State of Florida

Public Service Commission

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RECORDS AND REPORTING

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

DATE: February 3, 2000

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF APPEALS (HELTON)
DIVISION OF AUDITING AND FINANCIAL ANALYSIS (HEWITT)
DIVISION OF ELECTRIC AND GAS (BULECZA-BANKS, MAKIN)

RE: DOCKET NO. 960725-GU - PROPOSED RULE 25-7.0335, F.A.C., TRANSPORTATION SERVICE.

AGENDA: 2/15/00 - REGULAR AGENDA - RULE PROPOSAL - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\APP\WP\960725#2.RCM

CASE BACKGROUND

The purpose of Rule 25-7.0335, Florida Administrative Code, captioned "Transportation Service," is to require Florida's investor-owned natural gas utilities, also known as local distribution companies (LDCs), to offer transportation service to all non-residential customers. If adopted, all non-residential customers will have the option of purchasing gas directly from a supplier other than the utility serving the territory where the customer is located. Staff's recommendation to propose Rule 25-7.0335 is based on 20 years of changes in the gas industry and follows the lead established by over half of the 50 states.

During the 1970's, the nation experienced interstate natural gas shortages. Prices were high, purchases were few, and producers halted exploration. These conditions were the catalyst to reform the natural gas industry. Congress enacted the Natural Gas Policy Act of 1978 (NGPA) to phase out producer price regulation so market forces would determine the price of natural gas. Gas prices then

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fell, consumers demanded more gas, and producers drilled exploratory wells. However, NGPA did not promote and expand access to the wellhead market as hoped.

In 1985, the Federal Energy Regulatory Commission (FERC) issued Order No. 436 to promote competition at the wellhead as well as to respond to economic changes within the industry. Order No. 436 instituted open-access, non-discriminatory transportation. Downstream customers now had the option of buying gas from entities other than the pipelines. In 1989, Congress enacted the Decontrol Act to repeal all remaining price controls on wellhead sales. The House Committee on Energy and Commerce Report stated that FERC's current competitive open access pipeline system should be maintained, and urged FERC to improve "the competitive structure in order to maximize the benefits of decontrol." United Distribution Companies v. Federal Energy Regulatory Commission, 88 F.3d 1105, 1125 (U.S. App. D.C. 1996), citing H. R. Rep. No. 29, 101st Cong., 1st Sess. 6 (1989).

The purpose of Order No. 436 was to promote the flow of natural gas from the producer to end-users. Order No. 436 allowed pipelines to phase in transportation, and most responded by offering transportation service. To encourage further competition, FERC issued Order No. 636 and mandated open access in 1992. Order No. 636 required interstate pipelines to unbundle or separate sales and transportation services. Pipelines could no longer sell gas. FERC expected gas prices to be more reflective of cost since pipelines no longer monopolized the commodity of natural gas.

Since 1993, Florida Gas Transmission (FGT) has been an open access provider in Florida. In addition to its direct customers, FGT transports gas for natural gas and electric utilities. Natural gas is actively traded on the commodity exchange, enabling sellers to reach buyers with the highest bids. Open access gives gas utilities more flexibility with respect to prices since they are no longer restricted to purchasing gas from the pipeline. According to Florida's gas utilities, open access has saved them money.

Even though the Commission has never required utilities to transport gas, several utilities sought permission to offer transportation service to large customers. Peoples Gas System, Inc. (Peoples) has offered transportation service to large end-use customers since June of 1986.[1] In the 1990's, other utilities

[1] In re: Peoples Gas System, Inc.'s Request for Approval of its Contract Transportation Service and Transportation Service Rate Schedules, Order No. 16229, 86 F.P.S.C. 6:224 (1986).

followed Peoples' lead and offered transportation service to large end-use customers.[2] The first transportation tariffs approved by the Commission established a volume threshold that customers must meet to be eligible for transportation service. The current customer thresholds range from 100,000 to 500,000 therms per year. Only South Florida Natural Gas, Sebring Gas System, and Indiantown Gas Company, the smallest natural gas utilities, do not transport gas because their capacity is released to third party marketers.

