FLORIDA PUBLIC SERVICE COMMISSION

FLETCHER BUILDING
101 EAST GAINES STREET
TALLAHASSEE, FLORIDA 32399-0850

MEMORANDUM

July 23, 1991

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF LEGAL SERVICES (BROWN) MCB
DIVISION OF ELECTRIC AND GAS (MAKIN, McCORMICK) JM RLT

RE: DOCKET NO. 910701-GU - INVESTIGATION INTO THE APPLICATION OF THE FLEXIBLE RATE SCHEDULE OF FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION (FORMERLY CENTRAL FLORIDA GAS COMPANY).

AGENDA: AUGUST 6, 1991 - CONTROVERSIAL AGENDA - PROPOSED AGENCY ACTION - PARTIES MAY PARTICIPATE

CRITICAL DATES: NONE

CASE BACKGROUND

In Order No. 14965 (Attachment 1), issued September 17, 1985, the Commission approved modifications to the interruptible rate schedules of three natural gas utilities; Peoples Gas, West Florida Natural Gas, and Central Florida Gas Company, which is now the Florida Division of Chesapeake Utilities. In that order the Commission recognized that the utilities were in danger of losing a significant portion of their interruptible load to lower priced alternate fuel sources, a circumstance that did not bode well for the economic viability of the utilities.

> . . .[L]oss of significant interruptible load by a utility could result in a request for relief that would seek to have the remaining investment (after reductions for that plant not used and useful) and costs borne by the remaining customers through higher rates.

The Commission approved the establishment of a separate class of customers, the "Contract Interruptible Service Customers"(CIS), and permitted the utilities to offer competitive discounts to the new class of customers. The discounted rates could be as low as the cost of gas, plus applicable customer charges, conservation cost recovery charges, franchise fees and taxes. The new rates provided the utilities the flexibility needed to compete with alternate fuels and to address potential bypass by their interruptible customers.

The Commission recognized that the new "flexible" rates would benefit both the utilities and their non-interruptible ratepayers by retaining interruptible load on the utility system, but it required the utilities to absorb all losses of revenue associated with the rate reductions under the new rates.

In 1988, three years after the flexible rate tariffs were first approved, Peoples Gas System, Inc. petitioned the Commission for modification of its tariff to provide relief from the revenue losses the company had experienced in the implementation of its flex rates. In Order No. 20529, Docket No. 881341-GU (Attachment 2), issued December 27, 1988, the Commission approved the tariff modifications that Peoples suggested, including a "Competitive Rate Adjustment Clause". The competitive rate adjustment clause provided a mechanism by which the utility could recover any revenue shortfalls that resulted from the use of the flexible rate tariff from its other ratepayers, the non-CIS customers. The clause also permitted the utility to refund to non-CIS ratepayers any revenue surplus the utility collected from the application of the tariff in times when the market for alternate fuels permitted the utility to raise its flexible rates above the usual tariffed rate. The tariff modification would, the Commission said:

> . . . permit PGS to recover revenues lost due to rate reductions to contract customers. The utility's proposal also presents the opportunity for non-contract customers to realize a reduction in rates through refunding of surpluses if natural gas again achieves a competitive advantage over alternate fuels used by the utility's contract customers. . .
>
> We feel that the utility's proposal meets our concerns regarding flexible rates: that any change to flexible rate provisions be equitable to all parties, including flexing ratepayers, non-flexing ratepayers and shareholders, that it be limited to deal only with the refund or recovery of revenues that result from applying a rate other than the interruptible tariff rate, and that the provision not be designed to allow recovery of lost revenues that result from any changes of volume of sales or other outside influences.

The Commission's decision in Order No. 20529 set the standard for other utilities to follow, and thereafter West Florida and Chesapeake received Commission approval for modifications to their flexible rate tariffs. The tariffs were similar to Peoples Gas, but with what has become one significant difference. Peoples' flexible rate tariff recovers all revenue shortfalls from non-contract interruptible ratepayers, and refunds all revenue surpluses to them. West Florida's tariff and Chesapeake's tariff both provide, however, that the utility and the utility's non-contract interruptible ratepayers will share the burden of recovering the revenue shortfalls that occur when the company is forced to lower its flex rates below the usual tariffed rate. Concomitantly, the tariffs provide that both the utility and the utility's non-contract interruptible ratepayers will share the benefit of recovering the surplus when the market for alternate fuels permits the company to raise its flexible rates to contract interruptible customers above the usual tariffed rate.

Chesapeake's Contract Industrial Interruptible Service tariff (Attachment 3), which was effective July 9, 1990 provides;

> The non-fuel charge for service hereunder shall be subject to the flexible pricing mechanism described in the Rates section of this Rate schedule. It is the intention of Company that this charge shall be determined based upon competition with Customer's alternative fuel. . . . The non-fuel charge to Customer shall be determined by Company based upon Company's evaluation of competitive conditions. . . . Company may from time to time increase or reduce the non-fuel charge as it deems necessary or appropriate to compete with alternate fuel, but shall have no obligation to do so. . . Original Tariff Sheet Nos. 48-49.

When the Commission approved Peoples' flexible rate tariff modifications, it did so because Peoples had been forced to lower its rates to retain its interruptible customers, and it had experienced significant revenue losses as a result. Unlike Peoples, Chesapeake has never flexed its contract interruptible rate downward to be competitive with its customers' alternate fuels, and it has thus never experienced any revenue losses.

Nevertheless, since September of 1990, the company has flexed its interruptible rate upward, and has been collecting surplus revenue from all of its interruptible customers, which it intends to split with its other ratepayers. (Attachment 4)

Chesapeake contends that its contract interruptible rate tariff permits it to raise its rates to its contract interruptible customers and its regular interruptible customers, even though it has never experienced any revenue losses associated with the application of its flexible rate tariff. Staff contends that Chesapeake Utilities is interpreting the provisions of its tariff in a manner that is inconsistent with the Commission's policy and intent in approving the competitive rate adjustment provisions of interruptible rate tariffs. The company is reserving the incremental revenues received as a result of the flexible pricing provision of its tariff pending the Commission's decision on this issue.

DISCUSSION

ISSUE 1: Is Chesapeake's interpretation of the competitive rate adjustment provisions of its tariff consistent with the Commission's intent in approving those provisions? In other words, may a natural gas utility increase its contract interruptible rate without having first incurred revenue losses associated with a decrease in the contract interruptible rate?

RECOMMENDATION: No. Chesapeake Utilities has interpreted the competitive rate adjustment provisions of its tariff incorrectly. Competitive rate adjustment provisions are only intended to recover revenue losses that result when a natural gas utility is forced to reduce its contract interruptible rate to compete with the alternate fuel market.

