State of Florida

Public Service Commission

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RECORDS AND REPORTING

DATE: AUGUST 24, 2000

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

FROM: DIVISION OF COMPETITIVE SERVICES (MAKIN, BULECZA-BANKS) CRBB
DIVISION OF LEGAL SERVICES (C. KEATING, K. WALKER) WCK

RE: DOCKET NO. 000810-GU - PETITION FOR APPROVAL OF MODIFICATIONS TO TARIFF PROVISIONS GOVERNING TRANSPORTATION OF CUSTOMER-OWNED GAS AND TARIFF PROVISIONS TO IMPLEMENT RULE 25-7.0335, F.A.C., BY TAMPA ELECTRIC COMPANY D/B/A PEOPLES GAS SYSTEM.

AGENDA: SEPTEMBER 5, 2000 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 60-DAY SUSPENSION DATE: SEPTEMBER 1, 2000
COMPANY WAIVES THE 60-DAY SUSPENSION DATE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\CMP\WP\000810.RCM

CASE BACKGROUND

As a result of the Federal Energy Regulatory Commission's (FERC) Order 636, several states began evaluating the costs and benefits of mandating open access on the natural gas distribution utilities, i.e. allowing end use customers to purchase their own gas supplies. In Florida, large end-use customers have been allowed to purchase their own gas supplies and have the gas utility transport those gas supplies since the late 1980's. Those natural gas utilities that offered transportation to their large customers, did so voluntarily. The Commission did not mandate the utility to provide such service. At the time the Florida natural gas utilities were preparing to offer transportation service, they developed a volume threshold that the customer would have to meet before they would be eligible to receive transportation service. These thresholds are still in place today. The current thresholds range from 100,000 therms per year to 500,000 therms per year, varying by Company.

The Commission opened a docket in June 1996 to evaluate the costs and benefits of reducing or removing the transportation thresholds currently applied by the natural gas utilities. The staff held three two-day workshops involving the discussion of pertinent issues related to open access transportation. After each workshop, interested persons and parties were given the opportunity to file written comments.

On October 6, 1997, the staff issued a Model Transportation Tariff to provide the natural gas utilities a basis to tailor their own tariffs. While no natural gas utility attempted to develop an open access tariff, two utilities did develop and implement aggregation tariffs. These tariffs allow third party marketers to accumulate the loads of several customers to meet the threshold requirements imposed by the utilities.

While these aggregation programs were a step in the right direction, it was a very small step. The problem with the current open access transportation service offering in Florida is that it discriminates against customers, either on size or location. Since each utility has a different threshold amount, customers in one utility's territory may qualify for transportation service while another similarly situated customer will not.

On April 4, 2000, the Commission issued Order No. PSC-00-0630-FOF-GU, adopting Rule 25-7.0335, Florida Administrative Code, Transportation Service. The rule requires Florida's investor-owned natural gas utilities to offer transportation service to all non-residential customers and file a transportation service tariff with the Commission by July 1, 2000. In accordance with Rule 25-7.0335, F.A.C, Peoples Gas System (Peoples or Company) filed a petition to approve modifications to its current transportation tariff. This recommendation addresses Peoples' petition.

Jurisdiction over this matter is vested in the Commission by Sections 366.04, 366.05, and 366.06, Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission grant Peoples Gas System's (Peoples or the Company) petition for modifications to its tariff provisions governing transportation of customer-owned gas and tariff provisions to implement Rule 25-7.0335, Florida Administrative Code (F.A.C.)?

RECOMMENDATION: No. The Commission should deny Peoples' proposed modifications to its tariff provisions governing transportation of customer-owned gas. Staff would have recommended approving Peoples' tariff had the Transition Cost Recovery Charge been assessed to all non-residential customers. (MAKIN, BULECZA-BANKS)

STAFF ANALYSIS: On July 3, 2000, Peoples filed a 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. Rule 25-7.0335, F.A.C., which became effective on April 23, 2000, requires all natural gas utilities to offer the transportation of natural gas to all non-residential customers, and file a transportation service tariff by July 1, 2000.

