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November 20, 1998

IN REPLY REFER TO

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VIA FEDERAL EXPRESS

Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

981698-64

Re: Request by Peoples Gas System for approval of a methodology for charging multiple purchased gas adjustment factors

Dear Ms. Bayo:

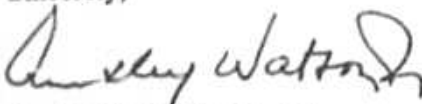
Enclosed for filing with the Commission on behalf of Peoples Gas System, please find the original and 15 copies of Peoples' petition for an order approving Peoples' methodology for cost allocation used in calculating multiple purchased gas adjustment factors for different classes of customers.

I also enclose a diskette containing the petition (but not Attachments 1 and 2) in Wordperfect 5.1 format.

Please acknowledge your receipt and the date of filing of the enclosures on the duplicate copy of this letter and return the same to the undersigned in the enclosed preaddressed envelope.

Thank you for your usual assistance.

Sincerely,



ANSLEY WATSON, JR.

AWjr/a
Enclosures

DOCUMENT NUMBER-DATE

13228 NOV 23 88

FPSC-RECORDS/REPORTING

Blanca S. Bayo
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cc: Mrs. Cheryl R. Bulecza-Banks
Mr. J. Brent Caldwell

BACKGROUND

3. By its Orders Nos. 24463 and 24463-A in Docket No. 910003-GU, the Commission adopted a revised method for the recovery of purchased gas costs by regulated natural gas utilities, to be used for the recovery of such costs commencing October 1, 1991. These orders provide that a natural gas utility's purchased gas costs are to be recovered through a projected PGA factor for the period from April of one year, through March of the following year, with the projected PGA factor to serve as a cap, or maximum recovery factor. A "true-up" of the actual PGA revenues and expenses against the utility's original projections of such amounts is also a key feature of this cost recovery mechanism. By Order No. PSC-98-0691-FOF-PU, the Commission modified the timing of recovery of PGA costs to coincide with the calendar year beginning January 1999.

4. The revised methodology was precipitated by the advent of "open access" on the Florida Gas Transmission Company ("FGT") interstate pipeline system. The first cost recovery hearings following adoption of the revised methodology were held in August 1991. In those hearings, the Florida Division of Chesapeake Utilities Corporation ("Chesapeake") petitioned the Commission for approval of two distinct PGA factors recognizing the different costs involved in serving different customer classes. In its Order No. 25064, issued in the Commission's continuing purchased gas cost recovery docket on September 13, 1991, and in response to Chesapeake's petition, the Commission stated:

"We find no reason to establish different factors for firm and interruptible rate classes. To the extent large volume interruptible customers contract for maximum daily demand requirements, the cost will be less than the levelized factor (cap) for the projected period, primarily

due to individual load factors. Therefore, separate purchased gas cost recovery factors for firm and interruptible rate classes are not necessary.

"This does not preclude a utility from charging different customers different Purchased Gas Cost Recovery Factors beneath the approved cap for valid reasons. Examples of valid reasons include different methods of allocating or billing demand costs or the applicability of taxes or fees."
(emphasis supplied)

The Commission has recognized the differences in PGA costs incurred for different customer classes and has permitted natural gas utilities to charge different PGA factors to different customers or classes of customers. Since the issuance of Order No. 25064, Chesapeake has routinely used separate PGA factors for its firm and interruptible rate classes.

PEOPLES' SEPARATE PGA FACTORS

5. Peoples has historically used only a single PGA factor for the purpose of recovering its costs of purchased gas and upstream transportation. However, if the Commission approves Peoples' petition, commencing with bills rendered for meter readings taken on or about February 1, 1999, and thereafter, Peoples will begin using multiple PGA factors -- each applicable to different classes of customers -- to recover such costs. Each of those factors would remain subject to Peoples' PGA "cap" of 49.786 cents per therm, stipulated at the pre-hearing conference on November 16, 1998, or as modified during conduct of the ongoing Docket No. 980003-GU or annual successor dockets. The different PGA factors would be subject to caps approved for future PGA periods.

6. Peoples' proposes charging two different PGA factors for two distinctly different classes: residential and commercial. The rate classes included in each PGA class are shown

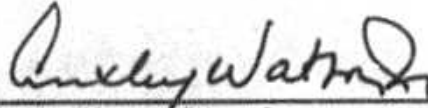
to total sales. For January 1998, the residential rate classes constituted 25.84% of the PGA sales. The commercial rate classes constituted the remaining 74.16% of PGA sales. Attachment 1 shows the method used to determine the allocation factors using January 1998 data.