STAFF ANALYSIS: Under a competitive rate adjustment clause, a utility may recover from its non-contract customers the revenue shortfalls that result from discounted contract interruptible rates. The difference between the discounted rates and the actual interruptible rates established in the utility's last rate case based on the cost of service study is multiplied by the volumes billed each year ending September 30. That amount is then recovered from all other non-contract customers during the following year. The utility may, at its option, defer all or a portion of the recovery to a subsequent period. A competitive rate adjustment clause may also provide that the utility and the non-contract ratepayers will share the burden of recovering the shortfall.

When the market for alternate fuels permits, a utility may adjust its contract interruptible rates above the actual interruptible rates established in the last rate case, and thus collect revenues from its contract interruptible customers that exceed the utility's cost to serve those customers. When a utility collects a surplus, the utility reduces rates to its non-contract customers the following year by the amount of the surplus. If the utility and its non-contract customers have shared the revenue shortfall burden, both will recover a share of the surplus.

The surplus revenues are intended to be used to offset prior revenue shortfalls. They are not intended to provide either the non-contract ratepayers or the utility a windfall at the expense of the utility's contract interruptible customers.

Section 366.03, Florida Statutes, states in relevant part that;

> All rates and charges made, demanded, or received by any public utility for any service rendered or to be rendered by it, and each rule and regulation of such public utility, shall be fair and reasonable. No public utility shall make or give any undue or unreasonable preference or advantage to any person or locality, or subject the same to any undue or unreasonable prejudice or disadvantage in any respect.

The Commission has the authority and the responsibility to ensure the implementation of the statute's directive, and to ensure that all tariffs filed by public utilities, as well as its own policies and decisions, are interpreted in a manner that is consistent with the statute's intent. Sections 366.04 (1), 366.05(1), 366.06(2), 366.07, and 366.076(1), Florida Statutes.

Chesapeake Utilities and its non-contract ratepayers have never experienced a loss from the operation of the utility's flexible rate tariff, and therefore they may not benefit from the surplus. Such a practice disrupts the regulatory balance between the utility and its ratepayers, and it is discriminatory.

Rates that are based on the cost of service are the means by which revenue deficiencies are allocated between rate classes. The cost of service concept in ratemaking strives to achieve parity between rate classes wherever possible. If Chesapeake is permitted to flex its CIS rate up, without having had to flex its rate down, its contract interruptible class of ratepayers makes a contribution to the cost to serve that is greater than its proportional share. A fundamental purpose of ratemaking is thus lost.

As Commissioner Gunter explained during a discussion of West Florida's competitive rate adjustment clause at the prehearing conference in West Florida's rate case:

> Because once it balanced it doesn't appear that it would be proper to require ... that shifting to other classes of customers. Then it goes in the pot and you certainly would want them to be at a parity basis -- in regulatory theory you don't want anybody to make a contribution greater than their proportional share would be, interruptible or otherwise.

Transcript of Prehearing Conference in Docket No. 871255-GU, p 27 (Attachment 5)

At the hearing in that rate case, the panel, Commissioners Gunter, Herndon and Wilson, accepted the agreement of the utility and Staff on all issues as developed in the prehearing order. That prehearing order was based upon the understanding of the prehearing officer as quoted above.

Staff recommends that the Commission direct the Florida Division of Chesapeake Utilities to interpret its contract interruptible rate tariff in a manner that is consistent both with the Commission's intent as explained above, and with the intent of section 366.03, Florida Statutes.

ISSUE 2: Should Chesapeake Utilities Corporation, Florida Division be required to refund the surplus revenues collected from its interruptible customers?

RECOMMENDATION: Yes. Chesapeake Utilities Corporation should be required to refund, with interest, the surplus revenues collected from its interruptible customers.

STAFF ANALYSIS: From September, 1990 through February, 1991, Chesapeake utilities has collected more than $600,000, including interest, in surplus revenues from all of its interruptible customers. Chesapeake's interpretation of its flexible rate tariff has had a discriminatory effect on those customers, and it has produced a windfall for the utility and its other customers. The inequity must be corrected and the revenues refunded to the interruptible customers, with interest, pursuant to the provisions of Rule 25-7.091, Florida Administrative Code.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes. If no request for a hearing is timely filed, this docket may be closed when the protest period has run.

STAFF ANALYSIS: From September, 1990 through February, 1991, Chesapeake utilities has collected more than $600,000, including interest, in surplus revenues from all of its interruptible customers. Chesapeake's interpretation of its flexible rate tariff has had a discriminatory effect on those customers, and it has produced a windfall for the utility and its other customers. The inequity must be corrected and the revenues refunded to the interruptible customers, with interest, pursuant to the provisions of Rule 25-7.091, Florida Administrative Code.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes. If no request for a hearing is timely filed, this docket may be closed when the protest period has run.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Peoples Gas System, Inc. for approval of modifications to its Rate Schedule IS.	DOCKET NO. 850203-GU
In re: Petition of Gulf Natural Gas Corporation for modification of interruptible schedule and request for emergency consideration.	DOCKET NO. 850204-GU
In re: Petition of Central Florida Gas Corporation for approval of modifications to its rate schedule IIS.	DOCKET NO. 850213-GU ORDER NO. 14965 ISSUED: 9-17-85

The following Commissioners participated in the disposition of this matter:

JOHN R. MARKS, Chairman
JOSEPH P. CRESSE
GERALD L. GUNTER

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING "CONTRACT INTERRUPTIBLE SERVICE CLASS"

BY THE COMMISSION:

Notice is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for formal proceeding pursuant to Rule 25-22.29, Florida Administrative Code.

By their separate petitions, Gulf Natural Gas Corporation (Gulf Natural) (Docket No. 850204-GU), Peoples Gas System, Inc. (Peoples) (Docket No. 850203-GU), and Central Florida Gas Corporation (Central Florida) (Docket No. 850213-GU) seek modifications to their interruptible rate schedules that would allow them to adjust the rates charged individual interruptible customers in order to compete with alternate fuels available to those customers. There are variations in the requested relief, but generally they seek the flexibility to meet the price of an alternate fuel available to an interruptible customer by lowering their rate to that customer to the energy charge plus customer charge, if any. Under each of the proposals an interruptible customer would make application for the reduced rate and submit an affidavit stating the source of the alternate fuel and its cost. Gulf Natural and Central Florida seek permission to completely eliminate their non-fuel energy charge, if necessary to compete, while Peoples asks that it be required to charge a minimum 1¢ non-fuel energy charge, plus any applicable customer charge.

We considered Gulf Natural's petition at our May 21, 1985 Agenda Conference and determined to suspend its proposed tariff modifications pending further analysis. However, because Gulf Natural alleged it might lose the largest of its two interruptible customers unless it received emergency relief, we approved the proposed tariff on an interim basis pending our final disposition of the matter. We also approved Peoples' and Central Florida's proposed tariffs on an interim basis and announced we would temporarily approve similar tariffs for the remaining natural gas utilities, if requested to.

Gulf Natural's petition states its specific problem requiring relief, and generally illustrates the problem confronting regulated natural gas distribution utilities in Florida. It alleges:

1. Gulf Natural has operating divisions in Panama City, Florida and Ocala, Florida. It purchases natural gas from the interstate pipeline at prices regulated by the Federal Energy Regulatory Commission, and sells natural gas to retail customers pursuant to rate schedules approved by this Commission.

