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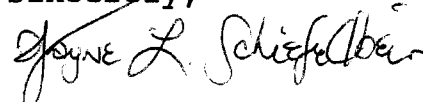
RE: Docket No. 960725-GU
Unbundling of Natural Gas Services

Dear Ms. Bayo:

Enclosed for filing in the above docket are an original and 15 copies of Florida Public Utilities Company's Responses to Issues Discussed at the December 12-13, 1996 Public Service Commission's Unbundling Workshop, together with our Certificate of Service.

Please acknowledge receipt of the foregoing by stamping the enclosed extra copy of this letter and returning same to my attention. Thank you for your assistance.

Sincerely,



Wayne L. Schiefelbein

WLS/pav
ACK Enclosures

AFA cc w/encl:

APP

CAF

CMU

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Florida Public Utilities Company

Anne Wood
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DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Unbundling of Natural Gas Services)

Docket No. 960725-GU
Filed: January 27, 1997

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of Florida Public Utilities Company's Responses to Issues Discussed at the December 12-13, 1996 Public Service Commission's Unbundling Workshop have been furnished by hand delivery (*) or by U.S. Mail to the following individuals, on this 27th day of January, 1997:

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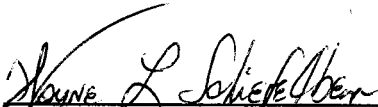
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Responses by Florida Public Utilities Company
to issues discussed at the December 12-13, 1996
Public Service Commission's Unbundling of Natural Gas Workshop
Docket 960725-GU

General Comments of Florida Public Utilities Company:

Florida Public Utilities Company (FPU) has expressed its views on "unbundling" throughout the three PSC sponsored workshops and through its subsequent submission of responses to the workshop issues. FPU firmly believes that if unbundling were to occur, safeguards must be instituted to ensure that there will be no degradation of service to traditional customers, no increase in costs to traditional customers as well as no adverse effects on the LDCs either due to purchased gas costs being allocated to LDCs or unbundled imposed negative effects on the market share, marketability or the future of natural gas in this state.

FPU has been an open system since February 1991 with the implementation of one of the first transportation tariffs in Florida. The majority of FPU's customers must be satisfied by the Company's traditional service. Only two customers to date, one being a municipally owned electric generator, have elected to convert from traditional services to transportation services. Many others were tempted when one marketer offered them approximately a 12% reduction in their gas bills. These customers, which included hospitals, resorts, etc., were not informed by the marketer that their service would be degraded from firm service to interruptible service. Upon educating those customers, they asked the right questions and unanimously elected to continue purchasing their gas supplies from FPU via its traditional service offerings.

Gas marketers and FPU generally purchase their supplies through the same or similar sources. Marketers can save money for unbundled customers using the following tactics:

- **Use less reliable capacity**
FPU supplies its customers using only high priority, non-recallable capacity. FPU signed up for capacity during various periods when FGT had open seasons for such services. It is essential for a utility to have sufficient pipeline capacity, for the present and the future, in order to operate reliably. This capacity is more costly than the lower priority, less reliable, capacity used by gas marketers. A gas marketer's capacity may not even extend past a single day or thirty days. A utility company would not be able to raise necessary capital for construction if it were not able to provide evidence that it has sufficient capacity to carry it into the future. It also may not be able to serve its customers if it were to utilize the same type of capacity used by gas marketers. FPU has an obligation to its customers, the local economy and its shareholders to ensure adequate capacity for its gas sales. Had the state been

fully unbundled when Florida Gas Transmission Company (FGT), the only pipeline serving peninsular Florida, announced its recent Phase III expansion, we seriously doubt that any marketer would have contracted for significant capacity to ensure adequate capacity levels for FPU's then current customers or future customers. FPU would have been locked into a zero growth position for years to come. Furthermore, LDCs must continue to hold capacity and be permitted to contract for additional capacity when prudently planned and available.

Marketers' utilization of secondary capacity benefits marketers for the most part with, probably, a few crumbs being left for unbundled customers, while the remaining tab is paid by the original capacity holder who found it essential at some point in time to sign up for capacity to ensure availability to pipeline capacity. Overall, the only benefactor of this arrangement is the marketer.

