its available sources of

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supply?

A. The estimating procedures used for each category of purchases by Peoples are as follows:

1. Third party direct transportation volumes were estimated based on an evaluation of published prices for the last several years for spot gas delivered to the FGT and Southern Natural Gas Company ("SONAT") systems and futures market prices for the projection period of April 1995 through March 1996. These prices were then adjusted to reflect the potential for unexpected increases in natural gas prices from the base period to the projection period.

2. NNTS and FGT Balancing Charge volumes purchased from FGT were estimated based on FGT's most current rates on file with the FERC and reasonable expectations for the possible cost of alternate fuels used by FGT's Swing Service Providers.

Q. Referring to Schedules E-3 (A) through (G) of Composite Exhibit HMG-2, please explain the components of these schedules and the assumptions which were made in developing the Company's

1 projections.

2 A. Schedule E-3 (G) is a compilation of the monthly
3 data which appear on Schedules E-3 (A) through (F)
4 for the corresponding months of April 1995 through
5 March 1996.

6 In Schedules E-3 (A) through (F), Column (A)
7 indicates the applicable month for all data on the
8 page.

9 In Column (B), "FGT" indicates that the
10 volumes are to be purchased from third party
11 suppliers for delivery via FGT transportation.
12 "SEMINOLE" indicates that the volumes are to be
13 purchased from a third party supplier for delivery
14 via SONAT and South Georgia Natural Gas ("South
15 Georgia"). "THIRD PARTY" indicates that the
16 volumes are to be purchased directly from various
17 third party suppliers for delivery into FGT or
18 SONAT.

19 In Column (C), "PGS" means the purchase will
20 be for Peoples' system supply and will become part
21 of Peoples' total WACOG. None of the costs of gas
22 or transportation for end-use purchases by end-use
23 customers of Peoples are included in Peoples'
24 WACOG.

25 In Column (D), purchases of pipeline

1 transportation services from FGT under Rate
2 Schedule FTS-1 and FTS-2 are split into two
3 components, commodity (or "usage") and demand (or
4 "reservation"). Both Peoples and end-users pay the
5 usage charge based on the actual amount of gas
6 transported. The FTS-1 and FTS-2 commodity costs
7 shown include all related transportation charges
8 including usage, fuel, ACA and GRI. The FTS-1 and
9 FTS-2 demand component is a fixed charge based on
10 the maximum daily quantity of FTS-1 and FTS-2 firm
11 transportation capacity reserved. End-users
12 reimburse Peoples or directly pay FGT for all FTS-1
13 reservation charges associated with the
14 transportation capacity which Peoples reserves and
15 uses on their behalf. Similarly, the
16 transportation rates of SONAT and South Georgia
17 also consist of two components, a usage charge and
18 a reservation charge.

19 Also in Column (D), "NO NOTICE TRANSPORTATION
20 SERVICE" (or "NNTS") means FGT's no notice service
21 provided to Peoples on a fixed charge basis for use
22 when Peoples' actual use exceeds scheduled
23 quantities. "SWING SERVICE" means the demand and
24 commodity component of the cost of third party
25 supplies purchased to meet Peoples "swing"

1 requirements for supply which fluctuate on a day-
2 to-day basis. "COMMODITY" means third party
3 purchases of gas transported on FGT, SONAT or South
4 Georgia, and does not include any purchases of
5 sales volumes from FGT.

6 Column (E) shows the monthly quantity in
7 therms of gas purchased by Peoples for each
8 category of system supply.

9 Column (F) shows the gas purchased by end-
10 users for transportation.

11 Column (G) is the total of Columns (E) and (F)
12 in each row.

13 Columns (H), (I), (J) and (K) show the
14 corresponding third party supplier commodity costs,
15 pipeline transportation commodity costs, pipeline
16 transportation reservation costs, and other charges
17 (e.g., balancing charges), respectively. These
18 costs are determined using the actual amounts paid
19 by Peoples. In the case of end-user
20 transportation, these costs are reimbursed to
21 Peoples or paid directly to FGT. All ACA, GRI and
22 fuel charges are included in the commodity costs in
23 Column (I) and, therefore, are not shown in Column
24 (K).

25 Column (L) in each row is the sum of Columns

1 (H), (I), (J) and (K) divided by Column (G).
2 Q. Referring to Schedule E-1 of Composite Exhibit
3 HMG-2, please explain the components of these
4 schedules and the assumptions which were made in
5 developing the Company's projections.

6 A. Schedule E-1 consists of three pages. Page 1
7 relates to Cost of Gas Purchased, Page 2 relates to
8 Therms Purchased, and Page 3 relates to Cents per
9 Therm, or Cost of Gas Purchased divided by Therms
10 Purchased.

11 The categories or items on lines 1 through 14
12 on Page 1 correspond to the similar categories or
13 items on lines 15 through 27 on Page 2, and to the
14 similar categories or items on lines 28 through 45
15 on page 3.

16 The data shown on Page 1 through Page 3 of
17 Schedule E-1 are taken directly from Schedules E-3
18 (A) through (F) for the months of April 1995
19 through March 1996. The average cost per therm for
20 the total projected period for each item is listed
21 in lines 28 through 37 on Page 3 of Schedule E-1.

22 Q. What information is presented on Schedule E-1/R of
23 Composite Exhibit HMG-2?

24 A. Schedule E-1/R of Composite Exhibit HMG-2 shows
25 eight months actual and four months estimated data

1 for the current period from April 1994 through
2 March 1995.

3 Q. What information is presented on Schedule E-2 of
4 Composite Exhibit HMG-2?

5 A. Schedule E-2 of Composite Exhibit HMG-2 shows the
6 amount of the prior period over/underrecoveries of
7 gas costs which are included in the current PGA
8 calculation.

9 Q. What is the purpose of Schedule E-4 of Composite
10 Exhibit HMG-2?

11 A. Schedule E-4 of Composite Exhibit HMG-2 simply
12 shows the calculation of the estimated true-up
13 amount for the April 1994 through March 1995
14 period. It is based on actual data for eight
15 months and four months of projected data.

16 Q. What information is contained on Schedule E-5 of
17 Composite Exhibit HMG-2?

18 A. Schedule E-5 of Composite Exhibit HMG-2 is
19 statistical data which includes the projected therm
20 sales and numbers of customers by customer class
21 for the period from April 1995 through March 1996.

22 Q. Does this conclude your testimony?

23 A. Yes, it does.