2. Sales to Southwest Forest Industries (Southwest), an industrial customer and the utility's largest customer, account for sales under its Interruptible schedule of more than 900,000 therms per month, or approximately 38% of total company sales.

3. Southwest, like many other industrial users of gas, has the ability to convert its facilities to the use of #6 fuel oil. Gulf Natural must therefore compete with the price of #6 oil to maintain Southwest as a customer.

4. Prior to Gulf Natural's request for emergency relief, Southwest informed it that the price of available #6 oil had dropped to as low as $22 per barrel, which is the equivalent of 35.6¢ per therm for natural gas. Gulf Natural's then-approved interruptible rate was 39.364¢ per therm, including the current Purchased Gas Adjustment (PGA) and non-fuel components. Southwest informed Gulf Natural that it intended to complete converting its lime kiln, which is served under the interruptible schedule, to the use of #6 oil by mid-May, 1985. Gulf Natural alleged that it had to compete immediately because the industrial customer, once having converted to the alternate fuel, would face substantial costs in converting back to natural gas, which could deter its return to gas.

5. Gulf Natural stated that a large portion of the fixed costs of its system were being recovered through the revenues received from Southwest and alleged that the loss of Southwest would have a devastating effect upon Gulf Natural and, ultimately, upon its other customers. Specifically, Gulf Natural alleged that, based upon actual 1984 data, its annual NOI would drop from $815,576 to $490,644 and its 13-month average rate of return would erode from 9.26% to 5.79% if Southwest's kiln operation was lost for 12 months. Gulf Natural stated that any resulting adjustment in rates would require other customers and other customer classes to carry the additional burden of fixed costs formerly borne by Southwest.

Peoples and Central Florida face similar situations. Peoples serves a total of 167 industrial or interruptible customers who are required to have alternate fuel capabilities and whose consumption accounted for 459,141,472 therms or 56% of system sales for the fiscal year ended September 30, 1984. Of these, 29 have the capability of switching to #6 oil and their consumption was 162,027,540 therms or about 35% of the system's sales in fiscal 1984. Central Florida's interruptible sales equalled 84% of its total sales for the 12-month period ended April 30, 1985 and 60% of its total sales were to four customers able to switch to #5 or #6 oil. Like Gulf Natural, Peoples and Central Florida allege that the loss of interruptible load will adversely affect both the utilities and their remaining customers.

The allegation of these utilities that falling oil prices are threatening the industrial sales of natural gas is common knowledge. As alleged by these utilities the narrowing regulated natural gas distribution utilities in Florida. It alleges:

1. Gulf Natural has operating divisions in Panama City, Florida and Ocala, Florida. It purchases natural gas from the interstate pipeline at prices regulated by the Federal Energy Regulatory Commission, and sells natural gas to retail customers pursuant to rate schedules approved by this Commission.

2. Sales to Southwest Forest Industries (Southwest), an industrial customer and the utility's largest customer, account for sales under its Interruptible schedule of more than 900,000 therms per month, or approximately 38% of total company sales.

3. Southwest, like many other industrial users of gas, has the ability to convert its facilities to the use of #6 fuel oil. Gulf Natural must therefore compete with the price of #6 oil to maintain Southwest as a customer.

4. Prior to Gulf Natural's request for emergency relief, Southwest informed it that the price of available #6 oil had dropped to as low as $22 per barrel, which is the equivalent of 35.4¢ per therm for natural gas. Gulf Natural's then-approved interruptible rate was 39.314¢ per therm, including the current Purchased Gas Adjustment (PGA) and non-fuel components. Southwest informed Gulf Natural that it intended to complete converting its lime kiln, which is served under the interruptible schedule, to the use of #6 oil by mid-May, 1985. Gulf Natural alleged that it had to compete immediately because the industrial customer, once having converted to the alternate fuel, would face substantial costs in converting back to natural gas, which could deter its return to gas.

5. Gulf Natural stated that a large portion of the fixed costs of its system were being recovered through the revenues received from Southwest and alleged that the loss of Southwest would have a devastating effect upon Gulf Natural and, ultimately, upon its other customers. Specifically, Gulf Natural alleged that, based upon actual 1984 data, its annual NOI would drop from $815,576 to $490,644 and its 13-month average rate of return would erode from 9.26% to 5.79% if Southwest's kiln operation was lost for 12 months. Gulf Natural stated that any resulting adjustment in rates would require other customers and other customer classes to carry the additional burden of fixed costs formerly borne by Southwest.

Peoples and Central Florida face similar situations. Peoples serves a total of 167 industrial or interruptible customers who are required to have alternate fuel capabilities and whose consumption accounted for 459,141,472 therms or 56% of system sales for the fiscal year ended September 30, 1984. Of these, 29 have the capability of switching to #6 oil and their consumption was 162,827,548 therms or about 35% of the system's sales in fiscal 1984. Central Florida's interruptible sales equalled 84% of its total sales for the 12-month period ended April 30, 1985 and 60% of its total sales were to four customers able to switch to #5 or #6 oil. Like Gulf Natural, Peoples and Central Florida allege that the loss of interruptible load will adversely affect both the utilities and their remaining customers.

The allegation of these utilities that falling oil prices are threatening the industrial sales of natural gas is common knowledge. As alleged by these utilities the narrowing differential between the price of delivered natural gas and that of the the equivalent #6 oil energy places significant portions of their industrial sales in real jeopardy of being lost. As also alleged by the distribution companies, significant portions of the fixed costs of their operations are recovered through sales to industrial customers and, therefore, the economic viability of these utilities rests in large part on their ability to generate revenues from their interruptible customers. Lastly, no regulatory seer is required to foresee that the loss of significant interruptible load by a utility could result in a request for relief that would seek to have the remaining investment (after reductions for that plant not used and useful) and costs borne by the remaining customers through higher rates.

As alleged by the utilities, the threatened loss of interruptible load is due to the narrowing gap between the price of natural gas and the alternate fuels. Whatever the causes of that narrowing gap, we shall not wait until significant loads have been lost to act because such losses could aversely affect both the utility and its remaining customers and be irreversible. Accordingly, we propose to provide the petitioners in this case and the remaining regulated natural gas utilities, if they desire it, with the flexibility they need to compete with the alternate fuels available to their interruptible customers.

Interruptible customers are somewhat unique among the customer classes in that the tariff of each regulated natural gas utility in Florida requires that interruptible customers have an alternate fuel to supplant the natural gas during periods of interruption. Based on its individual requirements, an interruptible customer may select propane, #2, #5, or #6 oil, among others, as its alternate fuel. Thus, each interruptible customer may be unique with respect to its reasons for selecting a given alternate fuel. Some may require the flexibility offered by the higher cost propane and #2 fuel oil alternatives, while others are able to use the lower-cost #6 oil.

