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September 30, 1996

Blanca S. Bayo, Director  
Division of Records and Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

HAND DELIVERY

RE: Docket No. 960725-GU  
Unbundling of Natural Gas Services.

Dear Ms. Bayo:

Enclosed for filing in the above docket are an original and 15 copies of Responses by Florida Public Utilities Company to Issues discussed at the August 22-23, 1996 Public Service Commission's Unbundling of Natural Gas Workshop, along with our Certificate of Service.

Please acknowledge receipt of the foregoing by stamping the enclosed extra copy of this letter and returning same to my attention. Thank you for your assistance.

Sincerely,



Wayne L. Schiefelbein

ACK           

AFA            WLS/met

APP            Enclosures

CAF            cc:w/encl: Marc Schneidermann (w/ cover letter & certificate only)  
Florida Public Utilities Company

CMU            cc:w/encl: Anne Wood  
Chesapeake Utilities Corporation

CTR           

EAG           

LEO           

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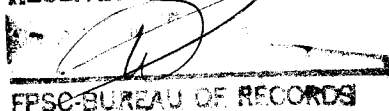
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Responses by Florida Public Utilities Company  
to issues discussed at the August 22-23, 1996  
Public Service Commission's Unbundling of Natural Gas Workshop  
Docket 960725-GU

OBLIGATION TO SERVE/SERVICE OFFERINGS

1. *Should the Local Distribution Company (LDC) be required to be the supplier of last resort? (Staff)*

FPU's response:

No. The LDC should not have the requirement of being the supplier of last resort, but, by default, due to the inability to disconnect customers from its system, may have no choice. As such, the following conditions must be understood by all parties. Florida LDCs typically do not have access to storage, which limits their ability to stand ready to be suppliers of last resort. Typically, extra gas supply packages, above the LDC's requirements, are not contracted for since these supplies would require extra demand charge payments. This is also true of pipeline capacity.

Timing is a critical issue. If a supplier's gas, which is designated for an unbundled customer, does not get confirmed by the pipeline, the pipeline's operations may prohibit an LDC from nominating additional supplies that were not confirmed by the unbundled customer's supplier. In many cases, if there are pipeline constraints, it may be necessary for the LDC to interrupt certain interruptible customers and use their gas supplies for firm customers whose gas is either not confirmed by the pipeline or whose usage exceeds the amount of gas nominated for their use. It is expected that there would be payments to the customers who are interrupted as well as to the LDC as reimbursement to the LDC for revenues lost due to such an interruption. Whenever a customer's gas supply can not be confirmed by the pipeline there should be considerable penalties assessed, preferably against the customer's gas supplier, to cover any additional expense associated with providing gas supplies to such customers.

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2. *Should the LDC be required to offer transportation service to all classes of customers? (Staff)*

FPU's response:

No. Residential customers and small commercial customers should be excluded from unbundling. The PSC should also allow for a phase-in of conversions from traditional services to unbundled services. Presently, it is not economical or feasible to provide for electronic measurement at smaller customer sites. Florida Public Utilities Company advocates the use of electronic measurement for all transportation customer accounts. As time goes by, the cost associated with electronic measurement should decrease. Electronic measurement is necessary in order to assure that the transportation customers are providing adequate supplies to the LDC's city gates on a daily basis. Otherwise, the cost of the daily swings would be borne by the LDC's traditional customers who would receive no direct benefit from unbundling and would be exposed to the potential of extra costs associated with swing packages which are not provided for by the unbundled customers. Therefore, until electronic measurement becomes feasible for smaller customers, it is not realistic to unbundle residential and small commercial customers.

3. *Should the LDC have the obligation to offer back-up or no-notice service for firm transportation customers?*

FPU's response:

The LDCs should not be obligated to offer back-up or no-notice services currently. There is no peak shaving or storage available on the FGT system. The LDC should have the ability to offer back-up or no-notice services if the LDC can provide proof that they can reliably deliver such services. It is possible for an LDC to set tariff provisions which would enable customers, either on the LDC's system or off of LDC's system, to reduce their gas consumption and sell the unutilized supplies to the LDC thus creating a virtual back-up and/or no-notice service. No-notice service, if it is viewed to be a direct link to the pipeline's no-notice service, does for the most part not function adequately to allow for changes in quantities nominated along the pipeline with minimal notice. Rather, the pipeline's no-notice service is available to provide a daily tolerance for gas consumption as compared to gas deliveries.

