JOHNSON AND ASSOCIATES, P.A.
ATTORNEYS AND COUNSELORS

Barrett G. Johnson
Pamela Anne Poulin

315 South Calhoun Street
Suite 350 (32301)
Post Office Box 1308
Tallahassee, Florida 32302

Telephone (904) 222-2693
Facsimile (904) 222-2702

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December 10, 1996

By Hand-delivery

Ms. Blanca S. Bayo, Director
Public Service Commission
Division of Records and Reporting
2540 Shumard Oak Boulevard
Tallahassee, Florida 32301

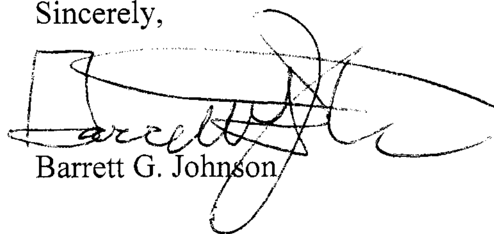
RE: Docket No.: 960725-GU

Dear Ms. Bayo:

Enclosed for filing in the above-referenced proceeding are the CNB Olympic Gas Services' Comments on PSC Unbundling Workshop. As discussed with Commission counsel and the Clerk's office yesterday, these comments are being late filed due to a computer malfunction at CNB Olympic which disabled a communications board and thus prevented electronic faxing. This short delay will work no hardship on any party.

Please contact me at the above number if you have any questions.

Sincerely,



Barrett G. Johnson

BGJ/rja
Enclosures

cc: Parties of Record

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CNB/OLYMPIC GAS SERVICES WRITTEN COMMENTS IN RESPONSE TO FLORIDA PUBLIC SERVICE COMMISSION WORKSHOP NO.2, DOCKET NO. 960725-GU

16. Should the LDC be required to file balancing tariffs that establish a period when transportation customers can balance deliveries into and out of the utility's system?

Yes. Imbalance trading between transportation customers should be allowed prior to dealing with end-of-month imbalances via cash-out or rollover and payback mechanisms. Reasonable parameters can be established to allow both interruptible and firm service transportation customers to trade their imbalances. Trading imbalances relieves the LDC of the burden of reconciling customer imbalances through cash-out or penalty collection when the LDC's system as a whole has been in balance; "no harm, no foul" plus the LDC benefits. Imbalanced trading does not promote abuse of the system because penalties loom for those unable to trade their imbalances.

Aggregators/brokers/merchants (ABMs), or third party suppliers should be treated as LDC customers. ABMs must be afforded the same load management tools that the LDC uses in its role as a supplier of bundled sales service. Just like the LDC the aggregator must be permitted to balance all of their customers usage as one pool. Similarly, third party suppliers must be able to choose to have all of their LDC's penalties and operational orders directed at those pools rather than their individual customers.

Balancing tariffs of various constructs could and should be established. For example, transport customers with predictable loads should be allowed to balance at the city gate. While for customers with unpredictable usage, the balancing of actuals with usage within an appropriate time frame should be an option. Interstate pipelines, FGT included, have shown that system integrity is maintained while providing functional balancing provisions that allow for aggregator load treatment of its customers. Some similar terms should be workable on a smaller scale for the LDCs and their customers (includes ABMs).

Known balancing rules are crucial for planning purposes. Accurate metering is a must. In general, imbalance tolerances and penalties that are applicable to transportation customers should be no greater or more restrictive than for their LDC sales counterparts.

17. Should the LDCs be allowed to issue Operational Flow Orders and impose special volume conditions and/or balancing provisions in case of system emergencies and capacity constraints?

Yes, but there is a need for establishing objective criteria. A common OFO definition should be established along with a standardized OFO mechanism. Safeguards protecting the customer or third party suppliers must be provided. Objective and consistent operational and engineering standards must be stated and applied. Only when the LDC finds its system integrity in eminent peril should the term OFO apply. OFO should not refer to a routine directive such as when the LDC orders "where it will accept gas". This would clearly not be a basis for imposing extraordinary penalties or strict tolerances merely because the LDC has given this directive the name of an OFO. Penalties and tolerance must correspond with the reason for issuing an OFO and should consider the offending shipper's opportunity to comply. Ample notice must be provided.

If there is "no harm" there should be no penalty on a variance. For instance, if a customer is helping the LDC system during an OFO it should be rewarded and not penalized. Being "out of tolerance" should be specific to the direction (pack or draft) that concerns the LDC.