9. The fixed costs associated with interstate pipeline capacity are demand reservation charges and the No Notice Transportation Service charges. Demand costs for all three types of pipeline capacity that Peoples utilizes -- FGT FTS-1, FGT FTS-2, and SONAT/South Georgia - - will be allocated at the same ratios. These costs will be allocated for every month at the appropriate percentage for the most recent January that data is available. Remaining costs will be allocated on a volumetric basis as they effectively are under the current single PGA factor.

10. Separate true-up balances will be tracked for each PGA class. The initial true-up balance for each class will be established by allocating the existing balance volumetrically based on actual PGA volumes for the six-month period from July 1998 through December 1998, by PGA class. True-up balances will be combined and reported on a system total basis.

11. Attachment 2 shows an example of the calculation of the different PGA factors had they been in place for the December 1998 PGA factor. Attachment 2 uses the flex down filing for the single, system-wide PGA factor. The two PGA factors are calculated using the allocation factors shown in Attachment 1. For December, the different PGA factors would have been 35.661 cents per therm for Residential and 33.523 cents per therm for Commercial compared to the single, system-wide factor of 34.000 cents per therm. The values for the Residential and Commercial PGA factors will vary, relative to the single PGA factor, on a monthly basis due to the variation in sales volumes for each class compared to the peak month sales volumes.

Respectfully submitted,



Ansley Watson, Jr., and
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Attorneys for Peoples Gas System

Attachment 1

Derivation of Allocation Factors Peoples Gas System

	<u>Demand Allocation Factors</u>		<u>Volume Allocation Factors</u>	
	<u>Peak Month January 1998 Actual Sales</u>	<u>Percent of Total</u>	<u>Current Month December 1998 Projected Sales</u>	<u>Percent of Total</u>
<u>Residential</u>	<u>8,113,280.3</u>		<u>6,841,285.0</u>	
Residential PGA Factor	8,113,280.3	25.84%	6,841,285.0	22.32%
Small General Service	322,285.7		239,006.0	
Gen. Svc.-Comm.	11,421,109.0		10,833,541.0	
Gen. Svc.-Comm. Lg. Vol.-1	9,444,113.5		9,713,823.0	
Gen. Svc.-Comm. Lg. Vol.-2	777,025.5		968,572.0	
Natural Gas Vehicle Sales	58,769.0		58,269.0	
Comm. Street Lighting	52,413.5		55,598.0	
Wholesale	12,513.9		9,200.0	
Small interruptible	1,199,214.7		1,325,306.0	
Interruptible Lg. Vol.-1	2,538.2		600,000.0	
<u>Interruptible Lg. Vol.-2</u>	<u>0.0</u>		<u>0.0</u>	
Commercial PGA Factor	23,289,983.0	74.16%	23,803,315.0	77.68%
Total System	31,403,263.3	100.00%	30,644,600.0	100.00%