4. Should the LDC be relieved of its obligation to transport if the customer fails to secure firm supplies or back-up service? (Staff)

FPU's response:

Yes. The LDC may be able to make best effort supplies available but, as the name implies, there is no guarantee since typically LDCs do not have back-up supplies. Whenever the LDC provides gas for a firm customer who has failed to secure firm supplies, the LDC should be permitted to charge the customer the 100% load factor rate and a penalty rate which would be the greater of the maximum the LDC has paid for gas supplies on such date or the maximum posted price published in a reliable gas supply pricing publication. We must drive home the point that if a customer does decide to utilize the LDC's unbundled services, that customer is expected to contract with suppliers who are reliable and reputable.

5. Should the LDC be allowed to use transportation Customers' gas in critical need situations? (Staff)

FPU's response:

Firstly, critical need situations need to be clearly defined in the LDC's tariff. Critical needs could be caused by events which are pipeline related, supplier related, customer related and/or market related. More specifically, if the pipeline is in a force majeure situation, it may be necessary for the LDC to utilize some or all of its larger customers' supplies in order to meet the requirements of the LDC's higher priority customers. If a hospital's gas supplier fails to have their gas confirmed by the pipeline then, also, in this case, the LDC may be required to utilize other customers' gas supplies to serve the hospital or, based on contractual arrangement, the hospital may be required to utilize alternate fuel, if available. If a critical need situation is caused by an LDC's system anomaly, then the LDC should be able to take whatever action it deems necessary to keep its distribution system in operation. This would be covered by the LDC's curtailment plan. In any event, whenever the LDC utilizes one customer's gas supply to serve the needs of other customers, the customer who has been "harmed" should be fairly compensated for the gas supplies which are reallocated by the LDC. Such costs of compensation should flow through the LDC's purchase gas adjustment mechanism.

6. Should LDCs be allowed to curtail gas service to a firm transportation customer who has demonstrated that their gas supply arrived at the LDC city gate? (Staff)

FPU's response:

This is very similar to Staff's item number 5. General broad conditions need to be defined which would allow the LDC to curtail gas service to firm transportation customers whose gas supplies arrive at the LDC's city gate. Such definitions should be made through the LDC's curtailment plan and/or the LDC's natural gas tariff. Again, the LDC would be required to make a payment to the customer whose gas was curtailed and such costs should flow through the purchase gas adjustment mechanism.

7. Should the LDC be allowed to require transportation customers using gas for "essential human needs" to contract for standby service? (Staff)

FPU's response:

Yes. The LDC should be allowed to require transportation customers to contract for standby service but should not be required to offer such services. Through the evolution of the market, standby services may develop into competitive services which could be offered by both the LDC or gas suppliers. Since this could be truly competitive, it may be difficult for an LDC to offer standby service under the auspices of a regulated entity.

8. Should the LDC be required to offer customers the ability to combine unbundled and bundled services?

FPU's response:

The LDC should not be required to combine services but should have the ability to do so if the LDC deems it is feasible within the confines of their operation. The LDC would, definitely, need to indicate in its tariff which gas, unbundled or bundled, is the first gas through the meter and such definitions may vary from LDC to LDC. Such streaming of gas would only function properly if the LDCs were relieved of the current obligation of utilizing mechanisms, such as the PSC's purchased gas cost recovery factor mechanism.

In order to stream gas, the LDC must be able to compete head to head with gas marketers. It is impossible to compete in such a manner when your charges (PGA) are regulated. Therefore, as I

proposed at the August 22, 1996 workshop, Florida Public Utilities Company is strongly advocating the elimination or severe reformation and simplification of the purchased gas cost recovery factor mechanism.

9. *Should the LDC be permitted to stream gas on a competitive basis using a negotiated rate? (AGDF)*

FPU's response:

As was stated in the response to the prior issue, the LDC's ability to stream gas is effected by the existence of the purchased gas cost recovery factor. In theory, if an LDC is permitted to stream gas supplies in a truly competitive marketplace this will enable the LDC to meet the needs of its customers thus retain as well as increase load. This would have a positive effect on the balance of the LDC's customers which may, in effect, lead to mitigating the need for future rate increases. If the LDC is able to stream gas within the confines of the current purchased gas cost recovery factor mechanism, then the allocation of costs and sharing of profits need to be addressed within the confines of said mechanism.

10. *Should all LDCs be subject to unbundling?*

FPU's response:

In generality, LDCs should be subject to unbundling only in the event that their incremental costs associated with unbundling when compared to the potential gas supply savings for unbundled customers would result in an overall savings to such customers. Allocation using cost-causation methodologies must be strictly enforced. The incremental costs for serving unbundled customers must be fully allocated to such customer groups with no cross subsidization from the bundled customers. Florida Public Utilities Company's transportation tariffs incorporates a Transportation Administration Charge (TAC) to cover the incremental costs of serving transportation customers.