Communications are most important. LDCs should be required to tell its customers what it expects, perhaps in an annual operating plan. Considering the wide variety of reasons for an OFO, the varying degrees of urgency, and the different requested responses; a well defined and graduated system of operational controls should be adopted by the LDCs. First in the line of a graduated sequence of operational controls would be that the LDC request or have a mechanism that allows for voluntary action to alleviate their problem. Next, an OFO could be issued that delineates specific

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receipt and delivery obligations to the offending parties. However, these orders should be fair. They should take into account the customers MDQ, and they *must* be subject to the customer's (or ABM's) ability to use the gas it is ordered to flow. It is recognized that upon appropriate notice of a critical day, penalties and tolerances should and would be tightened. Finally, and only as a last resort, the LDC would be permitted to take unilateral action to protect and insure system operations.

18. Should the LDC be allowed to impose penalties when a customer fails to balance deliveries and withdrawals within an established time frame?

Yes, assuming the conditions of Questions 16 and 17 were properly addressed. A "no harm, no foul" environment should exist, time frame relevant metering should be readily accessible to the customer, penalties should be essentially equivalent for the sales customer versus the transportation customer, penalties should be credited back to transport customers on a per unit throughput basis, and penalties should mirror those of the upstream interstate pipe, be cost based and justified.

19. Should the LDC be required to institute a tolerance range for purposes of setting the threshold before an Operational Flow Order is issued?

Yes, provided up to date metering facilities are available so that such tolerances could be measured. As stated before, objective and consistent operational and engineering standards should be stated and applied.

20. Should balancing obligations, costs and penalties be based on a "no harm/no foul" principle?

Yes and as stated earlier in answers to the previous questions, FGT should be used as a model to address penalty situations.

21. Should the LDC be allowed to impose metering requirements on the transportation customers to ensure the LDC remains in balance with the pipeline?

Only if the non-transportation customer is currently required to have such metering. LDCs do not require extensive metering for the vast majority of its sales customers. Usage is often estimated. For these sales and for their counterpart transportation customers the focus of the LDCs efforts needs to be on what is delivered to the city gate on behalf of the customer and not on what the customer actually burns. The latter can be easily estimated.

22. Should the LDC be allowed to vary the metering requirements between classes?

Certainly within the category of transportation customer or within the category of sales customer different metering requirements would be appropriate. However, for the same reasons as above, the LDC should not require metering for transportation customers when it does not require such metering for similarly categorized sales customers.

23. Should the LDC be required to institute: Hourly flow limitations, mid-day nominations, no notice service, monthly cash-out provisions, transportation nomination rules, delivery point allocation rules.

As indicated in answering previous questions, the above operation procedures should be offered and should mirror the FGT operation provisions.

24. Should the LDC's be permitted to establish non-performance penalties to be levied on suppliers, marketers, or brokers who create imbalance situations for the LDC?

Yes, but only if it can be substantiated by the LDC that such non performance materially effected that LDC. The penalties need not be any more punitive than those imposed by FGT's tariff. In any case, penalties collected should be credited to throughput rates rather than to the bottom line of the LDC. Any penalties assessed by an LDC to its affiliate under the LDC tariff provisions must be tracked and subject to public scrutiny. It is important to note, unlike penalties levied against non-affiliated entities, a penalty assessed by an LDC against its affiliate really is no penalty at all. Essentially, the penalty simply shifts monies from one corporate pocket (the affiliate) to another (the LDC). Overall, neither the LDC or its affiliate takes a loss.

25. Should each LDC have the discretion to establish nomination and balancing procedures? If so, should third party suppliers be required to abide by these procedures?

Yes, provided such procedures mirror the FGT nomination and balancing provisions. To the extent shippers (ABMs) rely on the LDCs for target volumes and delivery requirements for serving their joint customers, the LDCs should be required to provide all pertinent information within a certain time frame. For customers whose loads are predictable nomination deadlines are easily met. When serving customers with less predictable usage shippers should be allowed to nominate one day prior to FGT's deadline.

26. Should shippers erring on the side of caution and being out of tolerance in the "right" direction and that "help" the LDC's system during operation controls be rewarded?

Yes. Why not consider paying out penalty collections to those shippers who are doing more than necessary to help the LDC system. Reward is a definite incentive to comply with an OFOs . . . you can catch more flies with honey.

33. Should the LDC's be allowed to charge the marketers penalties for any daily over under deliveries?

Only if it mirrors the FGT penalty language. Pipelines have shown that a "no harm, no foul" philosophy works. For fully understanding the material harm and operational consequences of any action downstream one must first look upstream .

34. Should the LDC be required to develop eligibility policies/standards to evaluate potential marketers?

The customer should evaluate the marketer not the LDC. Otherwise, favoritism may apply. While any limitation in the customers choice of agent is contrary to the goals of the unbundling process, reasonable credit worthiness tests and assurances that agency designations are valid are appropriate. Any limits must be spelled out in the tariff. It should provide for penalties for misrepresenting agency status but not add additional hurdles to the appointment of agents. Maintaining the integrity of transportation service programs and the participating marketers is important.

