

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for approval of modifications)
to tariff provisions governing the)
transportation of customer-owned gas and)
tariff provisions to implement Rule)
25-7.0335, F.A.C., by Peoples Gas System)
_____)

DOCKET NO. 000810-GJ

Submitted for Filing: July 3, 2000

PETITION

Peoples Gas System ("Peoples" or the "Company"), by its undersigned attorneys, files its petition for approval of its Natural Choice Program, which makes transportation service available to all non-residential customers. The modifications to its Natural Gas Tariff, Volume No. 3, necessary to implement this program are submitted herewith pursuant to the Commission's tariff approval procedures. The new or revised tariff sheets are to become effective October 1, 2000.

In support of its petition, the Company states as follows:

- 1. The name and address of the petitioner are:

Peoples Gas System
702 N. Franklin Street - 7th Floor
Tampa, Florida 33602

- 2. The persons to whom notices, orders and pleadings in this docket should be addressed

are:

Ansley Watson, Jr., Esquire
Macfarlane Ferguson & McMullen
Post Office Box 1531
Tampa, Florida 33601-1531

Angela Llewellyn
Peoples Gas System
Post Office Box 2562
Tampa, Florida 33601-2562

DOCUMENT NUMBER-DATE

08104 JUL-38

FPSC-RECORDS/REPORTING

OVERVIEW

3. Rule 25-7.0335, F.A.C., which became effective on April 23, 2000, requires among other things that all natural gas utilities offer the transportation of natural gas to all non-residential customers, and file a transportation service tariff by July 1, 2000. In addition, the Commission's Order No. PSC-00-0586-AS-GU (March 23, 2000), approving Peoples' experimental Rider FTA-2, also approved the Company's agreements (a) to submit, by July 31, 2000, new tariff sheets which, after becoming effective, would make transportation service available on reasonable terms and conditions to not less than 300 additional non-residential customers of the Company each month, and (b) not to seek extension of the availability of Rider FTA-2 beyond September 30, 2000 unless the new tariff sheets referenced in (a) above had not become effective by that date. The tariff sheets submitted herewith are being filed both to comply with Rule 25-7.0335 and to comply with Peoples' agreements approved by Order No. PSC-00-0586-AS-GU.

Peoples' proposal for complying with the above requirements is the Natural Choice Program by which Peoples makes transportation service available to all non-residential customers on a phased-in basis beginning October 1, 2000. Transportation service, also called unbundled gas supply, provides the customer the opportunity to purchase its gas supply from a gas marketer. Customer-owned gas delivered to Peoples by the gas marketer at the interconnection with the interstate pipeline is re-delivered by Peoples to the customer's meter. Currently, Peoples provides transportation service through a collection of schedules, experimental programs and tariff riders. In addition to expanding the availability of transportation service, the Natural Choice Program makes it easier for both the customer and gas marketer by consolidating and simplifying the multitude of existing programs.

Peoples offers two types of transportation service under the Natural Choice Program. The first, "pooled" transportation service, allows the customer to secure its gas supply from a gas marketer as part of the gas supply needs for a group of customers (called a Customer Pool). Peoples' proposed Natural Choice Transportation Service Rider (Rider NCTS) defines the provisions and terms associated with "pooled" transportation service. The second transportation option allows commercial and industrial customers under certain rate schedules to take transportation service on an individual, stand alone basis under the new Individual Transportation Service Rider (Rider ITS). ITS is essentially modified provisions of the Company's tariff governing transportation of gas for individual customers who do not participate in a Customer Pool.

The tariff sheets submitted herewith contain provisions for closure of the Company's two experimental transportation service programs (Riders FTA and FTA-2) and the transfer of participating customers automatically to Rider NCTS. The tariff sheets also contain provisions for the closure of the existing Transportation Aggregation Rider (Rider TA) to new participants. The rate schedules for all non-residential customer classes have also been modified to accommodate the additional and revised transportation services. The new transportation service riders will apply uniformly for all regions of Peoples, both the area served by the former Peoples Gas System, Inc. and the area served by the former West Florida Natural Gas Company.

Cumulatively, the new Rider NCTS, modifications to transportation service for individual customers (Rider ITS), and the closure of Rider TA to new participants form a comprehensive package that improves transportation service for all non-residential customers. Under the Natural Choice Program, Peoples has expanded the availability of transportation service, added new services, and developed communication vehicles to improve customer understanding of transportation service.

The Natural Choice Program is designed to encourage participation by customers and gas marketers or other Pool Managers who would manage the operations for a Customer Pool, and reflects a complete change in the natural gas business and Peoples' approach to it. As with any effective and successful unbundling effort, the Natural Choice Program includes customer education, employee education, customer service enhancements, load research and gas marketer support among many other efforts necessary to make a successful transition to an unbundled environment.

BACKGROUND

4. Peoples first began providing transportation of customer-owned gas for very high-volume customers on its system in August 1990, and has expanded the availability of that service to its customers over the past 10 years. The Company currently provides transportation (as opposed to sales) service to approximately 3,000 customers on its system (the majority of which are participating in experimental transportation programs.) The tariff changes for which this petition seeks approval will provide access to transportation service to all of the Company's 25,000-plus non-residential customers. The proposed program is the result of the experience gained by Peoples during the past 10 years, particularly in designing, administering and monitoring its experimental Rider FTA and FTA-2 programs. Background relating to Peoples' provision of transportation service to its firm and interruptible customers is summarized in Exhibit A to this petition.

