

PEOPLES GAS SYSTEM
BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 020384-GU

**In Re: Application for a rate
increase by Tampa Electric Company
d/b/a Peoples Gas System**

**Submitted for Filing:
11/12/2002**

**REBUTTAL TESTIMONY
AND EXHIBIT OF:**

**WRAYE J. GRIMARD
On Behalf of Peoples Gas System**

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FPSC-COMMISSION CLERK

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Wraye J. Grimard. My business address is 702 North
3 Franklin Street, Tampa, Florida 33602.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am Manager, Regulatory Planning, for Peoples Gas System ("Peoples" or
6 the "Company").

7 **Q. ARE YOU THE SAME WRAYE J. GRIMARD WHO HAS**
8 **PREVIOUSLY FILED DIRECT TESTIMONY ON BEHALF OF**
9 **PEOPLES IN THIS PROCEEDING?**

10 A. Yes.

11 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

12 A. My rebuttal testimony is directed to several adjustments proposed by OPC
13 witness Donna DeRonne. Those proposed adjustments are an increase in
14 2003 projected test year revenues of \$3,711,488 for off-system sales,
15 removal of \$250,000 in expenses associated with the Company's new
16 Single Appliance Retention Program and, if the Company's proposed
17 3.5% credit card fee is approved by the Commission, a reduction of
18 \$240,004 for credit card fee expenses paid by the Company.

19 **Q. WHAT ADJUSTMENT HAS MS. DeRONNE PROPOSED WITH**
20 **RESPECT TO OFF-SYSTEM SALES REVENUE IN THE**
21 **PROJECTED TEST YEAR?**

22 A. Ms. DeRonne has recommended that a total of \$3,711,488 for off-system
23 sales, based on the twelve months ended August 31, 2002, be included in
24 the Company's revenues for the projected test year.

25 **Q. IS THIS AN APPROPRIATE ADJUSTMENT?**

1 A. No. Ms. DeRonne's proposed adjustment fails to consider that off-system
2 sales are sporadic, opportunistic transactions that are highly dependent on
3 natural gas supply and demand related market conditions both within and
4 outside of the state of Florida. Her analysis is made without addressing
5 any market considerations that must be addressed in order to determine
6 and quantify Peoples' future ability to make off-system sales in any
7 amount. Ms. DeRonne's testimony implies that the only factors to be
8 considered are the Company's past performance in making off-system
9 sales and the Company's desire to continue to offer off-system sales in the
10 future. While Peoples does desire to take advantage of off-system sales in
11 the future, Peoples' *desire* to make future off-system sales must not be
12 confused with whether or not market conditions will provide Peoples with
13 the *ability* to make such sales in the future. The fact is that market
14 conditions expected to exist in the projected test year and beyond will
15 make it very difficult for Peoples to make off-system sales at a level even
16 approaching the level suggested by Ms. DeRonne's proposed adjustment.

17 **Q. PLEASE DESCRIBE THE MARKET CONDITIONS THAT WILL**
18 **MAKE IT DIFFICULT FOR PEOPLES TO MAKE FUTURE OFF-**
19 **SYSTEM SALES.**

20 A. Market conditions will make the level of off-system sales that Peoples can
21 make very uncertain. In the past three years, the relationship between
22 interstate pipeline capacity and electric generation within the state has
23 allowed Peoples to be fairly successful in the off-system sales market.
24 This has been true for two reasons. First, the interstate pipelines serving
25 Florida have been at or above capacity throughout the summer months,

1 making Peoples' secondary/off-system sales capacity more valuable and
2 therefore marketable. Second, electric generators have increasingly
3 sought to rely on economically priced natural gas as a fuel to produce
4 electricity. Peoples had been able to pursue off-system sales on both the
5 Florida Gas Transmission (FGT) system and the Southern Natural Gas
6 system because both pipelines were constrained in the summer months due
7 to the gas requirements for electric generation, thus making the electric
8 generation market a natural fit for Peoples' secondary/off-system capacity.

9 However, these past conditions are not reflective of current or
10 forecast conditions. There are currently pipeline expansions underway on
11 the interstate pipelines serving Florida and Georgia that will significantly
12 increase available interstate pipeline capacity in Peoples' major off-system
13 sales markets. Experience has shown that expansions such as these create
14 a "glut" in natural gas pipeline capacity that will adversely affect Peoples
15 ability to market off-system sales.

