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-A ISSUED: 1-19-89

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION

AMENDATORY ORDER

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 483,498,400 therms. Of this total, 89,285,224 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. 14965 and 15228 and, as presently effective, provides for a non-gas energy charge of the lesser of either $.0588 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. 14965, saying:

> ...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.

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 Nos. 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 these 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 of 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:

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

where

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

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

	Present CIS/CTS Rate	Proposed CIS/CTS Rate
Customer Charge	$225.00/month	$225.00/month
Energy Charge	5.88¢/Therm (1); flex down to 1.0¢/Therm.	5.88¢/Therm; flex up to 14.641¢/Therm (2); flex down to 1.0¢/Therm.

(1) Approved Tariff Rate.

(2) Equals 90% of the GLSV 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 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 with only 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 CIS, as modified, (attached hereto) are approved.

By ORDER of the Florida Public Service Commission, this 19th day of JANUARY, 1989.

Steve Tribble

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

MER