- **Profit off of LDC's PSC required PGA mechanism**
FPU's gas purchases, as well as gas purchases by Florida's other LDCs, are regulated. There is no form of a profit margin, gross up, etc. on the physical commodity sold by LDCs. The LDCs are severely handicapped by the Purchased Gas Cost Recovery Mechanism a/k/a PGA. The mechanism, since it runs a duration of twelve months and is subject to annual true-up, causes FPU's PGA to, typically, be outside of the true market. This can easily be taken advantage of by marketers. Large positive true-ups result in a one-for-one direct profit to marketers. If unbundling were to occur, LDCs and its customers must be afforded price protection which should be accomplished by the total revision of the PGA mechanism.
- **Offer short term contracts**
Marketers have the ability to offer unbundled customers short term supply contracts. FPU's obligation to its customers is long term, very long term to say the least. The utility's obligation is enforced by the fact that utilities have significant capital investments in their distribution systems. We cannot pack-up and leave. On the other hand, a marketer's investment in unbundled customers probably is in the lower range of single basis points when compared to the utility's investment. This makes it very attractive for marketers to be in this market for the near term. Once their contracts with unbundled customers expire, they can phase out of this market and leave it short of supply and short of capacity.
- **Avoid taxes, municipal and regulatory fees**
Utilities are required to collect and remit sales tax, gross receipt tax, regulatory assessment fees, franchise fees and municipal utility tax. Many of

these taxes and fees are added to the total utility bills which include charges for the physical commodity. Marketers do not have such an obligation. Therefore they can beat the utilities' charges by the avoidance of these government imposed fees and taxes. This is done at the expense of the general taxpayers. Eventually governmental, municipal and regulatory authorities may, and some probably already do, meet their revenue shortfalls by imposing higher taxes and/or fees on the balance of their constituents.

By the above discussion, it is evident that marketers could generate their profit, and also potentially save money for unbundled customers, by shifting the costs for capacity, taxes and fees from unbundled customers to traditional customers as well as the general public. They offer terms of service which are generally inferior to those offered by utility companies. They even could harm the potential for the future growth of gas availability in the state. Transportation tariffs are made available by many, if not all, of the regulated gas companies. FPU is proposing that transportation tariffs be the vehicle for allowing marketers to serve customers behind our city gates. Unbundling, potentially, could harm many for a minimal benefit gained by unbundled customers while the majority of the benefit would be reaped by marketers.

BILLING AND RATES

43. Which dollars would flow to PGA customers and which services would remain subject to the PGA? (AGDF)

FPU's response:

The PGA should only include the costs involved with purchasing and transporting gas for system sales customers. Incremental costs for unbundled customers, such as electronic measurement, balancing, etc., should be born by the unbundled transportation customers. The PGA would not include such costs which are directly assignable. Assignments should be made first while the remainder of the costs would flow through a PGA mechanism.

44. Should the LDCs have the discretion to bill the customer in one of two ways?
(a) Company bills distribution and commodity components. (b) Company bills distribution component, supplier bills commodity component. (AGDF)

FPU's response:

The answer to 44(a) and 44(b) is yes. The option under 44(b) may be an additional service that LDCs could provide to suppliers and its customers at a very competitive cost.

It would also make it clear to gas customers that they are still the customer of the LDC regardless of which gas supplier they choose. It will even enable the LDC to carry forward, to the customer, reasons for balancing charges as opposed to the gas supplier (potentially confusing the customer). This may greatly protect the LDC's interests in retaining its market share to ensure an appropriate return on the LDC's investment. Consideration of tax implication(s) must be reviewed to ensure that adding the supplier's commodity component to an LDC's bill does not result in additional taxes or fees being levied on the gas consumers, thus removing a component of the competitive advantage of natural gas.

45. Should the PSC adjust rates to parity before requiring further unbundling of LDCs? (AGDF)

FPU's response:

No. This may be reviewed in the future. Adjusting rates to parity may have major rate implications on certain customer classes that may result in a potential customer loss. This could result in a net negative effect on the remainder of the customer base. Also, the PSC's rules of thumb, whereby no rate class can receive a rate reduction nor have its rates increased by more than 50% in a rate proceeding, may make reaching parity virtually impossible.

OTHER ISSUES

46. Should LDCs be required to unbundle meter reading, billing and collection services? (STAFF)

FPU's response:

No. Unbundling of the abovementioned services is purely a management decision. For example, the meter reading function also currently serves as somewhat of a system surveillance function and unbundling such activities may not be in the best interest of the LDC or its customers.

47. Should the LDCs be required to file unbundled tariffs within 90 days of the issuance of a Commission Order on unbundling? (STAFF)

FPU's response:

No. Ninety (90) days is too short a period of time. Rewriting the LDC's tariffs will involve a significant amount of time and investment. FPU hereby proposes a minimum of 180 days to file tariffs, then a period of up to six months for negotiations, working out differences and instituting changes. In light of the ten (10) months that has elapsed since the PSC's initial workshop in October, up to the first official workshop in August 1996,

ninety (90) days is an extremely relatively short period of time. Since it took this long to put the issues together, imagine the amount of work and time requirement of formulating appropriate tariff language. Furthermore, FPU's system is not closed and has permitted transportation for years. A more reasonable time frame for filing of tariffs would be 180 days from the date a PSC order on unbundling becomes effective.