16 To further exacerbate the non-marketability of Peoples' off-system
17 sales, a new incremental pipeline -- which targets electric generators as its
18 prime shippers -- began limited service in June 2002. This new pipeline
19 made approximately 12 million therms of incremental capacity per day
20 available in peninsular Florida. The new incremental pipeline currently
21 has an interconnection with FGT and another is planned in the near future.
22 These interconnections will allow shippers on both the FGT and new
23 incremental pipeline to undercut Peoples' off-system capacity by
24 effectively segmenting the FGT system. In addition, interstate pipelines
25 that are not fully subscribed such as the new incremental pipeline will

1 offer significant interruptible discounts to electric generators, which will
2 undercut Peoples' ability to compete for future off-system sales. Without
3 question, these expansions, subsequent interconnections, and interruptible
4 sales by the interstate pipelines will make Peoples' secondary/off-system
5 capacity substantially less marketable. Peoples also expects a "glut" in
6 capacity because many of the merchant electric generators that were once
7 proposed to be built in Florida have been abandoned or delayed
8 indefinitely subsequent to the construction of interstate capacity to
9 accommodate their needs. Examples of these delayed and cancelled
10 projects are CPV Gulfcoast, Ltd. located in Manatee County, PG&E
11 Generating located in Okeechobee County, Panda Midway Power
12 Ventures – Fort Pierce located in St. Lucie County, CPV Atlantic, Ltd.
13 located in St. Lucie County and Calpine Blue Heron, located in Martin
14 County. These cancelled projects represent approximately 7 million
15 therms per day of capacity that will be unutilized in the foreseeable future.

16 Separate and apart from the interstate capacity situation in Florida,
17 Peoples' off-system sales have always been sporadic because electric
18 generators, which are the prime market for these sales, are typically
19 economically dispatched. This means they generate electricity by utilizing
20 the most economical fuel first. Most of the generators in the state are dual
21 fuel, meaning that if natural gas is not economically priced, the generators
22 will burn another (alternative) fuel. Therefore, when oil prices are more
23 favorable than natural gas prices, Peoples loses the ability to market off-
24 system sales.

1 Q. DO YOU AGREE THAT SOME LEVEL OF OFF-SYSTEM SALES
2 REVENUES SHOULD BE INCLUDED IN PEOPLES' PROJECTED
3 TEST YEAR REVENUES?

4 A. No.

5 Q. WHY DID THE COMPANY NOT INCLUDE OFF-SYSTEM SALES
6 REVENUES IN ITS PROJECTED TEST YEAR?

7 A. Peoples did not include revenue in the projected test year for off-system
8 sales because, despite Peoples' desire to make off-system sales, it is highly
9 unlikely that the Company will be successful in making such sales during
10 the test year. Exhibit ____ (WJG-3) shows the effect of incremental
11 capacity from the FGT system on Peoples' off-system sales margin over
12 the past year. This exhibit reflects a better forecast of the level of off-
13 system sales the Company would expect to make during the projected test
14 year approximately \$982,430 in annual margin revenue, if only the FGT
15 expansions I have mentioned were in place; that is, if the new incremental
16 pipeline did not exist. This \$982,430 estimated annual margin revenue is
17 calculated by multiplying the average annual off-system sales volume over
18 the past four years by Peoples' projected off-system sales margin of
19 \$0.00922 per therm for the projected test year. The projected test year off-
20 system sales margin was calculated by estimating the impact of FGT's
21 most recent pipeline expansion on Peoples' 2002 off-system sales margin.
22 I then projected the decrease in margin forward based on new FGT
23 expansions to be completed in 2003. Please note, I would consider a
24 forecast of \$982,430 in off-system sales for 2003 to be optimistic because
25 it does not factor in the expected abundance of capacity available on the

1 new incremental pipeline system, the effects of segmentation on the
2 interstate pipeline systems in Georgia and Florida, or the effect of the
3 competition from unsubscribed capacity that will be sold as interruptible
4 by the interstate pipelines.

5 My Exhibit ____ (WJG-3) shows Peoples' off-system sales from
6 1999 – just after the Company was first authorized to make such sales –
7 projected through December 2002. Reference to this exhibit will confirm
8 that Ms. DeRonne's proposed adjustment would utilize the highest level of
9 off-system sales the Company has ever achieved. It should be recognized
10 that the periods when increases in these sales shown on the exhibit
11 occurred correspond with declining excess capacity available on the
12 interstate pipelines serving Florida, as well as the increasing demands for
13 gas for use in electric generation.