THE NEW AND REVISED TARIFF SHEETS

5. As previously indicated, the new or revised tariff sheets for which Peoples seeks approval are submitted with this petition. Copies of the tariff sheets, showing in legislative style the changes in the tariff made by the new or revised tariff sheets have been submitted separately.

6. The changes for which approval is sought affect many of the Company's rate

schedules applicable to the provision of gas service to both firm and interruptible classes of non-residential customers, including provisions of general applicability to all non-residential rate classes. The changes will provide each retail class of non-residential customers with the choice of receiving either sales service provided by the Company or participation in the Company's transportation service (either individually, or as part of the gas delivered for the account of a Customer Pool in which the customer participates). Collectively, the Company's non-residential customers will be able to elect to receive transportation service from Peoples either on an aggregated basis pursuant to Rider NCTS, or as an individual transportation service customer pursuant to Rider ITS and a Gas Transportation Agreement with the Company.

Natural Choice Transportation Service Rider (Rider NCTS)

7. While fundamentally similar to the Company's experimental Riders FTA and FTA-2, Rider NCTS contains improvements based upon Company experience and marketer and customer input obtained from these pilot programs. The Company assessed numerous approaches to making transportation service available to all non-residential customers. It determined that modifying the existing pilot programs is the best approach. The modifications include the addition of new services, increased flexibility for participating customers and Pool Managers, protection for the Company's customers who may choose not to convert to transportation service, and recovery by the Company of costs associated with making access to transportation service available to customers who have in the past not qualified for individual transportation service.

8. The new provisions applicable to aggregated transportation service are set forth in Peoples' new Rider NCTS, which begins on Sheet No. 7.803 of the new tariff sheets. The major terms and conditions of Rider NCTS, including comparison of those terms and conditions with those

currently found in Peoples' existing experimental Rider FTA, are summarized in Exhibit B attached hereto. The differences from Rider FTA are highlighted in bold print. While conceptually similar to Rider FTA, the numerous changes reflect significant improvements resulting from experience gained via the experimental programs and a collaborative process with existing Pool Managers. The result is a program that is more marketer and customer friendly.

9. The main changes to Rider NCTS from Riders FTA and FTA-2 include load forecasting by the Company, the elimination of certain penalties, the addition of "Book-Out" for monthly imbalances, the addition of mid-month gas nomination changes, added gas supply flexibility, reduced customer sign-up and termination periods, prompt transfer of meter reads, and numerous customer/Pool Manager status reports. To support the on-going expense associated with supporting gas marketers that participate in Rider NCTS, the Company has added a monthly Pool Administration Fee assessed to the Pool Manager and described in Exhibit D.

10. A key component of Rider NCTS is the manner in which the Pool Manager delivers natural gas to the Company's distribution system. The Pool Manager delivers a quantity of natural gas which is expected to equal the consumption for its Customer Pool in a given month. The gas is actually delivered to the Company's distribution system at a constant level every day for re-delivery to each customer location. The customers in the Customer Pool actually consume gas at levels that vary every day. Thus, the quantity of gas delivered by a Pool Manager every day differs from the actual daily consumption of the customers for which the gas is being delivered. As part of managing the operational integrity and balance of its entire distribution system, the Company varies or "swings" its own daily nominations for gas supply and interstate pipeline capacity either up or down to offset the daily imbalance for each Customer Pool. To address the costs associated with this

activity, the Company has developed a Swing Service Charge to be assessed to customers who transport under Rider NCTS. The Swing Service Charge is described in Exhibit E.

11. The Natural Choice Program represents an entirely new way of doing business, a way that offers customers choice but similarly adds complexity to virtually every aspect of the Company's business. As such, communication and information transfer between the Company, the customer and the gas supplier is essential. The Company has incurred and continues to incur substantial costs associated with making transportation service available to all non-residential customers pursuant to the Commission's directive. These costs include, but are not limited to, modifications to billing systems, acquisition of and modifications to gas management systems, program development and customer and employee education. These one-time costs are recovered through a Transition Cost Recovery Charge, applicable to all non-residential customers who are gaining the opportunity to transport, but are not eligible for individual transportation service. Even customers who elect not to participate in Rider NCTS, but now have the option, will be assessed this charge. Exhibit G outlines the expenses incurred by the Company and the derivation of the Transition Cost Recovery Charge to be applied to each affected customer's bills.

Individual Transportation Service Rider (Rider ITS)

12. The terms and conditions applicable to transportation service provided by the Company for an individual transportation customer are contained in the new Individual Transportation Service Rider (Rider ITS) submitted herewith (beginning on Sheet No. 7.805), and in the Gas Transportation Agreement (beginning on Sheet No. 8.114), which is a consolidation, simplification and modification of the former Gas Transportation and Supply Agreement and Operational Balancing Agreement. The major terms and conditions of Rider ITS and the new Gas

Transportation Agreement (the "GTA"), including comparison of those terms and conditions with those currently found in Peoples' existing Gas Transportation and Supply Agreement, are summarized in Exhibit C. To simplify the Company's administration of transportation services, Peoples' customers taking transportation service as part of the former West Florida Natural Gas Company will also transport under the new Rider ITS and GTA.