PEOPLES GAS SYSTEM FLEXED DOWN PGA FUEL RATE FOR RESIDENTIAL CUSTOMERS g:\gssect\pgs\plltfx.wk4		SCHEDULE A-1			
		ESTIMATE FOR THE PERIOD: APRIL 98 THROUGH MARCH 99 CURRENT MONTH: DECEMBER 1998			
(A)		(B) ORIGINAL PROJECTION	(C) FLEX DOWN ESTIMATE	(D) DIFFERENCE AMOUNT	
COST OF GAS PURCHASED					
1	COMMODITY Pipeline (FGT)	\$19,011	\$21,781	\$2,770	
1a	COMMODITY Pipeline (SONAT)	\$5,830	\$7,378	\$1,748	
1b	COMMODITY Pipeline (SO. GA.)	\$3,054	\$3,733	\$679	
2	NO NOTICE SERVICE	\$15,861	\$15,861	\$0	
3	SWING SERVICE	\$888,850	\$194,408	(\$694,364)	
4	COMMODITY Other (THIRD PARTY)	\$1,545,185	\$1,318,602	(\$226,583)	
5	DEMAND (FGT)	\$858,471	\$811,964	(\$46,507)	
5a	DEMAND (SONAT)	\$88,485	\$79,191	\$12,728	
5b	DEMAND (SO. GA.)	\$42,828	\$45,777	\$3,151	
6	OTHER	\$49,104	\$29,016	(\$20,088)	
LESS END-USE CONTRACT:					
7	COMMODITY Pipeline (FGT)	\$0	\$9,550	\$9,550	
8	DEMAND (FGT)	\$0	\$139,599	\$139,599	
9		\$0	\$0	\$0	
10		\$0	\$0	\$0	
11	TOTAL COST (1+1a+1b+2+3+4+5+5a+5b+6)-(7+8+9+10)	\$3,494,288	\$2,378,648	(\$1,115,620)	
12	NET UNBILLED	\$0	\$0	\$0	
13	COMPANY USE	\$0	\$0	\$0	
14	TOTAL THERM SALES (11)	\$3,494,288	\$2,378,648	(\$1,115,620)	
THERMS PURCHASED					
15	COMMODITY Pipeline (FGT)	5,392,403	8,059,619	2,667,218	
15a	COMMODITY Pipeline (SONAT)	1,481,548	1,818,497	336,949	
15b	COMMODITY Pipeline (SO. GA.)	1,447,472	1,259,047	(188,425)	
16	NO NOTICE SERVICE	2,688,370	2,688,370	0	
17	SWING SERVICE	2,429,724	752,288	(1,677,436)	
18	COMMODITY Other (THIRD PARTY)	4,410,151	5,942,592	1,532,441	
19	DEMAND (FGT)	20,578,999	18,912,288	(1,667,731)	
19a	DEMAND (SONAT)	2,320,302	2,358,213	35,911	
19b	DEMAND (SO. GA.)	2,268,935	1,859,935	(407,000)	
20	OTHER	44,640	0	(44,640)	
LESS END-USE CONTRACT:					
21	COMMODITY Pipeline (FGT)	0	3,141,412	3,141,412	
22	DEMAND (FGT)	0	3,759,551	3,759,551	
23		0	0	0	
24	TOTAL PURCHASES (17+18-23)	6,839,875	6,694,880	(144,995)	
25	NET UNBILLED	0	0	0	
26	COMPANY USE	0	0	0	
27	TOTAL THERM SALES (24)	6,839,875	6,694,880	(144,995)	
CENTS PER THERM					
28	COMM. Pipeline (FGT)	(1/15)	0.00353	0.00370	(0.00082)
28a	COMM. Pipeline (SONAT)	(1a/15a)	0.00380	0.00408	0.00028
28b	COMM. Pipeline (SO. GA.)	(1b/15b)	0.00211	0.00296	0.00086
29	NO NOTICE SERVICE	(2/16)	0.00590	0.00590	0.00000
30	SWING SERVICE	(3/17)	0.38583	0.25854	(0.10729)
31	COMM. Other (THIRD PARTY)	(4/18)	0.35037	0.22189	(0.12848)
32	DEMAND (FGT)	(5/19)	0.04171	0.04293	0.00122
32a	DEMAND (SONAT)	(5a/19a)	0.02884	0.03361	0.00496
32b	DEMAND (SO. GA.)	(5b/19b)	0.01890	0.02461	0.00561
33	OTHER	(6/20)	1.10000	0.00000	(1.10000)
LESS END-USE CONTRACT:					
34	COMMODITY Pipeline (FGT)	(7/21)	0.00000	0.00304	0.00304
35	DEMAND (FGT)	(8/22)	0.00000	0.03713	0.03713
36		(9/23)	0.00000	0.00000	0.00000
37	TOTAL COST	(11/24)	0.51087	0.35529	(0.15558)
38	NET UNBILLED	(12/25)	0.00000	0.00000	0.00000
39	COMPANY USE	(13/26)	0.00000	0.00000	0.00000
40	TOTAL THERM SALES	(37)	0.51087	0.35529	(0.15558)
41	TRUE-UP	(E-4)	(0.00002)	(0.00002)	0.00000
42	TOTAL COST OF GAS	(40+41)	0.51085	0.35527	(0.15558)
43	REVENUE TAX FACTOR		1.00378	1.00378	0.00000
44	PGA FACTOR ADJUSTED FOR TAXES	(42x43)	0.51277	0.35661	0.00000
45	PGA FACTOR ROUNDED TO NEAREST .001		51.277	35.661	0.000