48. Who is responsible for tax collection remittance; who is responsible for bad debts and collections, etc.? (AGDF)

FPU's response:

The LDC should be responsible for collecting and remitting taxes and fees for services the LDC provides. The LDC should not be responsible for collecting and remitting taxes on gas supplies sold by third party suppliers. The LDC should not be seen as a clearing house for taxes and fees. This is clearly an issue that should be addressed on the legislative level.

Allowances for bad debt should still be factored into the LDC's cost of service thereby making the LDC responsible for bad debt(s) associated with regulated services provided by the LDC.

49. Who is responsible for the costs of educating customers about transportation; LDCs, marketers, state government? (AGDF)

FPU's response:

The LDC should be responsible for educating the customers. The cost for such education should be funded by a surcharge that would allocate the bulk of the cost to unbundled customers. The potential costs are not determinable at this time, and remain so until the extent of unbundling is known. The LDC is not gaining any additional benefit by unbundling and should not be responsible for funding any function that does not directly benefit the LDC's business.

50. Should LDC's be permitted to recover costs of educating customers, if they are required to perform that service? (AGDF)

FPU's response:

Yes. See FPU's response to Item No. 49.

51. Should the FERC gas tariff of Florida Gas Transmission (FGT) be used as an unbundled tariff model? (CNB Olympic)

FPU's response:

No. The FERC gas tariff of FGT can loosely be used as a template for an unbundled LDC's tariff. There are great differences between the operation of a pipeline and the distribution system. Unlike LDCs, pipelines have access to multiple input points, significant quantities of supplies and line pack. Distribution systems, typically, do not have multiple inputs and when they do it is rather unusual. Tolerable line pack changes on FPU's systems are minimal. LDCs, unlike pipelines, do not have a significant amount of options with which to work. Requiring LDCs to reflect the provisions of the FGT tariff is akin to the PSC removing itself from the approval of significant tariff provisions.

52. Should LDC's start-up issues allow for the implementation of procedural requirements (such as paperwork, metering, initial eligibility limitations, access fees and mandatory agreements) if they act as barriers to service? (CNB Olympic)

FPU's response:

CNB refers to certain items as barriers to service. For example, paperwork, metering, initial eligibility limitations, access fees and mandatory agreements. These are not barriers but rather are good business practices. Prior to customers converting to transportation or being signed up, there would always be a need for paperwork, there would always be a need for metering, etc. There may be delays due to the metering requirements. For example, LDCs which require electronic measurement may not stockpile many pieces of electronic measurement equipment due to the high cost of such equipment. In the past we have found, at times, it has taken as long as six (6) months to obtain the proper electronic measurement equipment. The time frame now is down to about three (3) months, from the time it is ordered to installation. There will be delays. These delays are necessary to act as a responsible utility but these are not intentional barriers to service. FPU has made certain reasonable accommodations for customers when there were extreme delays in the receipt of electronic measurement equipment.

53. Should supplier's competitively sensitive information, such as upstream contracts, remain confidential? (CNB Olympic)

FPU's response:

Information such as upstream contracts and names of suppliers may not be sensitive information. Sensitive information would include items such as pricing, terms of agreements, etc. The LDC needs to have information such as upstream contracts, in order to confirm supplies on the pipeline. In fact, the pipeline reports print out upstream contracting parties, contract numbers, supply sources, etc. Information that is not included, obviously, because the pipeline does not have it, is price which should be kept confidential. Even though most information is not truly sensitive, the LDC should act responsibly and keep all transactions as confidential as possible.

54. Should LDC unbundled rates be held confidential to prevent the marketer / broker a competitive advantage? (Staff)

FPU's response:

Unbundled rates are not confidential. Negotiated rates, if permissible, should be held confidential.

55. What type of alternative regulation of unbundled rates should take place to allow unbundled service to "stand alone" from continued regulation of bundled customer services? (Staff)

FPU's response:

This process may included any or all of the following:

- Deregulation of large customers**
- Performance based rates**
- The allowance of rate caps**

All non-monopolistic / competitive services provided by the LDC should be deregulated. In order for the industry to be truly competitive, regulation by others must be decreased. The cost effectiveness of regulation should be scrutinized.