14 **Q. SHOULD THE COMMISSION'S DECISION RELATED TO OFF-**
15 **SYSTEM SALES REVENUES IN THE INTERIM DECISION BE**
16 **USED TO DETERMINE THE ADJUSTMENT TO 2003**
17 **PROJECTED TEST YEAR REVENUES?**

18 A. No. The Commission's treatment of off-system sales revenue in the
19 interim part of this case has no bearing on this issue. When filing for
20 interim rate relief, the Company and Commission must follow a "black
21 and white" calculation as provided in Commission Rule 25.7040 regarding
22 interim rate relief. The rule essentially takes a 12-month historic "snap
23 shot" of rate base, expenses and revenues to determine the amount of
24 interim relief. This "snap-shot" is based on historic, non-projected data.
25 On the other hand, revenue requirements for permanent rates are based on

1 reasonable projections of the Company's rate base, expenses, and
2 revenues in the projected test year. Therefore, the amount of off-system
3 sales revenue to be included in the Company's projections must be
4 determined based on the circumstances that are likely to exist in the
5 projected test year.

6 **Q. DOES PEOPLES AGREE WITH MS. DeRONNE'S PROPOSED**
7 **ADJUSTMENT RELATED TO PEOPLES' NEW SINGLE**
8 **APPLIANCE RETENTION PROGRAM?**

9 A. No. Ms. DeRonne recommends removal of \$250,000 for the Single
10 Appliance Retention Program because it "is not appropriate to increase
11 costs by \$250,000 for this proposed new program without also reflecting
12 the projected increase in revenues resulting from the program."

13 Clearly then, Ms. DeRonne agrees that the \$250,000 expense is
14 appropriate if the increased sales associated with this program have been
15 included in the Company's projections. In fact, the increased sales
16 revenues associated with the program were included in the Company's
17 projections.

18 **Q. HASN'T MS. DeRONNE SUGGESTED OTHERWISE?**

19 A. Yes; however, the Company respectfully disagrees with Ms. DeRonne's
20 conclusion. Peoples' five-percent growth rate used in its revenue
21 calculation is a higher growth rate than has ever been achieved by the
22 Company. This higher percentage was proposed to reflect, in part, the
23 expected increased sales associated with this program.

1 **Q. SHOULD THE COST SAVINGS OF APPROXIMATELY \$300 PER**
2 **CUSTOMER FOR THE SINGLE APPLIANCE RETENTION**
3 **PROGRAM RESULT IN AN ADJUSTMENT TO REDUCE O&M?**

4 A. No. While there is a cost savings of \$300 per customer, this is a savings
5 in cost of removal cost and not O&M expense. Therefore no adjustment to
6 O&M is called for.

7 **Q. WHAT IS PEOPLES' POSITION WITH RESPECT TO THE**
8 **ADJUSTMENT TO CREDIT CARD EXPENSE PROPOSED BY**
9 **MS. DeRONNE?**

10 A. Ms. DeRonne prefaces her proposed adjustment by the statement: "If the
11 Commission adopts the Company's recommendation that a 3.5% fee be
12 charged to those customers who choose to pay by credit card, then the
13 impact of such charges should be reflected in the revenue requirements."
14 Clearly, this statement confuses revenue requirements and rate design.

15 In the 2003 projected test year at present rates, no amount of
16 revenue is included related to credit card fees. After determining the
17 Company's cost of service and therefore its revenue requirements, this
18 proposed new source of revenue was included in the Company's rate
19 design in the amount of \$207,839. It is shown as Miscellaneous Revenue
20 in MFR Schedule H-1, page 6 of 6. The proposed credit card fee serves as
21 a means of collecting part of the revenue requirement and therefore no
22 adjustment to cost of service should be made.

23 It is important to note that the credit card charge is designed and
24 intended to reduce the cost of service allocated to those customers who
25 choose not to use this service. The expense treatment and revenue

1 recovery related to this charge are no different than those associated with
2 the other “miscellaneous charges” Peoples has had approved by the
3 Commission in the past.

4 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

5 A. Yes.