13. The Company incurs expenses associated with providing individual transportation service. The Company is incurring even more expenses associated with providing enhanced services desired by individual transportation customers. The new features available through Rider ITS and the GTA include electronic nominations, "Book-Out" of monthly imbalances, intra-day nominations, flexible gas deliveries of a beneficial nature, alternatives during curtailment, and website-posted month-to-date imbalance information. To recover these expenses, the Company has developed a monthly Individual Transportation Administration Fee described in Exhibit F.

Other Modified Rate Schedules

14. Currently, Peoples' tariff contains separate sales service and transportation service rate schedules for each class of service in which customers are individually eligible to receive either sales or transportation service. However, in both cases, the rates in these schedules are actually charges for "distribution" of the gas through Peoples' pipelines. Since the same rates applies whether a customer takes sales service or transportation service, the separate and distinct rate classifications for the two types of service have been eliminated. In the tariff filing submitted herewith, the separate transportation schedules for such customer classes have been eliminated, and the "non-gas energy charge" in the sales service schedules for those classes have been re-named "distribution" charges to apply to either sales or transportation service. Under the revised rate

schedules, a customer will be able to receive sales service or either aggregated (under Rider NCTS) or for certain rate schedules individual (under Rider ITS) transportation.

15. Peoples has also requested that its existing Rider TA be closed to new participants. With the universal availability of transportation service to all non-residential customers through Rider NCTS, Rider TA is no longer necessary. In fact, the continued availability of this Rider potentially adds to the Company's expenses and could result in customer confusion, while benefitting only a few customers. Peoples therefore believes closure of Rider TA to new participants is in the best interests of its general body of customers. However, to minimize the impact on currently participating customers (including those other customers from which a formal request for service under Rider TA is received by the effective date of this program), Peoples is requesting that such participants be "grandfathered" in their use of Rider TA.

Effective Date

16. Peoples' petition and its proposed Natural Choice Program are a direct response to the Commission's Rule 25-7.0335 and Order No. PSC-00-0586-AS-GU. The Company's proposed enhancements to its "pooled" and individual transportation services encourage both customer and Pool Manager participation. As such, Peoples believes it has embraced the spirit of the Commission's rule and requests expedited consideration of this filing to enable it to become effective October 1, 2000. The October 1, 2000 effective date is necessary to comply with Commission Order No. PSC-00-0586-AS-GU. To accommodate the "lead time" necessary for initiation of transportation service to new participants by October 1, Peoples respectfully seeks approval of these new and revised rate schedules by August 15, 2000.

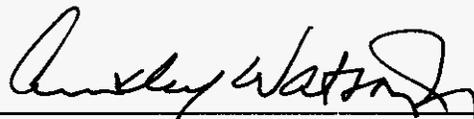
CONCLUSION

17. In developing the new tariff sheets submitted herewith, Peoples has met on several occasions with the Pool Managers currently participating in its experimental Riders FTA and FTA-2, as well as with representatives of its individual transportation service customers. The Company has considered the suggestions and concerns of each group, and has made every effort to accommodate their concerns. Peoples believes that the changes proposed in the new tariff sheets are supported by both groups.

All new charges proposed in the Natural Choice Program are designed to recover incremental costs incurred by Peoples and should therefore have no impact on the Company's earnings.

WHEREFORE, Peoples respectfully requests the Commission will enter its order permitting the new and revised tariff sheets submitted with this petition to become effective on October 1, 2000.

Respectfully submitted,



ANSLEY WATSON, JR., of
Macfarlane Ferguson & McMullen
P. O. Box 1531
Tampa, Florida 33601
Telephone: (813) 273-4321
Facsimile: (813) 273-4396
E-mail: aw@macfar.com
Attorneys for Peoples Gas System

BACKGROUND – PEOPLES TRANSPORTATION SERVICE

Peoples first began transporting customer-owned gas on August 1, 1990, when FGT opened its interstate pipeline system to transportation by its customers other than Florida Power & Light Co. pursuant to FERC Order 436. Transportation on Peoples' system was initially available only to its interruptible customers taking 1,000,000 or more therms per year. FGT's tariffs permitted only a portion of Peoples' entitlements to sales service to be converted to transportation capacity on the pipeline each year over a five-year period.

In mid-May 1991, Peoples established a new connection to South Georgia Natural Gas Company in the Jacksonville area in order to be able to transport more gas to Jacksonville Electric Authority and other industrial end users in the Jacksonville market.

The final order in Peoples' last rate case (Order No. PSC-92-0924-FOF-GU, issued September 11, 1992) reduced the minimum threshold for eligibility for transportation service from 1,000,000 therms annually to 500,000 therms per year. That order also required the Company to file its first firm transportation service rate schedule (GTSLV-2), applicable to firm customers with transportation requirements of 500,000 therms or more per year.

As shown by the Cost of Service Study approved by the final order (see page 33 of Order No. PSC-92-0924-FOF-GU), Peoples at that time had only 83 interruptible customers who qualified for transportation service, and another 42 who would be qualified on Peoples' issuance of the firm transportation rate schedule the Commission had ordered.

On April 8, 1992, the FERC entered its Order 636, which required significant changes in the structure of the services provided by interstate pipelines such as FGT. Order 636 resulted in local distribution companies, including Peoples, being required to fully undertake the role of obtaining and transporting natural gas supply, functions previously performed by the interstate pipelines regulated by FERC (including FGT). In addition, large industrial customers were provided the opportunity to acquire 100% of their own natural gas supply and arrange their own transportation across the interstate pipeline.

