

State of Florida



Public Service Commission

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COMMISSION
CLERK

DATE: 01/21/2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Guffey) *EJD SKG*
Office of the General Counsel (Mapp) *PD JSC*

RE: Docket No. 150218-GU – Petition for approval to discontinue charging multiple purchased gas adjustment (PGA) factors, by Peoples Gas System.

AGENDA: 02/02/2016 – Proposed Agency Action – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On October 8, 2015, Peoples Gas System (Peoples or Company) filed a petition for approval to discontinue charging multiple purchased gas adjustment (PGA) factors for different classes of customers effective with bills rendered for the first billing cycle of the first month following the Commission's approval of this petition.

The PGA factor allows investor-owned gas utilities to recover, primarily, prudently incurred gas and pipeline transportation costs. The Commission sets a maximum PGA factor (cap) annually in the ongoing PGA docket. The actual PGA factor charged to customers varies monthly and is reported to the Commission. However, the actual factor does not need Commission approval as

long as the factor is below or at the annual cap approved in the PGA docket. Peoples' approved PGA cap for 2016 is 96.064 cents per therm.¹

In Order No. PSC-99-0634-FOF-GU, Peoples received approval of a methodology to calculate and to charge separate PGA factors for residential and commercial customers.² Prior to that, Peoples billed all customer classes the same PGA factor. The Commission continues to approve a PGA cap that applies to all the rate classes for Peoples in the annual PGA docket. Peoples proposes to discontinue charging separate PGA factors to residential and commercial customer classes and charge all customers the same PGA factor.

On October 21, 2015, Peoples met with staff and the Office of Public Counsel in a noticed informal meeting to discuss Peoples' proposal. On December 8, 2015, Peoples responded to Staff's First Data Request. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, Florida Statutes.

¹ Order No. PSC-15-0543-FOF-GU, issued November 24, 2015, in Docket No. 150003-GU, *In re: Purchased gas adjustment (PGA) true-up*.

² Order No. PSC-99-0634-FOF-GU, issued April 5, 1999, in Docket No. 981698-GU, *In re: Request by Tampa Electric Company d/b/a Peoples Gas System for approval of a methodology for charging multiple purchased gas adjustment factors*.

Discussion of Issues

Issue 1: Should the Commission approve Peoples petition to discontinue charging multiple PGA factors for different classes of customers effective with bills rendered for the first billing cycle of the first month following the Commission's approval of this petition?

Recommendation: Yes. The Commission should approve Peoples petition to discontinue charging multiple PGA factors for different classes of customers effective with bills rendered for the first billing cycle of the first month following the Commission's approval of this petition. (Guffey)

Staff Analysis: The multiple PGA factors have been in effect since April 1999 and are based on residential and commercial customers' percentage of total therm sales in February (winter peak month) and April (summer peak month). The percentages are used to allocate fixed interstate pipeline capacity costs to residential and commercial customers and allows for an assignment of cost responsibility between residential and commercial customers. The fixed costs associated with interstate pipeline capacity are demand reservation charges and No Notice Service charges (service provided by interstate pipelines when Peoples actual use exceeds scheduled gas quantities). To support its petition, Peoples explained that in 1999 the natural gas market was different than it is today and separate PGA factors for residential and commercial customers are no longer necessary.

One of the changes in the gas market since 1999 was the Commission's adoption of Rule 25-7.0335, Florida Administrative Code (F.A.C.), in 2000 requiring investor-owned gas utilities to make transportation service available to all non-residential customers. In a transportation service environment, the customer purchases gas from a third party marketer instead of the utility. A transportation customer therefore does not pay the PGA charge, but pays the marketer for the cost of gas. Peoples stated that in 1999 almost all of its commercial customers purchased their gas from Peoples and paid the PGA factor. Customers who purchase their gas from the utility are referred to as sales customers.

In order to comply with Rule 25-7.0335, F.A.C, Peoples implemented its Natural Choice Transportation Service program to give commercial customers an opportunity to switch from sales to transportation service. A majority of Peoples' commercial customers have migrated to transportation service. As of December 2014, 14,080 commercial customers were taking sales service and 22,123 customers were taking transportation service. Expressed in therms consumed, sales customers consumed 41 million therms in 2014, while transportation customers consumed 305 million therms in 2014. Sales service represents only about 12 percent of total commercial therm sales.

Peoples Gas stated that removal of the dual PGA should incentivize many of the remaining commercial customers to switch to transportation service. Since the gas commodity price is negotiated with a third party, switching to transportation service may help reduce the overall cost to the commercial customer.

Peoples further explained that the separate PGA charges resulted in residential customers bearing more of the cost and therefore paying a higher monthly PGA factor than commercial customers

who have a more consistent load profile and are therefore allocated less pipeline capacity. In response to Staff's First Data Request, Peoples provided a comparison of residential, commercial and combined PGA factors for 2014 and 2015. To illustrate, the October 2015 residential PGA factor was \$0.8985 per therm, while the commercial PGA factor was \$0.7927 per therm. The combined PGA for October 2015 is \$0.8591 per therm. The calculation of a single PGA factor will therefore benefit residential customers. Finally, Peoples stated that a single PGA factor will reduce its administrative burden of calculating and maintaining separate PGA rates.

A single PGA factor will be calculated per the methodology adopted by the Commission in Order No. 24463,³ the methodology that was in effect prior to Peoples charging separate PGA factors. There will be no change in the currently approved PGA cap, and no changes to the PGA provisions in the Peoples' Commission-approved tariff will be required.

Based on the reasons discussed above, staff recommends approval of Peoples petition to discontinue charging multiple PGA factors for different classes of customers effective with bills rendered for the first billing cycle of the first month following the Commission's approval of this petition.

³ Order No. 24463, issued May 02, 1991, in Docket No. 910003-GU, *In re: Purchased Gas Adjustment (PGA) True-Up*.

Issue 2: Should this docket be closed?

Recommendation: If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order. (Mapp)

Staff Analysis: If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order.