This docket was opened in 1996 to evaluate the costs and benefits of reducing or removing the volume thresholds. The Commission staff conducted three two-day workshops to discuss open access, after which interested persons and parties could file comments. In the Fall of 1997, staff distributed a Model Tariff for offering transportation service to all non-residential customers. Only City Gas Company of Florida (City Gas) has eliminated thresholds and offered transportation to all of its non-residential customers.[3]

A notice of proposed rule development for Rule 25-7.0335 was published in the February 26, 1999, edition of the Florida Administrative Weekly (Vol. 25, No. 8). A workshop was requested and was held on March 24, 1999. Natural gas utilities and

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[2] The following orders represent the first transportation tariff approved for each of the listed utilities. Many of these utilities have since modified their transportation offerings. In re: Petition for approval of service agreement for firm transportation service with Florida Department of Management Services and Florida Department of Corrections, by St. Joe Natural Gas Company, Inc., Order No. PSC-96-0756-FOF-GU, 96 F.P.S.C. 6:181 (1996); In re: Petition of City Gas Company of Florida for Approval of Modifications to its Natural Gas Tariff to Establish Certain Terms and Conditions for Transportation, Order No. PSC-94-0681-FOF-GU, 94 F.P.S.C. 6:56 (1994); In re: Request for Approval of Tariff Modification for 100% Transportation of Natural Gas under FERC Order 636 by Florida Public Utilities, Order No. PSC-93-1697-FOF-GU, 93 F.P.S.C. 11:326 (1993); In re: Petition by the Florida Division of Chesapeake Utilities Corporation for approval of Large Volume Contract Transportation Service Rate Schedule and Gas Transportation Agreement with Mulberry Energy Company, Inc., Order No. PSC-92-0201-FOF-GU, 92 F.P.S.C. 4:291 (1992); In re: Petition for approval of a special contract rate for firm transportation service between Arizona Chemical Company and West Florida Natural Gas Company, Order No. 23636, 90 F.P.S.C. 10:447 (1990).

[3] In re: Petition by City Gas Company of Florida to amend Small Commercial Transportation Service Rate Schedule, Order No. PSC-99-2399-TRF-GU, issued December 7, 1999.

marketers participated in the workshop and filed post-workshop comments. Staff recommended that the Commission propose a rule to open up access for all non-residential customers at the August 31, 1999, Agenda Conference. The Commission denied staff's recommendation and instead voted to hold a Commission workshop to learn more about the issues surrounding open access. At the November 17, 1999, workshop, discussion centered around issues concerning the obligation to serve and supplier of last resort, stranded investment, potential for slamming, excess capacity, and marketing affiliations.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission propose Rule 25-7.0335, F.A.C., Transportation Service?

RECOMMENDATION: Yes, the Commission should propose the attached rule.

STAFF ANALYSIS: Staff recommends the Commission propose Rule 25-7.0335, which eliminates all threshold limits and requires all investor-owned natural gas utilities to provide transportation service to all non-residential customers:

Subsection (1): Today, customers in Florida experience discrimination because each utility has different threshold limits. A customer may not meet the volume threshold imposed by its utility, but a competitor down the street with the same volume qualifies for transportation service simply because he is served by a different utility with different threshold limits. Customers are often dismayed by this disparate treatment. The attached rule eliminates discrimination because subsection (1) requires all utilities to transport gas purchased from other suppliers for all non-residential customers. Under this requirement, no non-residential customer in Florida will be refused transportation service because of size or location.

Subsection (1) also provides that utilities may offer transportation service to residential customers. Currently, eleven states permit open access transportation to all residential customers, twelve states have established residential pilot programs, and eleven states are considering unbundling transportation service for residential customers. Staff is not recommending that the Commission require open access for residential customers because the average residential customer in Florida does not use enough natural gas to make open access cost beneficial. However, in certain locations such as self-contained subdivisions with large homes and restaurants, residential transportation may be cost-effective to both the customer and the utility. Therefore, staff recommends that utilities have the option of providing transportation service to residential customers.

Subsection (2): Subsection (2) establishes base line requirements for each utility's open access tariff. The requirements are minimal so that each utility can tailor its tariff to its individual needs. Smaller utilities may follow staff's Model Tariff. Each tariff must clearly specify that the utility providing transportation service is not responsible for providing the customer with natural gas if the customer's supplier fails to produce. In addition, each tariff must require the utility to obtain marketer, broker, or agent information from the customer to ensure the customers are dealing with reputable middle men. Each tariff must also include a provision to allow customers to request information so the customer can calculate its Maximum Daily Transportation Quantity (MDTQ).