The Gas Transportation and Supply Agreement ("GTSA") and Operational Balancing Agreement ("OBA") currently contained in Peoples' tariff were originally approved by the Commission's Order No. PSC-93-1714-FOF-GU, issued on November 30, 1993 in Docket No. 931021-GU, and have remained unchanged since their original approval by the Commission. These contracts, and related tariff provisions, were approved by the Commission at that time in response to FGT's implementation of FERC Order 636.

In December 1995, the Commission approved Peoples' petition for approval of the Company's Rider TA (Transportation Aggregation). This rider permitted the Company to make transportation service available to any customer who, in the aggregate, transported more than

500,000 therms per year through the Company's distribution facilities (even though the throughput was used at multiple locations owned and operated by the customer).

Until December 1996, transportation service was available under Peoples' tariff only to customers using over 500,000 therms per year, at either a single location or multiple locations. The Company had received requests from customers who desired to "pool" their purchases of gas from a single supplier for the purpose of meeting the 500,000 therm eligibility requirement for transportation. It had also received requests from suppliers who desired to provide such a pooling service for customers who were presently served by Peoples under firm sales rate schedules. As a result of these requests, Peoples sought the Commission's approval for an experimental pilot program pursuant to which customers who were not individually eligible to receive transportation service could do so. That experimental program – Firm Transportation Aggregation Service ("Rider FTA") – was approved by Commission Order No. PSC-96-1515-FOF-GU, issued December 21, 1996, for an initial term of one year. The purpose of the pilot program was to determine the extent to which aggregated transportation service could be performed efficiently and without detriment to the services the Company provided to its other sales and transportation service customers as well as to gain an understanding of the costs associated with providing such a service. Eligibility for transportation service under the experimental rider was limited to those customers who signed up for the service during the first three months of the program. Approximately 170 customers, comprising [11] Customer Pools, began taking service under the program in April 1997. Although the term of the experimental Rider FTA program was extended through March 31, 1999 by Order No. PSC-98-0270-FOF-GU (February 10, 1998), these actions did not result in an increase in the number of either the customers or Pool Managers who were permitted to participate in the experimental program.

On March 8, 1999, the Commission approved an extension of Peoples' experimental Rider FTA program through May 31, 2001, together with modifications to the program designed to permit increased customer and Pool Manager participation, simplify the paperwork associated with the program, and expand the availability of the experimental program to all geographic areas served by Peoples. Service under the modified program commenced on June 1, 1999. The modified Rider FTA initially provided for participation by no more than 1,000 Customer accounts. However, as of April 30, 1999 (the date by which applications were required to be received by the Company for a customer to participate at the inception of the modified program on June 1, 1999), Peoples had qualified 12 Pool Managers and had received applications from approximately 2,700 Customer accounts -- nearly three times the number permitted to participate in the modified program. Peoples filed revisions to the modified program (pursuant to Special Condition 2 of the rider) deleting the 1,000-customer limit on participation, and replacing it with a provision limiting participation to the Customer accounts from which requests for service under the program had been received as of April 30, 1999, thus permitting all customers that had applied by the deadline to participate in the program. As a result of the 1999 modifications to the Rider FTA program, approximately 3,000 of Peoples' customers currently receive transportation service from the Company.

In July 1999, Peoples petitioned the Commission for approval of its Rider FTA-2 and modifications to the imbalance cashout provisions of the Firm Delivery and Operational Balancing Agreement (the "Firm Delivery Agreement") applicable under Rider FTA (and to be applicable under the new Rider FTA-2).¹ By its Order No. PSC-99-2122-PCO-GU (October 25, 1999), the Commission took no action on the proposed Rider FTA-2 and the other tariff modifications for which Peoples sought approval, but permitted them to become effective by operation of law.² The same order set the tariff filing for a full evidentiary hearing. By its Order No. PSC-00-0586-AS-GU (March 23, 2000), the Commission approved – pursuant to Peoples' Offer of Settlement – Rider FTA-2 and the modifications to the imbalance cashout provisions of the Firm Delivery Agreement. The order also approved the Offer of Settlement, in which Peoples agreed:

- (1) That, not later than July 31, 2000, the Company would submit to the Commission for approval new tariff sheets which, after becoming effective, would make transportation service available on reasonable terms and conditions to not less than 300 of the Company's non-residential customers each month; and
- (2) That the Company would not seek to extend the availability of the new Rider FTA-2 beyond September 30, 2000, unless the new tariff sheets mentioned in paragraph (1) above had not become effective by that date.

If the new tariff sheets submitted with the instant petition are approved or permitted to become effective on October 1, 2000, Rider FTA-2 will not only expire by its own terms, but be superseded by the terms and conditions of Peoples' new Natural Choice Transportation Service Rider (Rider NCTS).

In 1996, the Commission opened Docket No. 960725-GU, *In re: Unbundling of natural gas service*. Subsequently, the docket was renamed (*In re: Proposed Rule 25-7.0335, F.A.C., Transportation Service*), and rulemaking to adopt a rule requiring all natural gas utilities to offer the transportation of natural gas to all non-residential customers was initiated by the Commission. The Commission's Order No. PSC-00-0630-FOF-GU was issued on April 4, 2000, giving notice of the adoption of that rule effective April 23, 2000.