11. *Should all LDC services be performed pursuant to filed tariffs and should any desired rate flexibility be effected under a filed rider? (CNB Olympic)*

FPU's response:

All LDC services should be performed pursuant to filed tariffs. Rate flexibility should be available when such flexibility would allow for market retention as long as the LDC's incremental costs to serve such customers is covered by such transactions. Confidentiality on behalf of the Public Service Commission should be granted for competitive deals. The LDC should not be put a competitive disadvantage just by virtue of the regulatory environment in which the LDC must operate.

12. Should the LDC have the right to unilaterally terminate transportation agreements without cause? (CNB Olympic)

FPU's response:

LDCs should have the right to terminate transportation agreements whenever the customer and/or its gas supplier do not perform in accordance with such agreements.

13. Should LDCs be required to "act reasonable" and should "sole discretion" provisions read "reasonable discretion"? (CNB Olympic)

FPU's response:

LDCs should be required to "act reasonable" and the "sole discretion" provision in LDC's tariffs should be kept intact. Any disputes resulting from a disagreement based upon when an LDC acted in its "sole discretion" and the customer could be settled via Public Service Commission remedies. "Reasonable discretion" is too vague and could cause disputes between the customer, its gas supplier and the LDC, during periods of critical operations.

14. Should the LDC be allowed to require a waiting period to transportation customers wanting to bundled services? (Staff)

FPU's response:

Waiting periods for transportation customers to return to bundled service would definitely be required. Absent, such waiting periods, transportation customers could take advantage of the LDC's purchased gas cost recovery factor (PGCRF) which varies from month to month but is estimated over a twelve month period. Due to the Commission's requirement of the PGCRF, many times during the year the LDC's PGCRF is not in direct alignment with actual "real time" gas acquisition costs. This methodology, which was put into place to give the LDC's bundled customers some sort of relative certainty

of gas prices over a twelve month period, could be misused by unbundled customers converting back to bundled service as an economic tool for them to purchase gas supplies at a cost which is significantly lower than the current market. This could have a direct negative impact on the LDC's bundled customers since during certain time of the year they may be subsidizing the switching unbundled customers. This would also have a negative impact on the marketability of natural gas to bundled customers. The LDCs should also have the ability to protect their bundled customers by having the right to deny any customer applying for both bundled and unbundled services, thereby requiring two meter sets at one customer site, one which could be utilized when the PGCREF is favorable and the other could be utilized when the gas cost related to unbundled services is more favorable. Waiting periods may also be dependent upon the time required for the LDC to acquire capacity to serve such customers.

*15. Should the price for LDC transportation service be based on cost of service principles?*

*FPU's response:*

Yes. At this time, Florida Public Utilities Company strongly believes that the price of transportation services should be based on cost of service principles. Additionally, customers requesting unbundled service should be required to furnish a full contribution for electronic measurement. Logically, LDCs cost of service models were primarily formulated for bundled customers. LDCs should take whatever steps necessary in order to reduce electronic measurement costs. The cost for electronic measurement equipment should not be included in any sort of revenue requirement test for customers who request unbundled services. The extra financial burden associated with the cost for electronic measurement for an LDC does not supply any additional return for the LDC but only would have the effect of lowering the LDC's rate of return for that particular customer.

*AGGREGATION*

*27. Should LDCs be required to have aggregation tariffs? (Staff)*

*FPU's response:*

LDCs should not be required to have aggregation tariffs but, if the LDC deems that it is feasible, the LDC should have the ability to have aggregation tariffs. There is extra cost



associated with the management of aggregation tariffs and, as such, LDCs should be able to recoup such costs and may be required, due to the LDC's internal priorities, to phase in aggregation.

28. *Should capacity releases to aggregators be subject to recall to correct any mismatch between customer load and assigned capacity outside a determined tolerance? (Staff)*

FPU's response:

Yes. The LDC should be permitted to recall capacity to correct mismatches whenever the LDC deems that it is in the best interest of the LDC's distribution system and/or other customers to correct such mismatches. The LDC should not be required to recall capacity to correct mismatches.

29. *Should aggregators become the customer of the LDC, rather than the individual customer whose loads are being aggregated? (AGDF)*

FPU's response:

Aggregators, as well as individual customers whose loads are being aggregated, should also be "customers" of the LDC. Such aggregators would have contractual arrangements with the LDC to provide services expected by the LDC and vice-versa. Individual customers should remain customers of the LDC in order to protect the interests of the LDC. The LDC has a significant investment in facilities to serve such customers. The LDC must be kept in the loop in order to ensure that unbundled customers remain gas customers.