56. Should the Commission mandate intensive technical conferences on each LDC's unbundling proposal: involving all interested parties? (CNB Olympic)

FPU's response:

Technical conferences are very costly. It should be up to the individual utility's discretion if they care to set up a technical conference. Technical conferences should not be mandated by the PSC unless there is a genuine need and an overwhelming number of requests from transportation customers.

57. Should there be mandatory review of unbundled tariffs: Should there be a plan to come back and fine-tune the tariffs implemented? (CNB Olympic)

FPU's response:

No. Approval and review of tariffs are rights the PSC currently hold. Fine tuning would only be required if the LDC determines that it is needed or if an overwhelming number of customers request such fine tuning.

58. Should large customers simply be deregulated? (AGDF)

FPU's response:

No. The main reason for not deregulating large customers is deregulation of large customers, typically, will mean that their rates, more than likely, would be reduced. This could lead to major concerns, possibly unsurmountable, pertaining to the allocation of revenues versus expenses in relation to the remainder of the LDC's customers as well as the LDC itself.

59. What issues are involved with total deregulation: cost allocation, tax collection and remittance, conflict resolution, etc.? (AGDF)

FPU's response:

It is anticipated that the LDC will still collect and remit taxes. Conflict resolution would still be handled through the tariff. In the event of ultimate deregulation, conflict resolution may be sought through arbitration between the utility's deregulated customer and the LDC since the PSC would not be available for conflict resolution. Again, as in Item No. 58, cost of service issues pertaining to rate base is the greatest concern. We would need to ensure that the shareholders are not left at risk for not being able to recover prudently incurred costs, such as capital construction and ordinary expenses.

60. Should the PSC use a different, lighter handed regulation for small LDCs as they move to unbundle services and to increase transportation? (AGDF)

FPU's response:

Yes. The term "small" would need to be defined but clearly companies such as St. Joe, Indiantown, South Florida Gas should be considered small LDCs. Beyond these LDCs it is not possible to really find a clear cut distinction. Small LDCs may not be able to handle the costs involved with offering transportation services. The offering of transportation services or unbundling, may entice their large customers, such as the paper company is St. Joe, the fruit processor and co-generator in Indiantown, to bypass the smaller LDCs which would, probably, render service to the remainder of the small LDC's customers economically unfeasible.

61. Should the PSC permit greater discretion to LDCs in setting rates for commercial and industrial customers? (AGDF)

FPU's response:

This item is somewhat related to Item No. 58. Flexibility in rates for commercial industrial customers could be allowed when the LDC is placed in a situation whereby the

customer has a competing fuel supply. The LDC should be able to flex down rates to the customer in order to retain the customer as long as the flexed down rate is operating above the LDC's incremental expenses.

62. Should the PSC allow LDCs greater flexibility in setting unbundled transportation rates? (AGDF)

FPU's response:

This is related to Item No. 61. Yes. This will enable LDCs to offer additional services which customers may request from time to time. Additionally, unbundling transportation rates should also include the costs of transportation administration for those customers.

63. Should the Legislature equalize tax levees on all suppliers? (AGDF)

FPU's response:

Yes. Theoretically, this should be done by reducing taxation on natural gas sales and deliveries so that it will be on the same playing field as other unregulated energy sources, such as oil, propane, etc. Realistically, the LDC would not request any additional taxes be put on gas suppliers to place them on a level playing field with the LDC only since that would reduce the overall marketability of natural gas.

64. Should municipals with their different state and federal tax treatments, be scrutinized when acting as a marketer outside of their municipal territory and competing with unbundled, FPSC-regulated LDC market affiliates and independent natural gas marketers? (CNB Olympic)

FPU's response:

FPU does not view this as an appropriate issue since it appears that the PSC does not have jurisdiction over the state and federal tax treatment of municipalities.

65. Should the Legislature (or perhaps PSC) set requirements for financial capability of suppliers, marketers and brokers? (AGDF)

FPU's response:

The Legislature (or perhaps PSC) should have some minimum requirements. This will protect the LDC from restraint of trade and discrimination. Furthermore, the LDC should have the ability to set requirements for financial capabilities similar to those which

they set for other large customers. This may be through deposits or other methods.

66. Should the Legislature give the PSC authority to pre-qualify suppliers, marketers and brokers? (AGDF)

FPU's response:

This is related to AGDF Issue No.65. The Legislature should grant the PSC the authority to pre-qualify shippers. This may be through the Bureau of Professional Regulation so that if a gas supplier is not properly performing its obligations, they may lose their license to operate in the state. This will have the effect of monitoring each individual gas supplier's statewide activity pertaining to diligence and complaints.