Each of the Commission's orders approving Peoples' Riders FTA and FTA-2, and modifications to Rider FTA, contained provisions making the experimental programs subject to any final order issued by the Commission in Docket No. 960725-GU. Thus, the new and revised tariff sheets submitted herewith – which are filed in compliance with Rule 25-7.0335 – will supersede and cancel, as of their effective dates, Peoples' experimental Rider FTA. That rider will be superseded

¹ An amendment to the petition was filed by Peoples on August 18, 1999.

² As filed, the new Rider FTA-2 was to be an experimental transportation program which would expire on September 30, 2000 (unless Peoples petitioned to extend or otherwise modify the rider).

by the new Rider NCTS.

**Features of The Natural Choice Transportation Service Rider
Including Comparison to Rider FTA Pilot Program**

Key Points of the Program:	Current FTA	Proposed NCTS
Type of Service behind City Gate	Firm Category (1-4) Non-residential	Firm and Interruptible Non-residential
Annual Volume/Customers per Pool	100,000/10	No limit
Number of Customer Pools (Max)	40	40
Curtailable	No	Dependent Upon Rate Class
LDC Obligated to Serve if Transportation gas is not delivered	No	No
LDC Primary Capacity Acquired	Yes	Yes
Capacity Release	FTS-2 weighted average of portfolio (biddable)	FTS-1/FTS-2 blend at weighted average after release (non-biddable)
Capacity Quantity	Monthly Average	Monthly Average
Capacity Quantity Defined by	Pool Manager	Company
Capacity Shortfall Penalty	FTS-2 max rate applied to portion over 105% of capacity.	None
Imbalance Bookout Available	No	Yes
Commodity (Cashout) Penalty	10% to 20% of gas cost	None
Daily Gas Nomination Quantity	Equal to Capacity Released	Equal to Capacity Released
LDC can require +/- 10% change in quantity of gas daily	On pipeline constraint days	Mutually Beneficial Transactions
Mid-month Nomination Changes	No	Yes, on 20th day of month
Customer Chooses Pool Manager	Letter of Authorization	Letter of Authorization
Customer time to change Pool Manager	90-day notice	30-day notice
Cost of Switching Pool Manager	\$10 to Customer	\$10 to New Pool Manager
Pool Manager signs Firm Delivery & Balancing Agreement with LDC	Yes	Yes
Pool Manager must meet LDC creditworthiness standard	Yes	Yes, reviewed annually Initial fee \$250
LDC may bill Pool Manager's commodity charge	Yes \$5 per bill	Not Available
LDC can non-qualify Pool Manager for repeated non-performance	Yes	Yes
Monthly Reports to Pool Managers	None	Several reports
Customer History	Free	Optional, \$20 per account
Pool Administration Fee	None	Yes, Monthly to Pool Manager
Swing Service Charge	None	Yes, Customer Bill

**Features of Individual Transportation Service and Gas Transportation Agreement
Including Comparison to Existing Gas Transportation and Supply Agreement**

Key Points of the Program:	Current GTSA	Proposed ITS/GTA
Type of Service behind City Gate	Firm and Interruptible Non-residential	Firm and Interruptible Non-residential
LDC Obligated to Serve if Transportation gas is not delivered	No	No
Curtaillable	Yes	Yes
Alternatives during Curtailment	No	Yes
Priced paid for gas used during curtailment	<i>Natural Gas Week</i> (FGT Zone 1 index) + FTS-1	<i>Gas Daily</i> (FGT Zone 2 index) + FTS-2
Imbalance Book-Out Available	No	Yes
Commodity (Cashout) Penalty	10% to 20% of gas cost	10% to 20% of gas cost After Book-Out
Interstate Pipeline Reservation Refunded for Underburns	Yes	No
Intraday Nominations Accepted	No	Yes
LDC can require +/- 10% change in quantity of gas daily	On pipeline constraint days	Mutually Beneficial Transactions
Individual Transportation Administration Fee	None	Monthly to customers

Pool Administration Fee

The Pool Administration Fee is a permanent monthly fee assessed to Pool Managers under Rider NCTS. The fee offsets ongoing expenses incurred by Peoples to support Pool Managers in providing transportation service to aggregated customer groups selecting the Rider NCTS. Pool Managers aggregate customers and supply natural gas on their behalf. This Pool Managers' administration fee consists of two parts. First, a fixed component, which is a flat monthly fee applicable to each Pool Manager regardless of the number of customers contained within its Customer Pool. The second part is a variable fee component, consisting of a flat rate applied to the total number of customer accounts within a pool per month.

Specific Items Identified as Pool Administration Expense

Comprising the fixed monthly fee:

1. Personnel – Peoples has determined that an additional five positions will be needed to provide transportation services. The expense of this new personnel will be allocated between the Pool Administration Fee, for aggregated service, and the Individual Transportation Administration Fee, for individual service. The allocation methodology is based on expected term throughput as illustrated herein. The positions:
 - A) Transportation Analyst (1)
 - B) Gas Operations Analyst (2)
 - C) Customer Accounting Analyst (2)

Responsibilities include, but are not limited to:

Forecasting Pool Manager monthly load
Releasing and recalling capacity
Book-Out/Cashout processing
Switch away, various reports
Sign-up procedures and administration
Nomination and Confirmation Support
Billing adjustments
New Pool Manager/customer participation.

