

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for approval of) DOCKET NO. 960831-GU
addition to current tariff to) ORDER NO. PSC-96-1192-FOF-GU
implement, on a three-year) ISSUED: September 23, 1996
experimental basis, a Weather)
Normalization Adjustment (WNA))
rider by West Florida Natural)
Gas Company.)
_____)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
J. TERRY DEASON
JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

ORDER APPROVING TARIFF MODIFICATION

BY THE COMMISSION:

On July 16, 1996, West Florida Natural Gas (WFNG or the company) requested approval of its Weather Normalization Adjustment rider on an experimental basis. WFNG believes that this weather normalization tariff rider will help levelize its revenues which fluctuate with unpredictable changes in winter weather.

WFNG's revenues are significantly affected by variations in winter weather patterns. Due to its location in northern and central Florida, WFNG has substantial, cold weather demand on its system. In colder than normal winters, WFNG has experienced increased therm sales and revenues due to the increased heating load in the residential and small commercial rate classes. In warmer than normal winters, WFNG has experienced decreased therms sales and a corresponding decrease in revenues. These increases and decreases in revenues can lead to earnings fluctuations which can contribute to the over and under earnings of the Company.

Brooklyn Union Gas Company introduced the first weather normalization clause in 1980. Since then, over thirty gas utilities in fourteen states have implemented weather normalization procedures. These states are: Alabama, California, Connecticut, Georgia, Kentucky, Maryland, New Jersey, New York, North Carolina, Ohio, South Carolina, Tennessee, Texas and Virginia. Interest in weather normalization appears to be growing. A recent survey

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conducted by the American Gas Association indicated that forty-four companies, operating in fifty-two jurisdictions across twenty-six states and Canada, have either filed for, or put weather normalization clauses into effect.

WFNG's proposed weather normalization tariff rider is a rate adjustment mechanism that offsets the impact of unusually cold or warm weather on its revenues and income. To compensate for deviations from normal weather, an adjustment factor is applied that increases or decreases base revenues on residential and commercial accounts. Customers with weather normalized rates, will have their bills adjusted downwards in unusually cold months and adjusted upwards during periods of unusually warm weather, thereby reducing the effects of weather on WFNG's revenue and earnings. The Weather Normalization Tariff will be in effect from November through April.

WFNG will use a statistical formula for calculating each residential and commercial customer's weather normalization adjustment (WNA) factor for each billing cycle. WFNG will use the same formula which is currently employed by many other utilities in the gas industry. Inputs into the WNA factor for a particular billing cycle include Normal Heating Degree Days (NHDD), Actual Heating Degree Days (AHDD), the Heat Sensitivity Factor (HSF), and the Baseload Factor (BLF). AHDD is the difference between 65 degrees and the average of the high and low temperatures on a single day. NHDD is the difference between 65 degrees and the average of the high and low temperatures on a particular date over a 30-year time period. Thus, the difference between AHDD and NHDD yields a measure of the relative temperature of a particular day compared to the average temperature recorded on the same date during the previous 30 years.

In addition to knowing the variation in current weather compared to normal weather, it is also necessary to know the impact of weather upon average usage. WFNG developed the HSF as a measure of a customer's change in therm consumption related to a one-degree-day change in heating degree days. Finally, WFNG estimated the baseload usage of its customers. Baseload usage includes all the non-weather sensitive end-uses of gas, which is essentially the same as the average usage during summer months when various space heating appliances are not in use. The proportion of base load usage must be estimated so that the HSF is applied to only that portion of a customer's load which is heat sensitive. WFNG combines NHDD, AHDD, HSF, BLF, and the class-specific gas rate (dollars per therm) into a single equation which estimates the WNA factor. This factor, or rate adjustment, is multiplied by a

customer's usage in order to reverse the impact of colder or warmer than normal weather on the customer's bill.

The company's source of the weather data utilized in calculating NHDD and AHDD is the National Oceanic and Atmospheric Administration (NOAA). The source of usage and customer data is WFNG's company records.