Among the factors the Commission shall consider when fixing fair, just and reasonable rates, Section 366.06(1), Florida Statutes, specifically enumerates "value of service." Although value of service is a subjective concept, we believe that each interruptible customer, by its selection of an alternative fuel, indicates the relative value it places on receiving natural gas service. Furthermore, we believe the value of service as measured by the type of alternate fuel selected and the price at which it can be obtained are sufficiently adequate indicators to warrant variations in the rates offered to interruptible customers.

While we shall authorize pricing flexibility to the interruptible customers, we disapprove the proposed modifications that would result in rate variations within the existing interruptible classes. Rather, we shall authorize the petitioners and the remaining regulated gas utilities to submit tariffs establishing a separate class for "Contract Interruptible Service Customers." Under this tariff a utility may offer an interruptible customer a contract rate that is as low as the cost of gas, plus customer charges, if any, in order to compete with alternate fuels. Each utility shall devise procedures for implementing its tariffs, which will be subject to our review for prudence and reasonableness. As agreed to by the petitioners they shall book all Contract Interruptible sales at the regularly approved interruptible rate and separately book the competitive contract discounts from the approved rate.

. We shall not require Peoples to charge a minimum non-fuel charge of 1¢/therm. Instead we shall authorize all requesting utilities to charge at a minimum their cost of gas, plus applicable customer charges, conservation cost recovery charges, franchise fees and taxes. As agreed to, all contract competitive discounts shall be borne by the utilities.

By our approval of this new interruptible class, we recognize that interruptible customers are unique in that they are not dependent upon natural gas as their sole energy source. We also recognize the actual price competition that exists between natural gas and the alternate fuels and provide the distribution companies with the means to compete. While our primary goal is to retain industrial load and, ultimately, reduce the burden on ratepayers who cannot switch fuel sources, we believe that competition among industrial fuels will result in lower prices for each, to the benefit of all fuel users. Lastly, we believe that our increased recognition of "value of service" in this new class will not only work no detriment to a utility's monopoly ratepayers, but may also be advantageous to those customers in the long term by allowing the distribution companies the necessary flexibility to retain their interruptible customers. We believe the retention of these interruptible customers and their loads may forestall not only requests for higher retail rates but also possible increases in the interstate pipeline transporation rates resulting from less interruptible gas being transported.

In view of the above, it is,

ORDERED by the Florida Public Service Commission that the Petition of Gulf Natural Gas Corporation for Modification to Interruptible Schedule, the Petition of Peoples Gas System, Inc. for Approval of Modifications to its Rate Schedule IS, and the Petition of Central Florida Gas Corporation for Approval of Modifications to its Rate Schedule IIS are denied. It is further

ORDERED that Gulf Natural Gas Corporation, Peoples Gas System, Inc., Central Florida Gas Corporation and other natural gas distribution utilities are authorized to file "Contract Interruptible Service Class" Tariffs consistent with the language in the body of this Order describing such a tariff. It is further

ORDERED that each utility establishing such a tariff shall record in the appropriate revenue account, gross revenues at the applicable tariff rate for the sale of natural gas. The related contract competitive discounts shall be recorded as a debit to a separate subaccount entitled "Revenue Discounts," within Account 495, Other Gas Revenues. It is further

ORDERED that each utility adopting the tariff approved by this Order shall file a quarterly report reflecting the discount activity. The report shall be in the form prescribed by the Commission's Electric and Gas Department. It is further

ORDERED that each utility adopting the tariff approved by this Order shall notify all of its interruptible customers of the approval of the tariff by a billing insert, which includes a summary of its provisions not later than sixty (60) days after the utility has received approval of the new rate schedule. It is further

ORDERED that this Order shall become effective by October 9, 1985 unless a Petition for Formal Proceeding is received by October 8, 1985.

By ORDER of the Florida Public Service Commission, this 17th day of September, 1985.

STEVE TRIBBLE
Commission Clerk

(S E A L)

MDT

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes (Supp. 1984), to notify parties of any administrative hearing or judicial review of Commission orders that may be available, as well as the procedures and time limits that apply to such further proceedings. This notice should not be construed as an endorsement by the Florida Public Service Commission of any request nor should it be construed as an indication that such request will be granted.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.29, Florida Administrative Code. Any person adversely affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.29(4), Florida Administrative Code, in the form provided by Rule 25-22.36(7)(a) and (f), Florida Administrative Code. This petition must be received by the Commission Clerk at his office at 101 East Gaines Street, Tallahassee, Florida 32301, by the close of business on October 8, 1985. In the absence of such a petition, this order shall become effective October 9, 1985 as provided by Rule 25-22.29(6), Florida Administrative Code, and as reflected in a subsequent order.

If this order becomes final and effective on October 9, 1985, any party adversely affected may request judicial review by the Florida Supreme Court by the filing of a notice of appeal with the Commission Clerk and the filing of a copy of the notice and filing fee with the Supreme Court. This filing must be completed within 30 days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

ATTACHMENT 2
DOCKET NO. 910701-GU
JULY 23, 1991

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Peoples Gas System, Inc. for approval of a competitive rate adjustment clause and modification to Rate Schedules and CIS and CTS.	DOCKET NO. 881341-GU ORDER NO. 20529 ISSUED: 12-27-88

The following Commissioners participated in the disposition of this matter:

KATIE NICHOLS, Chairman
GERALD L. GUNTER
JOHN T. HERNDON
THOMAS M. BEARD

NOTICE OF PROPOSED AGENCY ACTION

ORDER APPROVING COMPETITIVE RATE ADJUSTMENT CLAUSE
AND RATE SCHEDULES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

On October 13, 1988, Peoples Gas System, Inc. (Peoples Gas, the utility, or PGS) filed a Petition for Approval of a Competitive Rate Adjustment Clause and Modification to its Rate Schedules CIS and CTS. PGS, a natural gas distribution company, provides natural gas service to approximately 200,000 residential, commercial, governmental and industrial customers in portions of Florida. Its gas sales for its fiscal year ended September 30, 1988, totaled 403,980,400 therms. Of this total, 80,385,326 therms were sold to interruptible/industrial customers under the utility's Rate Schedule CIS, entitled "Contract Interruptible Service."

Rate Schedule CIS was initially filed by the utility following the Commission's Orders Nos. 14963 and 15220 and, as presently effective, provides for a non-gas energy charge of the lesser of either $.0500 per therm (the utility's currently effective interruptible rate approved in its last rate case, Docket No. 850811-GU) or the equivalent current cost to the customer of alternate fuel, but not less than $.01 per therm. We approved this "flexible" contract interruptible rate in Order No. 14963, saying:

> ...loss of significant interruptible load by a utility would result in a request for relief that would seek to have the remaining investment (after reductions for that plant not used and useful) and costs borne by the remaining customers through higher rates.

We later approved the utility's flexible contract rate for transportation of customer-owned gas. However, PGS currently performs no transportation of customer-owned gas.