The Commission approved Peoples' experimental Rider FTA-2, an aggregation tariff, on March 23, 2000, Order No. PSC-00-0586-AS-GU, and approved the Company's agreement (1) 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 (2) not to seek extension of the availability of Rider FTA-2 beyond September 30, 2000, unless the new tariff sheets have not become effective by that date.

Peoples' proposed transportation tariff filed in compliance with Rule 25-7.0335, F.A.C., is called the Natural Choice Program. The tariff makes transportation service available to all non-residential customers on a phased-in basis beginning November 1, 2000. Currently, Peoples provides transportation service through various rate schedules, experimental programs, and tariff riders. The Natural Choice Program makes it easier to obtain and employ transportation service for both the customer and gas marketers by consolidating and simplifying the existing programs.

Under the Natural Choice Program, there are two types of transportation service offered, "Pooled" and "Individual". Pooled transportation service allows the small use commercial customer to secure gas supply from a gas marketer as part of the gas supply needs for a group of customers. Individual transportation service allows commercial and industrial customers, under certain rate schedules, to take transportation service on an individual basis.

With approval of the Natural Choice Program, several experimental rate schedules and tariff riders would be closed and or limited to existing customers. Two experimental transportation service programs, Riders FTA and FTA-2, will be eliminated, and the participating customers will be transferred to the new Natural Choice Transportation Service Rider (NCTS). The Transportation Aggregation Rider (TA) would also be closed to new participants.

As these transportation changes are implemented, additional expenses are going to be incurred in administering the Natural Choice Program and the overall offering of transportation services to non-residential customers. The Company developed several charges applicable to various programs as follows:

<u>Pool Administrative Fee</u>: The Pool Administrative Fee is a permanent monthly fee assessed to Pool Managers under Rider NCTS. The fee offsets ongoing expenses incurred by the Company to support Pool Managers in providing transportation service to aggregated customer groups selecting Rider NCTS. Pool Managers aggregate the small use customers and supply natural gas on their behalf. The administration fee consists of two parts: a fixed component, which is a flat monthly fee of $142 applicable to each Pool Manager regardless of the number of customers in the pool, and a variable fee component, consisting of a flat rate of $.91 per customer account within a pool month.

<u>Individual Transportation Administrative Fee</u>: The Individual Transportation Administrative Fee of $148 is a permanent monthly fee assessed every customer selecting Rider ITS, and those customers electing to stay grandfathered in the Company's Rider TA program. The fee offsets the ongoing expenses incurred by the Company for providing transportation service to individual customers selecting Rider ITS and/or remaining in Rider TA.

<u>Swing Service Charge</u>: The Swing Service Charge is assessed to all firm commercial transportation customers served 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 the 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 Peoples' system. The swing Service Charge is designed to recover the estimated costs incurred by the Company to provide this Swing Service. The revenue derived from the charge is credited to the Purchased Gas Adjustment (PGA).

The method used to develop Swing Service Charges is based on estimated system-wide costs for providing Swing Service and then 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 difference between each class' maximum monthly consumption compared to the class' minimum monthly consumption.

The billing factors for the Swing Service Charge are based on the best available data and cost estimates. The factors are designed to recover costs from commercial customers who cause the Company to incur such costs.

In an effort to refine the identification, allocation, and recovery of these costs, the Company is planning to conduct load research over the next three years to better identify customer load profiles. If a change in the methodology or billing factors becomes necessary as a result of the research, the Company will file, for approval by the Commission, a revision to the methodology and/or factors. The proposed factors are as follows:

Rate Class	Billing Factor cents per therm
SGS	$0.0282
GS/SC	$0.0146
GSLV-1/LCS	$0.0126
GSLV-2/FIS	$0.0099
Nat. Gas. Veh.	$0.0290
Com. St. Light	$0.0118

Transition Cost Recovery Charge: The Transition Cost Recovery Charge proposed by Peoples is a temporary fee to recover incremental expenses incurred by the Company to make transportation service available to all non-residential customers pursuant to Rule 25-7.0335, F.A.C. The charge is based upon estimates for the non-recurring, one-time costs expected by the Company. As proposed by Peoples, the Transition Cost Recovery Charge would be assessed to every non-residential customer who receives service under the NCTS or is eligible for NCTS service.