Comprising the variable monthly fee:

2. CIS/GMS Maintenance – Peoples has contracted with an information technology company to maintain its billing and management systems. This expense is allocated between Pool Administration Fee, and the Individual Transportation Administration Fee, or System Supply, as illustrated herein.
3. Customer Education – Peoples has identified recurring expenses to continually inform customers about gas transportation services and gas commodity.
4. Portion of fixed costs identified above rolled into the variable component.

Pool Administration Fee

<u>Monthly fixed Component</u>		23%	30%	70%
		Total Exp.	Portion applicable to PAF	Portion applied to: Fixed Variable
Costs:				
Transportation	Salary/benefits of 1 person	\$ 48,100	\$ 11,063	\$ 3,319 \$ 7,744
Gas Operations	Salary/benefits of 2 people	\$ 132,000	\$ 30,360	\$ 9,108 \$ 21,252
Cust. Acct.	Salary/benefits of 2 people	\$ 91,000	\$ 20,930	\$ 6,279 \$ 14,651
			Total	\$ 18,706 \$ 43,647
			W/Reg. Fee	\$ 18,800 \$ 43,867
Allocation:				
Estimated Number of Pools		11		
Annual cost per pool		\$ 1,709		
Monthly cost per pool		\$ 142		

Monthly Variable Component

Costs:			
Maintenance Agreement - CIS/GMS		\$ 11,446	
Customer education/updates/etc.		\$ 32,450	
Portion of fixed costs		\$ 43,867	
	Total	\$ 87,763	
Allocation:			
No. of participating customers		8,000	
Annual cost/customer		\$ 10.97	
Monthly cost/account		\$ 0.91	

Note: Portion applicable to PAF percentage based on total terms of firm non-residential customers likely to be in a pool.

Swing Service Charge

The Swing Service Charge is assessed to all firm Customers when they use Peoples' transportation service under Rider NCTS. Under Rider NCTS, the Customer's Pool Manager delivers the monthly gas supply for the Customer Pool. The gas is delivered at a constant level every day during the month even though Customer usage varies. Therefore, the level of gas delivered daily differs from the quantity actually consumed by the Customer Pool. To offset this daily difference, Peoples varies ("swings") the level of gas and interstate pipeline capacity nominated for delivery to the Peoples system. The Swing Service Charge is designed to recover the estimated costs incurred by the Company to provide this Swing Service. The revenues derived from the charge are then credited to the Purchased Gas Adjustment Clause if applicable.

Balancing the system is a daily operation. The Company does not have daily information for the Customers that are eligible to participate in Rider NCTS, not even on a Customer class basis. Therefore, Peoples Gas has developed a method to estimate the system-wide costs for providing Swing Service and then allocate those costs among the rate classes based upon the monthly throughput of the system and each customer class. The methodology and resulting Swing Service Charge billing factors are shown on page 3 of 3.

Methodology

First, the Swing Service Cost is estimated on a system-wide basis. Costs are estimated based on three primary tools used by the Company to balance the system. These tools are (1) reserve capacity, (2) swing gas supply, and (3) No Notice Transportation Service.

1. Reserve Capacity

Reserve capacity is interstate pipeline capacity contracted to be available when Customer usage increases. The cost for reserve capacity is derived by first identifying the "swing quantity" of the system. This quantity is one-half of the total variation in monthly throughput for the system. Then the swing quantity is multiplied by the rate per unit of the weighted cost of interstate pipeline capacity on the system.

2. Swing Gas Supply

Swing gas supply is a common type of gas supply "package" that allows the buyer (the Company) to vary the level of gas delivered on a daily basis. Swing gas is higher priced than a comparable volume of gas delivered at a constant level (called base load gas). To absorb the daily imbalances of the Rider NCTS Customers, Peoples must utilize a greater percentage of swing gas supply, and a lower percentage of base load gas, and thus incurs additional costs for gas (swing gas "premium"). The cost for this premium is calculated based on the incremental increase in price for swing gas supply versus the price for base load gas supply times the volume of base load gas displaced by swing gas. The price differential used in calculating the Swing Service Charge as filed is based on recent quotes from gas suppliers.

3. No Notice Transportation Service

The third tool used for swing service is No Notice Transportation Service (NNTS). NNTS allows "errors" in the system-wide balance to be absorbed by the interstate pipeline. This service is purchased from Florida Gas Transmission at tariff rates. The NNTS allows the

system to avoid imbalance penalties within a contracted range. The cost is calculated by multiplying the contracted quantity by the tariff rate.

All three of these tools are used to balance the entire system by "swinging" the nominated system supply gas. Even with these tools, there are times where the system may incur interstate pipeline penalties due to the level of imbalance. An estimate of those penalties are also included in the Swing Service Cost.

Once the system-wide Swing Service Cost is determined, it is allocated among the rate classes according to the relative variation in monthly consumption for each rate class. Allocation between rate classes is based on the magnitude of the difference between the class' maximum monthly consumption compared to the class' minimum monthly consumption.

Once allocated, the Swing Service Cost assigned to each rate class is divided by the annual consumption of that class to yield the appropriate billing factor. The factors are then adjusted for Regulatory Assessment Fees and applied to the monthly consumption for a Customer based on the applicable class factor. The factors apply to a Customer's bill when the Customer participates in Rider NCTS. While a residential factor has been calculated, it will not apply since Rider NCTS is not available to residential customers. It is supplied for computational and comparison purposes only.

Summary

The revenues derived from the Swing Service Charge, less Regulatory Assessment Fees, will be credited to the Purchased Gas Adjustment Charge if applicable. These revenues will properly allocate costs to Rider NCTS customers associated with providing the Swing Service.