In Orders No. 17711 and 17830, we approved a modification to the utility's Rate Schedules CIS and CTS (Contract Transportation Service) in order to further address the issue of the potential for bypass of the utility by its large-volume customers, stating:

> ...the special condition sought to be added to Rate Schedules CIS and CTS is necessary to enable it flexibility to retain customers accounting for substantial therm sales on the utility's distribution system, and is in the long-term best interest of both PGS and its ratepayers.

We approved the present Rate Schedules CIS and CTS to provide PGS with the flexibility needed to compete with alternate fuels available to its interruptible industrial customers as well as to address potential bypass of the utility by such customers. However, although we recognized the benefits to both the utility and its non-interruptible ratepayers of retaining interruptible load, we required PGS to absorb all losses of revenue resulting from the rate reductions permitted under such rate schedules.

From May, 1985 through September 1988, the utility's revenue losses resulting from these rate reductions totaled approximately $4.9 million. At times during this period, losses have been partially offset by higher sales volumes, lower pension expense, and a reduction of depreciation expense, such that the utility absorbed $2.8 million in order to retain sales of 89.3 million therms to contract customers. However, we recognize that, because of the continued downward trend in alternate fuel prices, it is doubtful that the utility will be able to continue to offset these losses.

The Competitive Rate Adjustment Clause proposed by the utility would provide a mechanism to recover from, or refund to, its non contract customers (those for which PGS does not flex) any shortfalls or surpluses in the utility's CIS /CTS revenues. The difference between the actual rates billed under the CIS and CTS rate schedules and the rates established in the utility's last rate case, multiplied by the volumes billed under those schedules each year ending September 30, would be recovered from or refunded to all other non-contract customers during the following year. Alternatively, PGS may, at its option, defer all or a portion of the recovery to a subsequent period.

Whenever a surplus occurs, the utility would, in the following year, reduce rates to its non-contract customers to credit them with surplus revenues. In the event of a shortfall, PGS would increase rates to its non-contract customers to recover the amount of the shortfall. The reduction or recovery would be determined by dividing the amount of the surplus or shortfall by the projected non-contract therm sales during the adjustment period. Any variation between the actual refund or recovery would be trued-up during the succeeding period.

The formula for calculating the flexible rate is as follows:

$$\frac{(CISTR \times ACIU) - (CISFR \times ACIU)}{PTSEFS} = \text{Cents Per Therm}$$

where

CISTR = Contract Interruptible Service Tariff Rate
ACIU = Actual Contract Interruptible Usage
CISFR = Contract Interruptible Service Flex Rate
PTSEFS = Projected Therm Sales Excluding Flexed Sales

The approved flexible rate provision of the CIS and CTS rate schedules are as follows:

Present CIS/CTS Rate		Proposed CIS/CTS Rate
$225.00	Customer Charge	$225.00
5.88¢/Therm (1)	Energy Charge	14.641¢/Therm (2)
(Shortfall) Flex Down To 1.0¢/Therm		(Surplus) Flex Up To 5.88¢/Therm
		(Shortfall)Flex Down To 1.0¢/Therm

(1) Approved Tariff Rate

(2) Equals 90% of the CSLV Rate of 16.268¢/Therm

This modification to the utility's CIS and CTS rate schedules, together with the proposed Competitive Rate Adjustment Clause, will permit PGS to recover revenues lost due to rate reductions to contract customers. The utility's proposal also presents the opportunity for non-contract customers to realize a reduction in rates through refunding of surpluses if natural gas again achieves a competitive advantage over alternate fuels used by the utility's contract customers. On a prospective basis, this modification will eliminate our requirement that revenue losses resulting from flexing rates down be completely absorbed by PGS.

If we do not permit some mechanism of recovering revenues, gas utilities may face no alternative but to discontinue flexible rate provisions because losses of the magnitude currently being absorbed may be too great. Price competition from alternate fuels seems to be a long-term problem. Requiring the utility to permanently absorb losses caused by providing service at a rate below its allowed rate of return

FPSC CITE as 88 FPSC 12:492

may not allow the utility to earn a reasonable return on its investment, as set in its last rate case. Loss of interruptible sales is not in the long-term best interest of the general body of ratepayers.

We feel that the utility's proposal meets our concerns regarding flexible rates: that any change to flexible rate provisions be equitable to all parties, including flexing ratepayers, non-flexing ratepayers and shareholders, that it be limited to deal only with the refund or recovery of revenues that result from applying a rate other than the interruptible tariff rate, and that the provision not be designed to allow recovery of lost revenues that result from any changes of volume of sales or other outside influences.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Competitive Rate Adjustment Clause and Rate Schedules CIS and CTS, as modified, (attached hereto) are approved.

BY ORDER of the Florida Public Service Commission, this 27th day of DECEMBER, 1988.

Steve Tribble

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

[illegible]

Rate Schedule CIIS
CONTRACT INDUSTRIAL INTERRUPTIBLE SERVICE

Availability:
Original Central Florida Gas Company service territory. (Refer to Central Florida Gas Company, Natural Gas Tariff, Original Volume No. 2, Original Sheet No. 4).

Applicability:
To any industrial customer pursuant to a service agreement with a minimum annual requirement of two hundred thousand (200,000) therms per year who contracts for service under this Rate Schedule for a minimum period of one year, has readily available facilities acceptable to the Company, and maintains a sufficient supply of fuel, provided that the Company has delivery capacity in excess of the then existing requirements of other customers receiving gas service and provided the Company has available from its supplier a quantity of interruptible gas to meet such customer's requirements.

Character of Service:
Natural gas or its equivalent having a nominal heat content of one thousand (1,000) btu per cubic foot.

Gas service rendered under this Rate Schedule may be curtailed or fully interrupted at the sole discretion of the Company. The Company assumes no liability for any loss or damage that may be sustained by customer by reason of any curtailment or interruption of gas service rendered under this Rate Schedule.

The non-fuel charge for service hereunder shall be subject to the flexible pricing mechanism described in the Rates section of this Rate Schedule. It is the intention of Company that this charge shall be determined based upon competition with Customer's alternative fuel.

Notwithstanding the other provisions of this Rate Schedule, the Company may enter into a contract with an interruptible customer to provide service under terms other than those set forth herein; provided that any such contract shall be subject to approval by the Florida Public Service Commission, and the Commission shall have continuing jurisdiction over the rates charged therein.

(Continued to Sheet No. 49)

Issued by: John. W. Jardine, Jr., Chairman
CHESAPEAKE UTILITIES CORPORATION
Issued on: July 3, 1990

Effective:
~~July 7, 1990~~
JUL 9 1990

Rate Schedule CIIS
CONTRACT INDUSTRIAL INTERRUPTIBLE SERVICE

Rates:

Customer Charge: $350.00 per month

Non-Fuel: An amount not less than 0.00 cents per therm nor greater than 90 percent of the currently applicable firm rate. Unless changed by Company pursuant to this Rate Schedule, the base non-fuel charge shall be 3.747 cents per therm.