Subsection (2) also requires all natural gas utilities to file a transportation service tariff by July 1, 2000. Staff had originally suggested a December 31, 1999, due date, but extended this date at the urging of several utilities and recommended March 31, 2000, in the August 19, 1999, recommendation. The July 1, 2000 deadline now recommended is a reasonable date because most utilities already offer transportation service in some manner. It is not unduly burdensome for these utilities to extend already existing tariff requirements and open access procedures to all non-residential customers. Some utilities will have to modify their computer systems and billing mechanisms to handle additional transportation customers. This date allows utilities to implement Rule 25-7.0335 during a slow period--after the winter season. This date is also in the seventh month of the year 2000; therefore, there should be no Y2K problems associated with implementation of the rule. According to City Gas, whose sister companies have already moved to open access for all customers, utilities should experience minimal administrative and technological difficulties meeting the open access requirements of the rule.

Subsection (3): The last subsection of the rule requires utilities to apply the tariff provisions similarly to all customers, marketers, brokers, and agents. The intent of this subsection is to prevent discrimination in Florida.

Statutory authority: Pursuant to Section 366.03, Florida Statutes, "[e]ach public utility shall furnish to each person applying therefor reasonably sufficient, adequate, and efficient service upon terms as required by the commission." Rule 25-7.0335 establishes a type of service natural gas utilities must provide to their customers: each utility must offer transportation service to its non-residential customers under the terms established in the rule.

The Legislature foresaw competition in the natural gas industry when it added a specific exemption in 1992 to the definition of public utility. The Legislature laid the groundwork for unbundling in the natural gas industry by exempting from the Commission's jurisdiction "any entity selling or arranging for sales of natural gas which neither owns nor operates natural gas transmission or distribution facilities within the state." Section 366.02(1), Florida Statutes.

Of the six issues discussed at the workshop, four issues emerged as the major concerns regarding unbundling. The four issues include: Obligation to Serve, Supplier of Last Resort, Stranded Investment, and Slamming.

Obligation to Serve: Historically, the obligation to provide natural gas service has rested with the utility. The utility purchased the gas molecules and distributed those molecules to the customer. In providing transportation service, the utility is responsible for distributing the molecules of gas it receives on behalf of the end user. Because the utility does not supply the gas molecules, it no longer contracts for gas supply from producers to serve customers moving from sales service to transportation service.

Supplier of Last Resort: The issue of supplier of last resort relates to the utility's role of supplying gas molecules, when the customer's gas does not arrive at the city gate. This concept is intertwined with the Obligation to Serve issue.

When the customer's gas does not arrive at the city gate, the utility should not be required to provide gas molecules. The utility's obligation should be limited to transportation of the molecules. However, at the workshop, the utilities indicated that in many cases it would be impractical for the utility to disconnect commercial customers. In those cases, the utility might opt to keep gas flowing to the customer and charge for the gas accordingly. This option should lie with the utility, as long as it is applied in a nondiscriminatory manner. While the utility may attempt to provide gas molecules, there may be instances where it is impossible to do so. In those cases the utility should not have a regulatory obligation to provide the molecules of gas.

Stranded Investment: Stranded investment, as it relates to gas unbundling, typically involves capacity contracts (interstate pipeline capacity) and supply contracts (gas molecules). The utility reserves pipeline capacity and gas supply for each sales service customer on its system. When a customer switches from sales service to transportation service, the utility must decide the appropriate treatment for the interstate pipeline capacity and gas supply contracts. The utility may choose to require the customer to take his assigned capacity with him (the utility is no longer obligated to pay the interstate pipeline), or the utility may allow the customer to purchase capacity on the secondary market (the utility would still be obligated to the interstate pipeline for the capacity costs). Staff believes that the recovery of prudent costs incurred by the utility to expand transportation service is reasonable.

Slamming: Slamming has not been prevalent in the natural gas industry. The reason slamming has not been a significant issue is because of the imposition of administrative requirements to establish service. In most jurisdictions, the customer, marketer, and utility must all sign a transportation agreement, an operating and balancing agreement, and other documents dictating the obligations of each party. Florida gas utilities require such signed documents.

The one state that had considerable problems with slamming is Georgia. In Georgia, Atlanta Gas Light (AGL) offered transportation service to all its customers. To remove itself from the merchant function, AGL required all customers to choose a third party marketer. Those that did not choose a marketer by a specified date, were randomly assigned to a commission-approved marketer. This particular situation set the stage for wide-spread slamming.

Staff does not believe slamming will be an issue for Florida's gas utilities. Currently, the Florida gas utilities require a "wet signature" before transportation service will be provided. Staff encourages the utilities continue to require "wet signatures."