35. Should the Commission initiate rule-making to establish guidelines for utilities with marketing affiliates?

Yes. Simply opening the retail market to different suppliers does not assure healthy competition. Within its respective franchise area, the LDC holds monopoly power. Currently they hold market and delivery power. Even if it can be shown that their market power has been eliminated, they are a monopoly delivering gas. When the D.C. U.S. Court of Appeals reviewed FERC's Order 497, they found that the holders of monopoly power have every incentive to favor their affiliates; profits to the affiliate are profits to the pipeline. It is understood that if a pipeline seeks to use its dominate market power over the transportation of gas to restrict competition against

its market affiliate, it will benefit. This occurs because the affiliate can charge higher prices for sales and service in an anti-competitive arena.

Look at the history of interstate deregulation. In the mid-eighties interstate pipeline business practices that favored the marketing affiliate were rampant. This now occurs at the LDC level. These anti-competitive abuses include transportation representatives bringing affiliate representatives along to sign up potential transport customers and affiliates receiving preferential treatment and inside information. This results in faster access to the LDC's transportation services and their most lucrative customers. Windows of opportunity may only exist for those with such preferential access. This premeditated abuse exploits the LDC's evolving condition to the favor of the affiliate.

Recently these abuses have been observed in Florida in the absence of codes of conduct: giving referrals to the marketing affiliate, alleging that the affiliate's gas will not be cut off because the LDC "is fully behind the affiliate", joint visits to customers by LDC and affiliate, onerous metering requirements, difficulty getting transportation contracts and burn data, anti-competitive dissemination of LDC operational information, the list goes on.

Affiliate abuse has tremendous market impact and recovery will take years. It is unrealistic to expect all parties involved to agree on the necessary rules for affiliate conduct. The PSC must establish, ensure and protect a competitive environment for the public good. The most effective and elegant way of providing this is to follow telecommunications precedent and forbid marketing affiliates from serving customers within the territory of their LDC.

We suggest the PSC develop educational materials for eligible unbundling customers. It could outline appropriate behavior and indicating that market affiliates cannot receive special preferences from their LDC affiliates.

36. Should the LDC's be able to establish creditworthiness standards to insure financial capability of suppliers, marketers, and brokers?

Only if there are financial obligations that the ABM may have to the LDC. If any company passes credit worthiness tests it should not be also required to provide letters of credit. Consider that the LDC has already established credit worthiness and deposits for current sales customers. This protection is already in place and does not need to be duplicated just because customers convert to transportation services. Why would a LDC need credit or protection when their risk (capacity and supply) has been reduced by the role of the marketer?

Creditworthiness determinations should be similar to those imposed by upstream pipelines. Why not have third party supplier creditworthiness be based on the criteria of the unaffiliated upstream interstate pipeline (FGT)?

37. Should the LDC be allowed to require transportation customers to take capacity held by the LDC?

No. Interruptible customers should not be required to take any of the firm transportation. Whether firm customers are required to take transportation depends on the system setup to handle stranded cost. State regulators should seek policies that foster greater efficiencies in retail gas markets even if more stranded costs arise. The allocation of these stranded costs should not impede greater efficiencies. These efficiencies will be realized and provide benefits to all customers. The "stranding" argument is plausible yet increasingly less likely. Load growth and existing needs coupled with prudent efforts to establish best- cost entitlement portfolios in the face of inevitable unbundling should have mitigated the need for the LDC to force transportation customers to provide a home for "stranded" capacity. Furthermore, a distributer's merchant affiliate is permitted to repackage its portfolio in a way that matches customer preferences. This grows market share and affiliate profits. This further mitigates stranded cost impacts to the LDC share holders.

38. Should the LDC be allowed to require marketers to pay the maximum rate for capacity purchased from the LDC?

The LDC should be allowed to negotiate a market price for capacity. The answer to question 37 should apply here also. Again, stranded costs versus goals is an issue. Market efficiencies will be had by all by driving the process forward towards competitive rates. If it can be determined that an LDC acquired additional capacity or did not shed capacity when it had the opportunity, it should be precluded from recovering commensurate stranded costs.

39. Should the LDC be allowed to require an exit fee payment when a customer chooses to use third party capacity?

No. This is one of the possible options for ameliorating stranded costs. However, this mechanism is a huge disincentive to switch to transportation. Once again the goals of deregulation and stranded costs are the issue. Unbundling transportation rates should be designed to recover the costs of the transportation services provided. The solution lies with the principle of spreading the substantiated stranded costs as widely and evenly as possible. Access fees thwart competition.

Look to the telephone industry as precedent. Access fees were imposed on all market participants and premium access fees were applied to the monopoly. They were correctly deemed to have preferential access in comparison to the new competitors. Because of this, the FCC applied access fees to AT&T that were significantly higher than those applied to competitors.

Exit or access fees would artificially inflate the LDC's transportation rates in comparison to the bundled sales rates. This reduces the downward pressure on the rates for customers that are still regulated. Competition accomplishes this pressure most efficiently.