The "currently applicable firm rate" as used herein means the non-fuel charge prescribed in a rate schedule for which Customer qualifies, adjusted pursuant to the Firm Rate Adjustment Clause set forth on Sheet Nos. 56 to 60.

The non-fuel charge to Customer shall be determined by Company based upon Company's evaluation of competitive conditions. Such conditions may include, but are not necessarily limited to: the cost of gas which is available to serve Customer; the delivered price of Customer's designated alternate fuel; the availability of such fuel; and the nature of Customer's operations. Company may from time to time increase or reduce the non-fuel charge as it deems necessary or appropriate to compete with alternate fuel, but shall have no obligation to do so; provided, however, that the non-fuel charge shall at all times remain within the limits set forth above.

Customer may at any time request a reduction in its non-fuel charge by completing the form which appears on Sheet No. 51 and submitting the same to Company. During any period in which the non-fuel charge is less than 90 percent of the currently applicable firm rate, Customer shall complete and submit the same form with then current information on the first day of each month and whenever information on the form most recently submitted has changed.

Company will notify Customer at least 48 hours in advance of any change in the non-fuel charge under this Rate Schedule. The non-fuel charge at the commencement of service shall be the current interruptible rate under the IIS rate schedule.

(Continued to Sheet No. 50)

Issued by: John W. Jardine, Jr., Chairman
CHESAPEAKE UTILITIES CORPORATION
Issued on: July 3, 1990

Effective:
~~July 7, 1990~~
JUL 9 1990

DOCKET NO. 910701-GU
JULY 23, 1991

FLORIDA DIVISION
NATURAL GAS TARIFF
ORIGINAL VOLUME NO. 1

Original Sheet No. 50

(Continued from Sheet No. 49)

Rate Schedule CIIS
CONTRACT INDUSTRIAL INTERRUPTIBLE SERVICE

Billing Adjustments:

See BILLING ADJUSTMENTS, Original Sheet No's. 56 to 60.

Minimum Monthly Bill:

The customer charge.

Curtailment Notice:

Whenever curtailment of gas delivered hereunder is required, Company shall issue a curtailment order to customer specifying the delivery point, the quantity of gas to be curtailed and the time at which such curtailment is to be made. When restoration of service is permissible, Company shall similarly issue a restoration order specifying the delivery point, the quantity of gas to be restored and the time at which such restoration is to be made.

A curtailment order with respect to customers purchasing gas under this Rate Schedule shall be issued at least two (2) hours in advance of its effective time; provided, however, that if curtailment of interruption is occasioned by an event of Force Majeure affecting the Company's system the Company shall be obligated to give only such notice as is practicable under the circumstances.

Terms and Conditions of Service:

Service under this Rate Schedule (unless otherwise indicated herein or in the Service Agreement) is/shall be subject to the General Rules and Regulations of the Company applicable to gas service.

Issued by: John W. Jardine, Jr., Chairman
CHESAPEAKE UTILITIES CORPORATION
Issued on: July 3, 1990

Effective:
~~July 7, 1990~~
JUL 9 1990

DOCKET NO. 910701-GU
JULY 23, 1991

BILLING ADJUSTMENTS
(Continued)

governmental authority; as well as future changes or new assessments by any governmental authority subsequent to the effective date of any rate schedule. All such assessments as described above shall be shown on customer bills.

BTU:

A conversion factor representing the BTU content per cubic foot used to convert cubic feet to therms for billings to customers. The BTU content shall be the BTU per cubic foot as billed by supplier for the previous month adjusted.

Firm Rate Adjustment:

The non-gas energy charge for firm gas supplied after September 30, 1990 is subject to adjustment in accordance with the following provisions for prior shortfalls or surpluses in Company's interruptible revenues.

(1) For the purposes of this clause, the following definitions shall apply:

(a) "Actual revenue: means Company's actual non-gas revenue derived from interruptible service provided at rates prescribed, under the Rates for Service section of Florida Division Interruptible Rate Schedules, during a determination period.

(b) "Base revenue" means the non-gas revenue which Company would have derived had all interruptible gas sold at rates prescribed, under the Rates for Service section of Florida Division Interruptible Rate Schedules, during a determination period, been billed at the base non-gas energy charge.

(c) "Surplus" means the amount, if any, by which Florida Division's actual revenue exceeds its base revenue for a determination period.

Issued by: John W. Jardine, Jr., Chairman
Chesapeake Utilities Corporation
Issued on: July 3, 1990

Effective:
~~July 7, 1990~~
JUL 9 1990

BILLING ADJUSTMENTS
(Continued)

(d) "Shortfall" means the amount, if any, by which the Florida Division's base revenue exceeds its actual revenue for a determination period.

(2) The existence of a shortfall or surplus shall be determined by comparing Florida Division's actual revenue with its base revenue. This determination shall be made each year for the twelve months ending September 30 ("determination period").

(3) Adjustments to firm rates pursuant to this clause shall be implemented during an "adjustment period," which shall be the twelve months immediately following the determination period in the event of a surplus. In the event of a shortfall, any twelve successive months ending on a September 30 within five years following the determination period may be an adjustment period.

(4) In the event of a surplus, Florida Division shall reduce rates to firm customers to credit them with revenues equal to one-half the surplus. In the event of a shortfall, Company may increase rates to firm customers to recover an amount not to exceed one-half the short fall. The amount of any credit or recovery is governed by the following:

Credit to Firm = (Actual revenue - Base revenue) X 0.5
Short fall recovery = (Base Revenue - Actual revenue) X 0.5

(5) A credit or shortfall recovery shall be implemented during an adjustment period by reducing or increasing the non-gas energy charges prescribed in each firm rate schedule of this tariff by an adjustment factor computed as follows and rounded to the nearest .001 cent per therm:

In event of a surplus, subtract: $\frac{\text{Credit to Firm}}{\text{PFS}}$

In event of a shortfall, add: $\frac{\text{Shortfall Recovery}}{\text{PFS}}$

Issued by: John W. Jardine, Jr., Chairman
Chesapeake Utilities Corporation
Issued on: July 3, 1990

Effective: ~~July 7, 1990~~
JUL 9 1990

DOCKET NO. 910701-GU
JULY 23, 1991

FLORIDA DIVISION
NATURAL GAS TARIFF
ORIGINAL VOLUME NO. 1

Original Sheet No. 60

BILLING ADJUSTMENTS
(Continued)

Where PFS is the projected therm sales to firm customers during the adjustment period. Any variation between the actual credit to firm customers and the amount calculated pursuant to the preceding paragraph, or between the actual shortfall recovery and the amount which the Florida Division elected to recover in an adjustment period, shall be "trued-up" during the succeeding twelve months pursuant to methodology approved by the Florida Public Service Commission.

(6) Company may defer all or an portion of a shortfall recovery to a subsequent adjustment period or portion thereof.