The billing factors for the Swing Service Charge are based on the best-available data and cost estimates. These factors are designed to recover costs from customers who cause the Company to incur such costs. The Company recognizes that system-wide balancing is truly a daily phenomenon. However, the proposed Swing Service Charge and associated billing factors are a reasonable estimate of the costs incurred by rate class. In an effort to refine the identification, allocation and recovery of such costs, the Company is planning to conduct load research over the next three years to better identify customer load profiles. Should such load research indicate a need to change the methodology or billing factors, the Company will file for approval by the Florida Public Service Commission a revision to the methodology and/or factors.

Swing Service Fee

Swing Service Cost

	<u>Annual expense</u>
NNTS from FGT	\$ 497,667
Interstate Pipeline Penalty	\$ 236,847
Reserved Capacity	\$ 4,539,581
Swing Gas premium	<u>\$ 1,068,137</u>
Net Expense	\$ 6,342,232

Allocation

<u>Schedules</u>	<u>Maximum therm usage month</u>	<u>Minimum therm usage month</u>	<u>Difference "SWING"</u>	<u>Percent of swing/schedule</u>
Res.	9,332,907	2,690,011	6,642,896	40.58%
SGS	397,117	176,825	220,292	1.35%
GS/CS	12,501,090	8,030,085	4,471,005	27.31%
GSLV-1/LCS	13,029,211	8,979,501	4,049,710	24.74%
GSLV-2/FIS	3,481,733	2,583,598	898,135	5.49%
Nat. Gas Veh.	103,673	45,986	57,688	0.35%
Com. St. Light.	101,925	70,542	<u>31,383</u>	0.19%
			16,371,109	

Monthly Fee

	<u>Annual Cost</u>	<u>Annual Therms</u>	<u>Per therm</u>	<u>Reg. Asses. Fee</u>	<u>Billing Factors</u>
Res.	\$ 2,573,484	55,351,297	\$ 0.0465	1.00503	\$ 0.0467
SGS	\$ 85,342	3,042,420	\$ 0.0281	1.00503	\$ 0.0282
GS/CS	\$ 1,732,085	119,055,410	\$ 0.0145	1.00503	\$ 0.0146
GSLV-1/LCS	\$ 1,568,874	124,775,216	\$ 0.0126	1.00503	\$ 0.0126
GSLV-2/FIS	\$ 347,941	35,183,137	\$ 0.0099	1.00503	\$ 0.0099
Nat. Gas Veh.	\$ 22,348	773,288	\$ 0.0289	1.00503	\$ 0.0290
Com. St. Light.	<u>\$ 12,158</u>	<u>1,037,888</u>	\$ 0.0117	1.00503	\$ 0.0118
	\$ 6,342,232	337,407,480			

Individual Transportation Administration Fee

The Individual Transportation Administration Fee is a permanent fee needed to collect ongoing expenses by Peoples for providing transportation service to individual customers selecting Rider ITS. The fee is based upon recurring expenses by the company in providing this service. The Individual Transportation Administration Fee will be assessed, on a monthly basis, to every customer participating in Peoples' Individual Transportation Service Rider and those customers electing to stay grandfathered in Peoples' Transportation Aggregation (Rider TA) program. The charge is comprised of a flat monthly fee, as illustrated herein.

Specific Items Identified as Individual Transportation Administration Expense

1. Personnel – Peoples has determined that an additional five positions will be needed to provide transportation services. The expense of this new personnel will be allocated between the Pool Administration Fee, for aggregated service, and the Individual Transportation Administration Fee, for non-aggregated service. The allocation methodology is based on expected term throughput as illustrated herein. The positions:

- A) Transportation Analyst (1)
- B) Gas Operations Analyst (2)
- C) Customer Accounting Analyst (2)

Responsibilities include, but are not limited to:

Forecasting Pool Manager monthly load
Releasing and recalling capacity
Book-Out/Cashout processing
Switch away, various reports
Sign-up procedures and administration
Nomination and Confirmation Support
Billing adjustments
New marketer/customer participation.

2. CIS/GMS Maintenance – Peoples has contracted with an information technology company to maintain its billing and management systems. This expense is allocated between Pool Administration Fee and the Individual Transportation Administration Fee, or System Supply, as illustrated herein.
3. Telemetry – Each customer participating in ITS will have telemetry allowing Peoples the ability to monitor usage for system integrity. The annual operation and maintenance of this equipment is an expense of Peoples in providing transportation service.

Individual Transportation Administration Fee

Monthly fixed Component

Costs:		<u>Total Exp.</u>	<u>77% Portion applicable to ITAF</u>
Transportation	Salary/benefits of 1 person	\$ 48,100	\$ 37,037
Gas Operations	Salary/benefits of 2 people	\$ 132,000	\$ 101,640
Cust. Acct.	Salary/benefits of 2 people	\$ 91,000	\$ 70,070
			<u>\$ 208,747</u>

<u>Type</u>	<u>Annual Expense</u>
O&M ITAF portion of incremental Labor	\$ 208,747
O&M Telemetry O&M expense	\$ 121,300
O&M CIS/GMS Modifications	\$ 38,220
Total	<u>\$ 368,267</u>
W/ Reg. Fee	\$ 370,119

Allocation:	
Number of individual firm trans. customers	209
Annual cost per customer	\$ 1,771
Monthly cost per customer	\$ 148

Transition Cost Recovery Charge

The Transition Cost Recovery Charge is a temporary fee to recover incremental expenses incurred by Peoples to make transportation service available to all non-residential customers in response to FPSC Rule 25-7.0335, F.A.C. The charge is based upon estimates for the non-recurring; one-time costs expected by the Company in providing this service. The Transition Cost Recovery Charge will be assessed to every non-residential customer who is gaining the opportunity to transport its gas supply needs under the proposed NCTS Rider and is not already eligible for individual transportation service. Specifically, this charge applies to all SGS, GS, GSLV-1, CSLS, NGVS (Non-West Florida Region) and CS (West Florida Region) customers.