30. *Do LDCs tell suppliers, marketers and brokers how much gas to deliver into the LDC system for aggregation customers, or do suppliers, marketers and brokers tell the LDC how much gas they are delivering? (a) how are imbalances handled? (b) who has the financial responsibility? (AGDF)*

FPU's response:

LDCs should have the option through their tariff to either order the gas suppliers to deliver certain quantities of gas or provide for gas suppliers delivering the amount of gas supplies they deem appropriate. Such tariffs should, most definitely, have daily and monthly balancing provisions. It would be expected that large customers, who have the capability of determining their daily

load, nominate gas to the LDC's city gate without intervention by the LDC unless the LDC deems it as operationally necessary to keep its system intact and in-balance with the pipeline. In the eyes of the pipeline, the LDC, being the Delivery Point Operator, is wholly responsible for ensuring that gas deliveries by the pipeline and gas supplies nominated into the pipeline are in-balance. The handling of imbalances will, most probably, vary from LDC to LDC based upon the overall market share of unbundled customers as compared to bundled customers. For example, an LDC whose unbundled customers represent in excess of 25% of the LDC's load, may have more stringent requirements in its tariff than an LDC whose unbundled customers represent 2% of the LDC's total load. Financial responsibility for balancing will also vary from LDC to LDC and should be stated as part of each LDC's tariff. Florida Public Utilities Company prefers to bill gas suppliers for imbalances and penalties, rather than billing our customers directly. From a public relations standpoint alone, bills for imbalances may be viewed by the LDC's customer as "penalty" bills. Unbundling should not have the potential for diminishing the LDC's credibility, reputation or integrity in the eyes of its customers which could also result in load loss.

31. *Should aggregators be able to order transportation service by phone or, simply, ask their agents to take care of the details of arranging service? (CNB Olympic)*

FPU's response:

This is an individual LDC decision which would be handled through LDC's tariff. Florida Public Utilities Company prefers to have all transactions and requests for service in writing. This question somewhat suggests a structure which is very similar to the telecommunications industry and, in that industry, many customers have had their service changed without their consent. We must guard against this in the natural gas business. Natural gas, unlike telephone services, is a true commodity that has fluctuations in prices day to day and, even, hour to hour.

32. *Should aggregators be afforded the same load management tools used by the LDC in its capacity as supplier of bundled sales service: (CNB Olympic)*

- *Hold the upstream capacity of their customers, if asked to do so;*
- *Receive and pay their transportation bills;*
- *Balance all their customers' usage as one pool;*

- Choose to have all LDC penalties and operational orders directed at their pools, rather than their customers;
- Aggregate any collection of customers;
- Aggregate upstream capacity for the purpose of submitting one city gate nomination for their customers?

FPU's response:

As a way of adding value in transactions with its customers, it may be possible for aggregators to perform many of these tasks by acting as agent for their customers. As far as balancing all the customers' usage as a pool on a daily level, that may adversely effect the LDC's operations, if the customer(s), not the LDCs, decide the quantities to be nominated. Unbundled customers would need to get into the habit of nominating exactly the amount of gas that they're planning on consuming. This has also been the position of the pipeline. We cannot afford the flexibility to permit a group of customers to be over-nominated and another group of customers to be under-nominated and, coincidentally, net to a zero imbalance. Again, it is imperative that customers and their suppliers get into the habit of predicting how much gas they're going to use and purchase those quantities of gas plus fuel and shrinkage. These comments even carry forward to pooling operational orders. LDCs, probably, would not have any objection to allowing for the aggregation of upstream capacity for the purpose of submitting one city gate nomination for groups of unbundled customers. The upstream firm capacity should only be primary firm capacity which may be obtained from the host LDC, subject to recall. Primary firm capacity, coupled with a reliable gas supply, offers the highest level of assurance of the deliverability of gas to unbundled customers. Other lower classes of capacity, such as alternate firm and interruptible can not be relied on for firm transactions.

Florida Public Utilities prefers continuing the process of directly billing its customers. This allows the Company to stay in contact with our customers. LDCs may be favorable to providing billing and collection services to marketers operating on the LDC's system at a reasonable charge.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Unbundling of Natural)  
Gas Services )  
\_\_\_\_\_ )

Docket No. 960725-GU

Filed: September 30, 1996

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Responses by Florida Public Utilities Company to Issues Discussed at the August 22-23, 1996 Public Service Commission's Unbundling of Natural Gas Workshop has been furnished by hand delivery (\*) or by U.S. Mail to the following individuals, on this 30th day of September, 1996:

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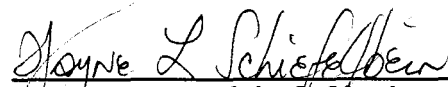
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