The Company proposes to recover the actual costs-to-date plus projected costs, adjusted for carrying costs at the Company's weighted cost of capital of 9.75%, over a two year period. At the end of the two year period, any over or under recovery would be trued-up. The total period for collection of the Transition Cost would not exceed four years from the effective date of November 1, 2000.

The Transition Cost Recovery Charge would be assessed to the rate classes affected by the rule, on a cents per therm basis, adjusted for the regulatory assessment fees, multiplied by the customer's monthly consumption. As proposed, the charge would be $0.00681 cents per therm, shown as a single line item on the customers' bill.

Staff does not believe that the transition costs should be borne solely by the NCTS customers. Peoples has informed staff that the transition costs of $2.9 million include costs that relate to both NCTS customers and large volume consumers already receiving transportation service. Enhancements to computer systems, such as the Gas Management System benefit all transportation customers. However, the Transition Cost Recovery Charge is only being assessed to the NCTS customers and those eligible for NCTS service. Staff believes the costs should be spread to all non-residential customers. Staff has informed Peoples that the appropriate assignment of transition costs should be allocated to all non-residential customers using the same methodology used to apply interim relief. Staff also does not believe that Peoples proposed 9.75 percent carrying charge is appropriate. Peoples derived this percentage based only on investor sources of capital. Staff believes that the appropriate carrying charge should be Peoples overall weighted cost of capital of 8.67 percent, as reported in its June 2000 rate of return report. This number better represents the Company's true cost of money. Staff believes the costs should be recovered over a three-year period. By applying staff's methodology and using Peoples overall weighted cost of capital of 8.66 percent, the single Transition Cost Recovery Charge factor of $0.00681 proposed by Peoples, would be replaced with the following factors:

Rate Class	Transition Charge cents per therm
CSL	$0.00131
SGS	$0.00922
GS/CS-WF	$0.00385
GSLV-1/LCS-WF	$0.00310
GSLV-2/FIS-WF	$0.00225
Nat. Gas. Veh.	$0.00089
SIS/IS-WF	$0.00106
IS	$0.00052
ISLV	$0.00015

Peoples states it has met on several occasions with Pool Managers currently participating in its experimental Riders FTA and FTA-2, as well as with representatives of its individual transportation service customers. According to Peoples, it has considered the suggestions and concerns of each group, and has made every effort to accommodate their concerns.

The proposed charges in the Natural Choice Program are designed to recover incremental cost incurred by the Company and should have no impact on the Company's earnings.

While staff has not recommended that the Commission approve Peoples' petition because of its concerns with the Transition Cost Recovery Charge, the tariff would provide the following benefits:

- Provides transportation service to all non-residential customers either on an aggregated basis pursuant to Rider NCTS, or as an individual customer pursuant to Rider ITS.
- Eliminates experimental riders and increases flexibility to participating customers and Pool Managers.
- Eliminates separate transportation schedules for such customers and re-names the "non-gas energy charge" to "distribution" charge to apply to either sales or transportation service.

ISSUE 2: Should this docket be closed?

RECOMMENDATION: Yes. If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order. (C. KEATING, K. WALKER)

STAFF ANALYSIS: If a protest is filed by a person whose substantial interests are affected within 21 days of the Commission Order approving this tariff, the tariff should remain in effect pending resolution of the protest, with any charges held subject to refund pending resolution of the protest. If no protest is filed, this docket should be closed upon the issuance of a Consummating Order.