Since many of these incremental costs will be incurred as the new program is implemented, Peoples can not know the total effort and ultimate cost required in satisfying the Commission's Rule. Therefore, Peoples is proposing to recover the actual costs-to-date plus projected costs, adjusted for carrying costs at Peoples' weighted cost of capital, over a two year period. A true-up consistent with FPSC precedent will be calculated and applied until recovery is complete. The total period for collection of Transition Cost Recovery will not exceed four years from the effective date.

The rate classes effected by the rule will be charged a per therm factor, adjusted for the Regulatory Assessment fee, multiplied by the monthly consumption. The charge will be shown as a single line item on Peoples' bill to the customer.

Specific Items Identified as Transition Expenses

1. **Program Development Costs** – Personnel time and expenses incurred by PGS in developing and filing the tariffs in compliance with Rule 25-7.0335, F.A.C.
2. **Consultants and Legal Fees** – Peoples contracted with subject matter experts on unbundling to advise and review the proposed Natural Choice Program. Additionally, Peoples has utilized the services of two separate outside law firms to address regulatory and gas supply issues regarding our unbundling approach to satisfy the Commission’s Rule.
3. **Load Research** – Load Research is necessary for system planning and operations in an unbundled environment. Peoples intends to install approximately 350 research meters to identify load demand and profiles of customers for each rate class. As discussed in the Swing Service Charge, this information will also be analyzed to improve the allocation of costs associated with the Swing Service Charge.
4. **Gas Management System (GMS)** – The hardware, software and telecommunication equipment needed to allow Peoples to schedule, monitor, and control gas supply & interstate pipeline nominations for its customers, individual transport customers, and Pool Managers. This equipment is essential for providing transportation service while maintaining the operational integrity of the whole system.
5. **Transportation Department Personnel** – This area of Peoples Gas will be handling many start-up and ongoing requirements to support customers and Pool Managers who participate in transportation service. Additional equipment, training, and supplies that will support current, new, and temporary staff is needed to accommodate the demands of The Natural Choice Program.
6. **Engineering** – Peoples has not specifically identified costs that may result within its Engineering Department. However, Peoples recognizes this critical area of its company and if any engineering costs arise during the transition period, recovery would be appropriate during the true-up period.
7. **Education/Program Notification** - Peoples has implemented three separate education paths to raise awareness and provide understanding to the changes in its services. The first is an internal program to educate employees, the second is an external program designed for Pool Managers, including program development input, and the third is an external program designed for customers.

8. Customer Service - Peoples has not identified all costs that may result within its Customer Service Departments. However, Peoples anticipates an increase in Call Center call volume, which may result in additional costs. If any incremental Customer Service costs arise during the transition period, recovery would be included during the true-up period.
9. Billing Systems Enhancements – The Natural Choice Program requires upgrades to Peoples’ systems and the creation of a new system allowing the CIS and GMS to communicate with each other. These modifications are necessary to provide transportation service to all non-residential customers and offer the additional services and flexibility associated with transportation services.
10. Stranded Costs – Given the approach filed, Peoples does not anticipate incurring stranded gas supply or interstate capacity costs. However, PGS recognizes the line item and if any stranded costs arise during the transition period, recovery would be included during the true-up period.

Transition Cost Recovery Charge

Charge to collect incremental expenses incurred, or expected to be incurred, for implementing Rule 25-7.0335. Applicable to all customers within the appropriate rate schedules for the opportunity to select transportation service.

Components:	Total Expected
Program Development Costs	\$ 186,000
Consultants and Legal	\$ 150,000
Load Research	\$ 449,600
Gas Management System	\$ 758,940
Transportation Department:	\$ 75,100
Equipment	
Temporary Staff	
Training /Supplies	
Engineering	\$ -
Education/Program Notification: Employees, Customers, Marketers	\$ 365,000
Customer Service	\$ -
Billing System Enhancements	\$ 1,000,000
Stranded Costs	\$ -
Total Transition costs	\$ 2,984,640

Allocation:

<u>Applicable rate classes</u>	<u>Total Annual Therms</u>
Small General Service	3,042,420
General Service/CS W.Florida	119,055,410
General Service Large Volume -1	120,157,712
Natural Gas Vehicle	773,288
Commercial Street Lighting	1,037,888
	244,066,718

Charge applicable to each class per therm

1. Total Expected expenses	\$ 2,984,640
2. Time value of total transition costs @9.75%	322,883
	Net expense \$ 3,307,523
3. Net expenses / 2 yrs.	1,653,761.61
4. Annual therms	244,066,718
	Per therm fee \$ 0.00678
5. Regulatory Assessment fee	\$ 1.00503
	Billing Factor \$ 0.00681