We have analyzed the data and methodology utilized by WFNG to implement weather normalization and have determined that WFNG's development of the WNA factor is consistent with similar weather riders used by utilities in other states. All of the weather data has been independently verified. Also, the company's billing data appears to be consistent with data received in previous filings. Further, both the HSF and BLF factors were properly estimated. Thus, it appears that WFNG's experimental WNA rider will effectively reverse the impact of temperature fluctuations upon residential and commercial customer revenues.

The typical adjustment to a customers' bill is expected to be less than two dollars, therefore the WNA rider is not expected to significantly effect market signals. The benefits achieved through revenue stability will extend to all customers as well as the company. Because the tariff rider is being filed on an experimental basis, we will have an opportunity to reevaluate its effectiveness when the three-year experimental period is over. Based on the fact that WFNG is located in a weather-sensitive region of state, resulting in revenue fluctuations which coincide with weather patterns, and upon the fact that similar WNAs are widely used by many utilities, we find that WFNG's experimental WNA tariff rider is appropriate.

The company intends to notify its customers with a bill-stuffer in October to explain the WNA. The amount of the WNA will appear as a separate line item on each customer's bill. The company will report to us, for surveillance purposes, the total amount of adjustments made pursuant to the WNA tariff rider.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that West Florida Natural Gas Company's request for approval of its Weather Normalization Adjustment rider, on a three-year, experimental basis, is hereby granted. It is further

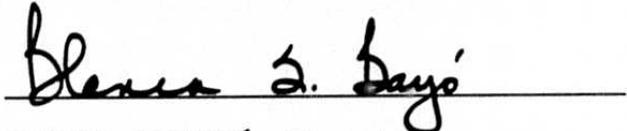
ORDERED that the effective date of this experimental tariff modification is September 3, 1996. It is further

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ORDERED that if a protest is filed in accordance with the requirements set forth below, the tariff shall remain in effect with any increase in revenues held subject to refund pending resolution of the protest. It is further

ORDERED that if no protest is filed in accordance with the requirements set forth below, this docket shall be closed.

By ORDER of the Florida Public Service Commission, this 23rd day of September, 1996.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

BC

DISSENT

Commissioner Deason dissents with opinion. Commissioner Kiesling joins in Commissioner Deason's dissent.

I respectfully dissent from the decision to allow this company to implement a Weather Normalization Adjustment (WNA) billing arrangement for all customers. Simply put, I do not believe that such a mandatory revenue stabilization mechanism should be implemented outside of a rate case. That is the appropriate time for a WNA to be considered. My concerns are with two aspects of the WNA.

First, because the collection of revenues is stabilized, there may be an effect on the required equity return due to the reduction in business risk. All other things being equal, the WNA should reduce the risk normally reflected in the ROE determination. Establishing a revenue stabilization mechanism outside of a rate

case or earnings review without adjusting the ROE could lead to a windfall for the utility.

Second, I believe the majority has ignored the issue of conservation. The imposition of the WNA could have a dampening effect on any potential gas conserving behavior since the customer's usage is not directly linked to the price of the gas at the time it is consumed. A determination whether a material reduction in the conservation potential for this company occurs will be left for another day. However, at this time I am concerned about the impact on our decisionmaking in other cases. I fear that not factoring in the conservation aspects here will create a precedent that will undermine efforts to link conservation promotion to the consideration and future approval of any appropriate revenue stabilization concepts.

Having voiced these concerns, I would like to acknowledge the tremendous effort the staff put into this docket, especially in requesting and then analyzing 30 years of weather data. Nevertheless, while I applaud the staff's work, I still believe that the time is not right for this concept to be implemented under these circumstances.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The Commission's decision on this tariff is interim in nature and will become final, unless a person whose substantial interests are affected by the action proposed files a petition for a formal proceeding, as provided by Rule 25-22.036(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a)(d) and (e), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 14, 1996.

In the absence of such a petition, this order shall become final on the day subsequent to the above date.

Any objection or protest filed in this docket before the issuance date of this Order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this Order becomes final on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the date this Order becomes final, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.