Statement of Estimated Regulatory Costs: Rule 25-7.0335 may reduce the amount of regulatory assessment fees (RAFs) collected by the Commission. In addition, the rule may reduce the amount of taxes collected by the Department of Revenue (DOR) while increasing DOR's collection costs. The total impact and possible losses for governmental entities is unknown.

All of the investor-owned natural gas utilities in the state will be affected by the rule. Four of these utilities meet the statutory definition of a small business. Two of the small business utilities have transferred their pipeline capacity to another entity and the other two reported minimal costs to comply with the rule. All of the utilities reported divergent implementation costs:

Utility	Potential Number of Non-Residential Customers	Estimated Total One-Time Costs	Estimated Total Annual Recurring Costs
Peoples Gas System	22,200	$10,200,000-22,900,000	$8,625,000
City Gas Company	4,681	Insignificant	Insignificant
Florida Public Utilities Company	3,458	$1,743,000	$271,500
Chesapeake Utilities Corporation	799	$112,000-249,000	$80,000
South Florida Natural Gas	342	Can't estimate	Can't estimate
St. Joe Natural Gas	245	$2,565	$5,412
Sebring Gas System	93	N/A	N/A
Indiantown Gas Company	25	N/A	N/A

The impact on small cities and small counties is unknown, and depends on the governmental entity's status as a gas purchaser.

ISSUE 2: Should this docket be closed?

RECOMMENDATION: Yes. If no requests for hearing or comments are filed, the rule as proposed should be filed for adoption with the Secretary of State and the docket closed.

STAFF ANALYSIS: Unless comments or requests for hearing are filed, the rule as proposed may be filed with the Secretary of State without further Commission action. The docket may then be closed.

attachments:
Rule 25-7.0335
Statement of Estimated Regulatory Costs

25-7.0335 Transportation Service

(1) Each utility must provide all non-residential customers the option to contract for the transportation of natural gas purchased by the customer from a third-party supplier. Each utility may elect to make such transportation option available to residential customers.

(2) In order to meet the objective set out in subsection (1), each utility must file a transportation service tariff with the Commission by July 1, 2000. Each tariff must comply with Rule 25-7.033, F.A.C., and include in its rules and regulations the utility's policy governing the transportation of natural gas. In addition, each tariff must set out the following terms and conditions:

(a) The utility is responsible for the transportation of natural gas purchased by the customer. The utility is not responsible for providing natural gas to a customer that elects service under the transportation service tariff. If the third-party supplier fails to provide the customer with natural gas, the utility may disconnect service to the customer or provide natural gas under its otherwise applicable tariff provision.

(b) The utility must obtain from each customer that elects transportation service a written or electronic statement that identifies the legal name, street address, mailing address if different from street address, and phone number of the third party supplier that will deliver the customer's gas to the utility, and

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other information reasonably necessary for the utility to redeliver such gas to the customer.

(c) At the customer's request, the utility must provide an historical monthly usage summary with sufficient detail so that the customer can calculate its Maximum Daily Transportation Quantity (MDTQ). The utility's tariff may include a cost-based charge for this summary.

(3) Each utility must apply its transportation service tariff provisions in the same manner to all similarly situated third-party suppliers, including any third-party supplier which is affiliated with the utility.

Specific Authority: 350.127(2), 366.05(1), F.S.

Law Implemented: 366.03, F.S.

History: New

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M E M O R A N D U M

July 28, 1999

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TO: DIVISION OF APPEALS (HELTON)

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (HEWITT) CBH

SUBJECT: STATEMENT OF ESTIMATED REGULATORY COST FOR DOCKET NO. 960725-GU, PROPOSED NEW RULE 25-7.0335, F.A.C., TRANSPORTATION SERVICE

SUMMARY OF THE RULE

Proposed Rule 25-7.0335, F.A.C., Transportation Service, would require that natural gas investor owned utility companies, the local distribution companies (LDCs), offer all nonresidential customers unbundled transportation service for customer owned gas. The new rule would also provide the conditions for gas transportation including filing a transportation service tariff, obtaining from customers that use a marketer, broker, or agent information about those parties, and applying the transportation service tariff provisions in a nondiscriminatory manner. The LDCs would also be required, at a customer's request, to provide a historical monthly usage summary to enable the customer to calculate its Maximum Daily Transportation Quantity (MDTQ). A utility would not be responsible for providing natural gas to a customer that elects service under the transportation service tariff.