40. Should the LDC be required to make permanent relinquishments of unused capacity at max rates to lessen stranded capacity costs?

If opportunity on the open market occurs the answer would be yes. However, LDC's should not force their customers to acquire maximum rate capacity. Consider allowing customers the chance to give notice to the LDC that it wishes to become a transport customer and does not wish to acquire LDC capacity. This would allow the LDC to shed this capacity before the customer converts to transport services. It would allow the LDC to plan for load growth to absorb what would otherwise be stranded.

41. Should the LDC be allowed to institute a temporary Capacity Realignment adjustment to recoup the LDC's stranded capacity costs?

Again this is one of the mechanisms that can be used. This cost should apply to all customers whether transportation or not. If this is done, then a disincentive to switch to transportation will be avoided. Realignment assumes the distributer's portfolio was a best cost model constituting prudent contracting. Only then does it follow that stranded costs should not be absorbed by the shareholders of the LDC.

42. Should the LDC's require interruptible customers to pick up released firm FGT capacity from the native LDC as a prerequisite to transportation service?

No. Interruptible customers by there nature should not be accountable for firm costs.

BEFORE THE PUBLIC SERVICE COMMISSION

In Re: Unbundling of Natural Gas Services.	))	Docket No. 960725-GU Filed October 9, 1996

Certificate of Service

I HEREBY CERTIFY that a copy of CNB Olympic Gas Services' Comments on PSC Unbundling Workshop has been furnished to the following parties of record by U.S. Mail this 10th day of December, 1996

Wayne Schiefelbein, Esquire
Gatlin Law Firm
1709-D Mahan Drive
Tallahassee, Florida 32308

Mr. Stephen Thompson
Chesapeake Utilities
Post Office Box 960
Winter Haven, Florida 33883-0960

Mr. Frank C. Cressman
Florida Public Utilities Company
Post Office Box 3395
West Palm Beach, Florida 33402-3395

Vicki Kaufman, Esquire
McWhirter Law Firm
117 South Gadsden Street
Tallahassee, Florida 32301

Mr. Lyle C. Motley, Jr.
President/CEO
City Gas Company of Florida
955 East 25th Street
Hialeah, Florida 33013-3498

Mr. Michael Palecki
City Gas Company of Florida
955 East 25th Street
Hialeah, Florida 33013-3498

Scheffel Wright, Esquire
Landers Law Firm
Post Office Box 271
Tallahassee, Florida 32302

Ansley Watson, Esquire
Macfarlane Ausley Law Firm
Post Office Box 1531
Tampa, Florida 33601-1531

Mr. Jack E. Uhl
Peoples Gas System, Inc.
Post Office Box 2562
Tampa, Florida 33601-2562

Marsha Rule, Esquire
Wiggins Law Firm
Post Drawer 1657
Tallahassee, Florida 32302

Mr. David Rogers
Associated Gas Distributors of Florida
Post Office Box 11026
Tallahassee, Florida 32302

Office of General Counsel
S. Mathues/E. Black
Department of Management Services
4050 Esplanade Way, Bldg. 4030, #260
Tallahassee, Florida 32399-0950

Ms. Colette M. Powers
Indiantown Gas Company
Post Office Box 8
Indiantown, Florida 34956-0008

Sebring Gas System, Inc.
3515 Highway 27 South
Sebring, Florida 33870-5452

Mr. J. Peter Martin
South Florida Natural Gas Company
101 N.W. 202 Terrace
Post Office Box 69000-J
Miami, Florida 33269-0078

Mr. Stuart L. Shoaf
St. Joe Natural Gas Company, Inc.
Post Office Box 549
Port St. Joe, Florida 32457-0549

Mr. J.E. McIntyre
West Florida Natural Gas Company
Post Office Box 1460
Panama City, Florida 32402-1460

John McWhirter
Post Office Box 3350
Tampa, Florida 33601-3350

Robert Cooper
125 S. Franklin Avenue
Chicago, Illinois 60606-4678

Gregory K. Lawrence
John, Hengerer & Esposito
1200 17th Street, NW, #600
Washington, D.C. 20036

Don Cullum
13430 Northwest Freeway, #120
Houston, Texas 77040

Mr. Vince Vesuvio
CNB Olympic Gas Services
14 East University Avenue, Suite 213
Gainesville, Florida 32601

Mr. Darin Cook
CNB Olympic Gas Services
14 East University Avenue, Suite 213
Gainesville, Florida 32601

Mr. Peter Thompson
1701 Pennsylvania Avenue, NW, #200
Washington, D.C. 20006-5805

Mr. Jack Langer
c/o Langer Energy Consulting
4995 Ponce de Leon Blvd.
Coral Gables, Florida 33146

Barrett G. Johnson