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September 9, 2005

## VIA E-FILING

Blanca S. Bayo, Director  
Division of Commission Clerk & Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

**Re: Docket No. 050003-GU – Purchased gas adjustment (PGA) true-up  
(Petition for Approval of Mid-Course Correction to PGA Cap by  
Peoples Gas System)**

Dear Ms. Bayo:

Enclosed for filing on behalf of Peoples Gas System, please find Peoples' petition referenced above.

**Please note** that in view of the subject matter, Peoples is requesting that this petition be considered by the Commission at the earliest available agenda conference.

Thank you for your usual assistance.

Sincerely,

  
ANSLEY WATSON, JR.

AWjr/a  
Enclosures

cc: Parties of Record  
Mrs. Kandi M. Floyd

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In Re: Purchased Gas : Docket No. 050003-GU  
Adjustment (PGA) True-Up :  
\_\_\_\_\_ : Submitted for Filing: 9-9-05

**PETITION OF PEOPLES GAS SYSTEM FOR  
APPROVAL OF MID-COURSE CORRECTION TO PGA CAP**

Peoples Gas System ("Peoples" or the "Company"), by its undersigned attorneys, hereby files its petition for approval of a revision, through a mid-course correction, to its purchased gas adjustment ("PGA") factor to be applied effective as of the date of the Commission vote through the last billing cycle for December 2005, inclusive, and in support thereof says:

1. The name and address of the petitioner are:

Peoples Gas System  
702 N. Franklin Street - 7<sup>th</sup> Floor  
Tampa, Florida 33602

2. The persons to whom notices, orders and pleadings in this docket should be addressed are:

Ansley Watson, Jr., Esquire  
Macfarlane Ferguson & McMullen  
Post Office Box 1531  
Tampa, Florida 33601-1531

Angela Llewellyn  
Peoples Gas System  
Post Office Box 2562  
Tampa, Florida 33601-2562

3. The Commission has adopted a method for the recovery of purchased gas costs by regulated natural gas utilities to be used for the recovery of such costs through the calendar year commencing January 1 and ending December 31. For calendar year 2005, the Commission has approved for each investor-owned natural gas utility a levelized PGA factor, which serves as a cap, or maximum recovery factor.

4. By its Order No. PSC-93-0708-FOF-GU, issued in Docket No. 930003-GU on May 10, 1993, the Commission determined that a utility may, at its option, request a mid-course correction if re-projected expenses for the remainder of the period significantly exceed projected revenues for the period when using the Commission-approved cap.

5. Order No. PSC-04-1182-FOF-GU, issued on December 1, 2004, approved Peoples' levelized PGA cap of \$0.99037 per therm for the period January through December 2005. This factor was based on Peoples' projected purchased gas costs for the 12-month projection period of \$150,273,520 and total sales of 152,875,591 therms. It also contemplated that Peoples would be able to refund during 2005 its overrecovery for 2004 of \$3,179,465. Although the factor was approved in mid-December 2004, the projections on which the factor was based were made in September 2004.

6. As indicated by the revised Schedule E-1/R.1 (attached hereto as Appendix A), Peoples' re-projected expenses for calendar year 2005 will significantly exceed re-projected revenues. Specifically, Peoples' expenses for the period are now projected to be \$229,524,769, while its revenues for the same period would be \$224,705,218. When this difference between expenses and revenues is coupled with Company used gas, the beginning true-up balance, and interest, the ending true-up balance is projected to be an underrecovery of \$14,297,993. See Appendices A through C attached hereto. Thus, unless a mid-course correction is made in the factor for the remainder of 2005, the \$9,398,356 underrecovery that existed at the beginning

of 2005<sup>1</sup> will grow to an underrecovery of \$14,297,993 by the end of December.

7. The primary reason for expenses exceeding revenues is a drastic increase in the price of natural gas during the recent months. Since the Company's cap was approved by the Commission in December 2004, a convergence of fundamental factors has resulted in an extraordinary environment affecting natural gas pricing. A healthy economy, high oil prices, and weak natural gas supply production have contributed significantly to an unprecedented increase in natural gas costs on a national basis. Exacerbating the situation, well-publicized Hurricane Katrina has wreaked havoc on Gulf of Mexico supply production. Damage assessments are currently on-going and the full breadth of the damage and ensuing price signals may not be known for several weeks. In addition, during and after the hurricane, the gas market depended heavily on natural gas storage inventories to augment their interrupted supplies. These storage supplies are traditionally ear-marked for the winter peaking demand and August and September are generally injection months. Over the next several weeks the market will attempt to replenish the storage inventories, thus putting further pressure on natural gas prices. In addition, the current mark-to-market value of existing hedges alone will not alleviate the expected continuance of price volatility and upward price pressures although approximately sixty-two percent (62%) of Peoples' expected purchases through December 2005 are hedged. There are no current indications that natural gas prices will experience any meaningful decrease in the next several months. The Company needs its PGA cap increased to provide its customers with the appropriate price signal while affording the Company the opportunity to recover additional costs

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<sup>1</sup> See Schedule A-2, line 12, of Peoples' monthly PGA filing for December 2004.

associated with already increased natural gas prices. The higher cap will also accommodate continued upward price pressures and market uncertainty over the next three months.