Issued by: John W. Jardine, Jr., Chairman
Chesapeake Utilities Corporation
Issued on: July 3, 1990

Effective:
~~July 7, 1990~~
JUL 9 1990

ATTACHMENT 4
DOCKET NO. 910701-GU
JULY 23, 1991

CENTRAL FLORIDA CFGC **GAS COMPANY**

DIVISION OF CHESAPEAKE UTILITIES CORPORATION
P.O. BOX 960
WINTER HAVEN, FLORIDA 33882-960 • (813) 293-2125

September 17, 1990

To All Interruptible Customers of Central Florida Gas Company:

In confirmation of our phone notification to you today, Central Florida Gas Company will be increasing your non-fuel rate in the amount of $.02385 per therm, effective 8:00 a.m., Wednesday, September 19, 1990.

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

In The Matter of	:	DOCKET NO. 871255-GU
In Re: Application of West Florida Natural Gas Company for a Rate Increase	:	PREHEARING CONFERENCE

RECEIVED
Division of Records & Reporting
FEB 2 1989
Florida Public Service Commission

FPSC Hearing Room 122
Fletcher Building
101 E. Gaines Street
Tallahassee, Florida 32399

Thrusday, January 19, 1989

Met pursuant to notice at 9:30 a.m.

BEFORE: COMMISSIONER GERALD L. GUNTER
Prehearing Officer

RECEIVED
FLORIDA PUBLIC SERVICE COMM.
FFR 3 1989
ELECTRIC AND GAS

APPEARANCES:

ROBERT GOLDMAN, of the firm, Messer, Vickers, Caparello, French and Madsen, P.O. Box 1876, Tallahassee, Florida 32301, (904) 222-0720, on behalf of West Florida Natural Gas Company.

JOHN. W. McWHIRTER, of the firm, Lawson, McWhirter, Grandoff and Reeves, 201 East Kennedy Blvd., Suite 800, P.O. Box 3350, Tampa, Florida 33601-3350, (813) 224-0866, on behalf of Arizona Chemical Company.

DOCUMENT NO.
01259-89

APPEARANCES CONTINUED:

MARSHA RULE, FPSC Division of Legal Services, 101 East Gaines Street, Tallahassee, Florida 32399-0863, (904) 488-2740, on behalf of the Staff of the Florida Public Service Commission.

PRENTICE P. PRUITT, FPSC Office of General Counsel, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0861, Counsel to the Commissioners.

ALSO PRESENT:

WAYNE MAKIN, FPSC Division of Electric & Gas
CHERYL BULECZA-BANKS, FPSC Division of Electric & Gas
ED MILLS, FPSC Division of Electric & Gas

REPORTED BY: JOY KELLY, CSR, RPR
Official Commission Reporter

some money from you in the future."

[illegible] problem West Florida Natural Gas had with that [illegible] were eating that cost. So what they [illegible] case is say, "Okay, rather than at [illegible] that cost, let us pass it on to the firm customers and then when the price of oil goes back up again, as it [illegible] will at some future time, we will charge the [illegible] customers more than it cost to serve them to recover for those customers what we charge them during the time we were suffering together, and we'll give that money to those customers. We won't keep it.

This opportunity was offered to West Florida and we thought it was a rationale one -- I mean to Airzona Chemical, but we said, "Look, why don't we just cover your cost of service in our contract and take away the uncertainity. We would rather pay more than we would pay under the flex rate, and not require other customer classes to subsidize us during the off period time, in return for which we don't have to suffer the risk of the price of gas going through the ceiling and the period of time, maybe a very extended period of time when we may pay more than the cost of service." And we felt like it was a rationale compromise and protected the gas company, protected the customers and protected Arizona Chemical.

While we negotiated the contract, based on the original cost of service studies and the original revenues that the course, as you know -- we're all painfully aware about what happened with Stone Container.

So, the I guess the objective is to develop a system of rates for the interruptible customer that recognizes the realities of the way they buy fuel, and they -- you know, they're looking at the price of their alternate fuels all the time, and as you know, you're one of the people that was involved in establishing the flexibile rate that was in existence up until just recently, the one-way flex rate. We came up with a system, back before I was involved with this issue, the Commission came up with a system; West Florida Natural gas was a party; Peoples Gas was a party and I believe Central Florida Gas was involved to allow utilities to flex their rates down to reduce the price in order to keep an interruptible customer on the system. And I think everybody recognized at that point that when you flex your rates down you're not necessarily recovering all the costs that you would recover had you not done that. You know, you're taking a beating. A number of utilities that went into that proposition, I think it was in 1985 or thereabouts, and I think the Commission had the impression that the low oil price scenario that was then in existence would not be a permanent or long term situation, and that companies that would be flexing down would be absorbing the losses under the Commission's Order, would do so but that this would not be a fixture or institution in Florida, in the local distribution industry in Florida. Well, it didn't turn out that way.

The way it turned out was that we had a continuing fairly uninterpreted problem with low oil prices, and this company has lost, you know, into the six figures now in having to absorb losses due to interruptible customers' capability of buying alternate fuel and the risk that they would leave the system.

It's still in the best interest of the ratepayers, however, under most scenarios to keep the interruptible customer on the system because of the fixed costs that the customer charge contributes, and that you might be able to get a contribution to at whatever energy charge you're able to impose.

A number of other states, as well as some of the utilities within this state, have worked with each other and with Staff over a period of a couple of years now to try and develop some longer term solutions to that problem.

One solution that the Commission recently approved was proposed by Peoples Gas Company. Peoples Gas Company's proposal allows the Utility to flex its rate down, at times when competitive fuels are priced low, and to -- in the next, I guess it would be the next year, to recover the shortfall that is caused by the necessity to flex from the rest of the ratepayers. And similarly, because the interruptible customers have the benefit of lower prices for gas when their alternate fuel is priced low, it seemed only fair that they also be in a situation where when alternate fuel prices climb and gas can be competitive at a higher price, that they also, you know, would be responsible for paying the market rate or something close to it at that time, so that when alternate fuel prices climb, Peoples Gas can price their gas to their customers at higher than -- they can flex up, up to I believe it's 90% of the firm rate for Peoples just as it is for us, and the surplus that they receive over what they would have received just at a standard tariff rate, that flows through to the general body of ratepayers just as the shortfall would in the event of a shortfall.

The principle difference between what Peoples' proposed and what we have proposed is simply this: Their proposal leaves the Company entirely without risk because if there is a shortfall, 100% of that shortfall goes to the general body of ratepayers. And we have proposed -- and similarly on the surplus side, because there is no risk at the bottom end, they have no benefit at the top end, 100% of any surplus goes to the general body of ratepayers. Our proposal differs in that we have a sharing mechanism in there, so that we share the risk at the low end; we share the reward at the upper end; and the other condition that we have agreed to on this is that our share of any losses and our receipt of any surplus as are going to be considered above the line for regulatory purposes so that this flex rate is not going to be a vehicle for getting us outside our authorised range on rate of return.