ESTIMATED NUMBER AND DESCRIPTION OF INDIVIDUALS AND ENTITIES REQUIRED TO COMPLY

There are eight natural gas LDCs which would be subject to the proposed rule. Municipal and cooperative gas utilities and gas districts are not covered by this rule. Nonresidential customers of the natural gas LDCs would have the option of choosing unbundled gas transportation service with the new rule but are not required to do so. As of December 1998 there were 34,825 nonresidential customer accounts of Florida LDCs, other than those already on transportation or industrial tariffs.

An unknown number of marketers, brokers, and agents would have additional business opportunities with adoption of the rule.

RULE IMPLEMENTATION AND ENFORCEMENT COST AND IMPACT ON REVENUES FOR THE AGENCY AND OTHER STATE AND LOCAL GOVERNMENT ENTITIES

The Commission would have some additional costs with adoption of the proposed rule changes. A one time review of tariff filings and subsequent monitoring would be required but would be done by existing staff. Also, FPSC regulatory assessment fees would be impacted. When a gas customer buys its gas supply from other than the local distribution company, the LDC has less assessable revenues to count for FPSC regulatory assessment fees (RAFs). RAFs are collected at the rate of 0.5% on gross regulated LDC revenues and are estimated to be $1,881,051 for 1999. The actual loss of RAFs would be determined by the number of customers choosing transportation and the amount of their lost gas purchase revenues.

The option of shopping for the best gas price may reduce gas costs or increase revenues for a governmental entity that buys and uses or sells natural gas.

Another potential impact may be to the Department of Revenue (DOR) which collects gross receipts and sales and use taxes for the state. Currently, the utilities add the appropriate tax on customer bills and remit the collections to DOR. But, with the proposed rule, DOR may have increased collection costs and lost taxes when customers buy their gas from out-of-state or from third parties. One utility reported that it currently submits $680,000 of fuel sales tax annually on commercial sales, $280,300 gross receipts tax, and $56,100 in FPSC RAFs.

The total impact and possible losses are unknown at present.

ESTIMATED TRANSACTIONAL COSTS
TO INDIVIDUALS AND ENTITIES REQUIRED TO COMPLY

There would be additional transaction costs to the LDCs to comply with proposed Rule 25-7.0335, F.A.C., because they would have to revise tariffs, metering, and billing, reallocate fixed pipeline capacity costs, and educate their employees, vendors, and customers.

Individual LDC reported impacts:

South Florida Natural Gas Company stated that the primary economic impacts associated with the proposed rule would be to cause imbalance in: management (both upstream and downstream), the Company's ability to pass pipeline penalties downstream to transport customers, and rate treatment regarding implementation and operating costs. South Florida cannot accurately estimate the associated costs until the Commission decides how to deal with these issues from a regulatory perspective.

St. Joe Natural Gas Company estimated $2,565 in actual equipment and installation start-up costs and $451 in recurring gross monthly expenses or $5,412 annually. Also, the Company stated that the cost of service becomes greater for a sales customer that elects to change to a transport customer.

Chesapeake Utilities Corporation, Central Florida Gas, estimated one-time costs:

- computer programming	$80,000-$200,000
- tariff changes, legal and administrative	4,000
- consumer education	15,000-25,000
- training	3,000-10,000
- equipment	10,000
Total One-time Costs	$112,000 - $249,000
Recurring Costs (annual):	
- staffing, one customer service clerk and one scheduler	$75,000
- customer awareness	5,000
Total Recurring Costs	$80,000

The Company also stated that if a nonresidential customer can contract for less capacity than they would otherwise, then an unsubscribed capacity would be charged to the remaining customers.

City Gas Company, NUI Corp., stated that the proposed rule, in the time in which it is proposed, should not cause any significant costs. The company has extensive experience with unbundling commercial customers in its largest regulated LDC territory with no significant cost increase. In the proposed time frame, the company would have the opportunity to realign its gas supply portfolios, with minimum cost impact. The LDC's FTS-1 contracts are expiring and companies can realign their portfolios. NUI found that in other regulated jurisdictions that telemetry equipment for small commercial customers was not necessary and that it could meter read and bill on customers' regular cycle.

Peoples Gas System

Summary of Cost Estimate

The table below summarizes the costs by category to comply with the proposed new rule, 25-7.0335, F.A.C. As shown, the cumulative cost to make transportation service available to all noncommercial customers is likely to be $13,300,000 in initial cost. Of this initial cost, $5,400,000 is operational and capital costs, $1,300,000 is gas price cost in the PGA and $6,600,000 is capacity cost transferred between customer classes in the PGA. The initial cost may range between $10,000,000 to over $20,000,000. The recurring annual cost is estimated to be $8,625,000. These costs reflect impacts to Peoples Gas's system only. No cost impacts to interstate pipelines, third-party marketers, governmental entities or any other effected parties have been included.