8. Peoples requests that the Commission approve an increase in its PGA cap from \$0.99037 per therm to \$1.50017 per therm. Peoples requests that this increased cap be approved effective as of the date of the Commission vote through the last billing cycle for December 2005, and that it continue in effect until a new cap is approved by order of the Commission. Applying this increased PGA cap through December 2005 may not eliminate the full amount of the re-projected expenses. However, it will allow Peoples to recover the majority of the current increased costs during the remainder of the year, thereby reducing the impact of the true-up for any underrecovery on sales customers (who are subject to the purchased gas adjustment) during the year 2006.

9. The average residential customer with monthly consumption of 25 therms would incur an additional gas cost of \$12.75 per month if natural gas costs require the PGA to increase to the proposed new cap.

10. Because of the need to reduce the projected underrecovery of expenses, it is necessary that the increased cap be approved for application to customers' bills beginning immediately. The Commission has previously approved mid-course corrections in recovery factors to become effective at earlier dates under similar circumstances when the amount of the projected underrecovery was substantial. See, for example, *In re: Purchased Gas Adjustment (PGA) True-Up*, Order No. PSC-94-0207-FOF-GU (February 21, 1994), approving an increase in the authorized purchase

gas adjustment factor (or cap) for West Florida Natural Gas Company. See also *In re: Fuel and Purchased Power Cost Recovery Clause and Generating Performance Incentive Factor*, Order No. PSC-92-0271-FOF-EI (April 29, 1992), approving a decrease in the fuel adjustment factors for Florida Power Corporation, and *In re: Fuel and Purchased Power Cost Recovery Clause and Generating Performance Incentive Factor*, Order No. 2135 (June 5, 1989), approving an increase in the fuel adjustment factors for Florida Power & Light Company. More recently, the Commission approved mid-course corrections to the purchased gas adjustment cap for several companies during the year 2000. Those companies included Peoples (Order No. PSC-00-1524-PCO-GU), Indiantown Gas Company, Inc. (Order No. PSC-00-1909-PCO-GU), South Florida Natural Gas (Order No. PSC-00-1523-PCO-GU), Chesapeake Utilities Corporation (Order No. PSC-00-1910-PCO-GU), Florida Public Utilities Company (Order No. PSC-00-2137-PCO-GU), St. Joe Natural Gas Company (Order No. PSC-00-2138-PCO-GU), and City Gas Company of Florida (Order No. PSC-00-1422-PCO-GU).

11. Peoples also recognizes there will not be time to conduct a prudence review of the Company's re-projections of purchased gas costs prior to the implementation of the increase in the PGA factor sought by this petition. However, pursuant to the procedures in this docket, such prudence review will occur as a matter of course at the hearing to be held in this docket in November 2005. If the increase in the cost recovery cap is ultimately found imprudent, Peoples' ratepayers will suffer no harm, since any costs found imprudent will be disallowed for recovery (and such disallowance will flow to the ratepayers through the true-up mechanism which is an integral part of the procedures in this docket). On the other hand, if the mid-course

correction is not implemented as soon as possible and Peoples' costs are found to have been prudently incurred, Peoples would be entitled to collect interest from its current ratepayers on the amount of the underrecovery, thereby further increasing the cost of gas to the ratepayers.

WHEREFORE, Peoples respectfully requests that the Commission will:

- A. consider this petition at the earliest possible agenda conference; and
- B. enter its order under the proposed agency action procedure approving an increase in Peoples' maximum PGA factor (or cap) to \$1.50017 per therm for application effective as of the date of the Commission vote through the last billing cycle for December 2005.

Respectfully submitted,



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Attorneys for Peoples Gas System

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of the foregoing Petition has been furnished by regular U.S. Mail this 9th day of September, 2005, to all parties of record in Docket No. 050003-GU.



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Ansley Watson, Jr.















**COMPANY: PEOPLES GAS SYSTEM**  
**PURCHASED GAS ADJUSTMENT FACTOR (Or Cap)(Dollars Per Therm\*)**  
**FOR THE PERIOD JANUARY 2005 THROUGH DECEMBER 2005**

**WITHOUT MID-COURSE CORRECTION**

PGA FACTOR(OR CAP):		0.99037											
Jan 1 '05 through Dec 31, '05													
	Jan'05	Feb'05	Mar'05	Apr'05	May'05	Jun'05	Jul'05	Aug'05	Sep'05	Oct'05	Nov'05	Dec'05	
Residential Customers	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Revised Projection	Revised Projection	Revised Projection	Revised Projection	Revised Projection	
	0.92835	0.92835	0.99037	0.99037	0.99037	0.99037	0.99037	0.99037	0.99037	0.99037	0.99037	0.99037	
Commercial Customers	0.92021	0.92486	0.97169	0.98109	0.94960	0.93413	0.99037	0.99037	0.99037	0.99037	0.99037	0.99037	

**WITH MID-COURSE CORRECTION**

PGA FACTOR(OR CAP):		1.50017											
Date of Commission Vote Through Dec 31, '05													
	Jan'05	Feb'05	Mar'05	Apr'05	May'05	Jun'05	Jul'05	Aug'05	Sep'05	Oct'05	Nov'05	Dec'05	
Residential Customers	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Revised Projection	Revised Projection	Revised Projection	Revised Projection	Revised Projection	
	0.92835	0.92835	0.99037	0.99037	0.99037	0.99037	0.99037	0.99037	0.99037	1.50017	1.50017	1.50017	
Commercial Customers	0.92021	0.92486	0.97169	0.98109	0.94960	0.93413	0.99037	0.99037	0.99037	1.50017	1.50017	1.50017	

**INCREASE IN PGA FACTOR(OR CAP)**

Date of Commission Vote Through Dec 31, '05                      0.50980

\*Includes Revenue Tax Factor