COMMISSIONER GUNTER: Let me ask you a question, Mr. Goldman, and one I wasn't going to ask because it's one I explored in Peoples, right now you don't have any customers under this rate because you only had two, and one of them you cut a deal with, Stone Container, is gone for the time period, so it's kind of an arm waiving question. It's not really practical at this time.

But where is the mechanism -- for instance, say the price of oil all of a sudden went to $30 a barrel, price of gas is going to track it up pretty good, and you had -- I'll bet Stone Container would be back over to see Mr. McIntyre in a heartbeat. Assume they had been rocking along, and they had been charged zero they had a customer charge and they had been rocking along for a year, and you -- is there a tracking mechanism available that let's you be able to track on a periodic basis, monthly basis or whatever -- because I'm talking about now there is going to be some hard looks at Staff, how are you going to implement and how are you going to know on the front-end what sort of mechanism that tells you how much did you sell and how much did you lose, so at some point in time you get along and you say, "Now, if we raise it," how can you make a determination of just how much you won, and then what's the mechanism of the flow to make sure that the other ratepayers that absorbed the loss, what's the mechanism to make sure that you got the pot right? Because if it went on indefinitely, you know, the pot never does truly balance out, and that's what you're trying to get at is a balance. So would it be inappropriate if, in fact, this was ever started? You know, that Stone came back on at a time period that they were on a minus side, would it be inappropriate to have a trigger at that time to have a periodic reporting, as long as it was on the minus and up until the time it balanced. Because once it balanced it doesn't appear that it would be proper to require, you know, that shifting to other classes of customers. Then it goes in the pot and you certainly would want them to be at a parity basis -- in regulatory theory you don't want anybody to make a contribution greater than their proportional share would be, interruptible or otherwise. It would be inappropriate to get a mechanism established and require Staff that they come up with a procedure to handle this so that there is visibility and there is not any guessing as to where the downside and upside is?

MR. GOLDMAN: Yeah. I think that's fine, Commissioner.

COMMISSIONER GUNTER: I'm just trying to -- one of the things I had in Peoples, which would not be as nearly a concern with you all, where they have a number of interruptible customers is what is -- what's the incentive to an interruptible customer to keep him from enjoying all the downside, and when is got on the upside he did some other things, and you say, "Well, you know, they are limited because of the fuels they can use," and I'm reminded of Lone Star, you know, which was the first one to really bounce out and move away from a gas utility, and hell, they went to coal. Now, you have to think about the possibilities that exist for very large industrial customers. And it was my recollection that City Gas, and your collegue remembers probably better than I do, the perturbations that created at City Gas at a time period when the price of gas was very high, the price of oil was very high. Folks might say, "I'll stay with you on the downside," and developing some sort of corporate strategy on the side to start slipping in coal barges because that historically on a Btu basis has been less as long as the capital investment has not been too high. That's one of the devil's that sits out there and lives in the horizons of my mind. Whatever.

But I appreciate the -- were you through, excuse me, I apologize I didn't mean to interrupt.

MR. GOLDMAN: If your questions about the interruptible flex rate are adequately answered, then I'm through. But I just wanted to make sure you saw from our perspective why we put this thing together.

The old way of having just a fixed rate or having a company absorb the losses didn't work from the company's standpoint, and having a flexible rate that only benefits the interruptible customer, or which benefits just the interruptible customer and the Company, in our opinion is not as good on a going-forward basis as one which benefits the general body of ratepayers and, you know, what we have -- we have proposed to you will provide a benefit to the general body of ratepayers in times of high alternate fuel prices even if we haven't suffered a lot of losses in the past, you know, even in the event that we haven't suffered any losses in the past, it's not just a matter of trying to recover past losses. It's a matter of trying to maximize the price that we can charge to customers who are trying -- who are able to minimize the price that they can demand in the marketplace, and, you know, we're very pleased with the result. We worked on it for a long time. Had a lot of input from very good people, and we think it's going to work. For some reason, after a period of time it looks like it needs to be fixed in some way, then of course, we'll always want to come back to you, or you'll want us to come back to you, and refine it in some way.

COMMISSIONER GUNTER: Let me ask Mr. Makin a question: Would it be inappropriate to ask the Company to provide assistance in developing a reporting -- just a boiler-plate kind of --

MR. MAKIN: We have that in place right now.

COMMISSIONER GUNTER: You do.

MR. MAKIN: Yes, sir.

COMMISSIONER GUNTER: How about explaining it to me.

MR. MAKIN: Every month the Company files a report indicating the amount of gas sold, the amount of revenues they would have had had they billed it at the tariff rate, and the amount of revenues they have collected under the flex rate, and fuel prices and they might wind up paying more under the flex rate than they would if they could get a fair contract with us.

COMMISSIONER GUNTER: I understand that. You know, one of the things -- I'm just kind of simple minded. See that line right there (indicating). If you charge zero, your revenue is on the downside of that line, is that right? I want to know how much that [illegible] you start -- when the Btu situation changes, and you can go above, how much do I go above to get that balance, [illegible] being zero?

And what you've got today is just kind of well, guess it, wing it. And one of the criteria goes is the difference -- and I'm just trying to understand -- is the difference 2.551 that goes to zero? Is that the difference on the downside, the difference on the upside and does that cover all the costs?

MR. MAKIN: It covers the cost --

COMMISSIONER GUNTER: Is that a "yes" or a "no"?

MR. MAKIN: It covers the cost --

COMMISSIONER GUNTER: Is that 2.551?

MR. MAKIN: It covers the cost -- let me clarify.

COMMISSIONER GUNTER: Well, no. If it's a tariff, you know, what you're doing, that's a specific item you've put on this sheet, Wayne. This is your sheet. Does that cover the cost, 2.551?

MR. MAKIN: It covers cost.

COMMISSIONER GUNTER: All right. Fine. So that's what

I'm looking for.

MR. MAKIN: That's what you're looking for.

COMMISSIONER GUNTER: All right, fine. You could have told me that. If it's 2.551 down to zero below that rate -- if they can charge down and that happens to be 2.551, and if you sold one therm and you flipped around and you could -- it went to five cents, the thing you'd be interested in is recovering that 2.551 plus the 2.551 that you did without when you went to zero in order to get to zero. Is that right? The only thing I want you to do is tell me how you are going to make sure that that's done. That it just doesn't disappear.

MR. MAKIN: You want to recover that 2.551.

COMMISSIONER GUNTER: Folks, they're fixing to give you some help.

MS. BULECZA-BANKS: All we're going to be able to do that in the way the accounting is set up on that, we're going to be able to tell right from the books because I have them booking it in a separate account.

COMMISSIONER GUNTER: Okay, will you come show me how that's going to be done?

MS. BULECZA-BANKS: Right now?

COMMISSIONER GUNTER: No. We don't need to tie up these folks. I've got no problem with the process. I just want to know how you're going to know.

MS. BULECZA-BANKS: Yeah. I can come tell you that.