Category	Initial Cost			Annual Recurring Cost
	Minimum	Maximum	Likely	
Program and Tariff Development	$250,000	$250,000	$250,000	$25,000
Billing / Accounting and Customer Information System Upgrades	Replace $1,000,000 Modify $700,000*	Replace $10,000,000 Modify $3,000,000*	Replace $3,000,000 Modify $1,000,000*	Replace $200,000 Modify $200,000*
Gas Management and Operation System Upgrades	$850,000	$850,000	$850,000	$100,000
Customer, Employee and Supplier Education	$300,000	$600,000	$400,000	$50,000
Implementation and General Administration	$500,000	$500,000	$500,000	$150,000
Customer Service and Support	$200,000	$850,000	$400,000	$200,000
Purchased Gas Adjustment Impacts	Gas Supply $1,800,000 Capacity LF $5,300,000 Stranded $16,000,000*	Gas Supply $100,000 Capacity LF $7,900,000 Stranded $16,000,000*	Gas Supply $1,300,000 Capacity LF $6,600,000 Stranded $16,000,000*	Gas Supply $1,300,000 Capacity LF $6,600,000 Stranded $16,000,000*
Total Cost To Comply With Rule	$10,200,000	$22,900,000	$13,300,000	$8,625,000

*Cost is not included in the Total Cost to Comply With Rule.

Peoples Gas cost estimates are conservative and assume an orderly development and implementation of transportation service to all non-residential customers. The requirement to file a tariff by March 31, 2000 may not permit an orderly implementation since many tasks associated with providing such extensive transportation service take many months or years to complete. In many cases the tasks are also sequential. To satisfy the deadline, many tasks would cost a premium to complete in time or would cause additional cost due to re-work or work around solutions.

One-time Estimated Cost Incurred by FPU.

Software upgrades	-Billing / Customer Information System	$900,000
	-Customized Programming	300,000
	-Gas Supply Management System	400,000
Training	-Customer Service, Marketing & Staff	30,000
Equipment Upgrades	-Gas Control	16,000
Customer Education		20,000
Fees	-Attorney	10,000
	-Consultant for tariffs and procedures	50,000
Advertising Expense		10,000
Internet Site Expense		3,000
Additional Telephone Service & Equipment		4,000
Total		**$1,743,000**

One-time Estimated Costs Incurred by FPU's Customers:

SCADA Remote Terminal Unit (one per large transportation customer)	$3,500
Total	**$3,500**

Annual Recurring Estimated Incremental Costs Incurred by FPU:

Software Maintenance	-Billing System / Customer Information System	$ 75,000
	- Gas Supply Management System	85,000
Training	- Customer Service, Marketing & Staff	5,000
Equipment Upgrades	- Gas Control	1,000
Additional Staffing	- Gas Control & Customer Service	90,000
	*Balancing Services as Delivery Point Operator	
	*Additional Record Keeping - Agency Agreements	
	*Additional Record Keeping - Capacity Tracking	
Customer Education		10,000
Fees	- Attorney	2,500
Advertising Expense		2,000
Internet Site Expense		3,000
Additional Telephone Service		3,000
Total		**$271,500**

Note: *Transportation customers will also be responsible for FPUs Transportation Administration Fee.*

FPU currently has annual pipeline capacity costs of approximately $4,700,000, and these costs are allocated via the Purchased Gas Adjustment (PGA) mechanism. Capacity would have to be allocated based on each customer's peak natural gas consumption. Fairly complex methodologies would have to be created to protect the residential customer base which accounts for over 80% of the Company's base revenue. Attributing more pipeline capacity costs to the residential customer may cause a significant erosion of such customers. This could result in the necessity of the Company to request rate increases for the remainder of its customers.

IMPACT ON SMALL BUSINESS, SMALL CITIES, OR SMALL COUNTIES

Four of the companies subject to the rule met the statutory definition of a small business. Two of the companies have transferred their pipeline capacity to another entity and the other two reported minimal costs to comply with the rule. Any additional direct impact on small cities or small counties would depend upon their status as a natural gas purchaser. If the entity buys for resale or use, it would have the option of transportation service and seeking less expensive gas supplies. If the entity remained on its present tariff, it may have to pay a larger pro-rata share of fixed costs arising from loss of energy customers that the LDC may flow through. These costs are unknown at this time.

cc: Mary Bane
Wayne Makin

gastrans.wpd