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December 6, 1996

IN REPLY REFER TO:

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VIA FEDERAL EXPRESS

Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

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

Dear Ms. Bayo:

Enclosed for filing in the above docket on behalf of Peoples Gas System, Inc., please find fifteen (15) copies of Peoples Gas System, Inc.'s follow-up comments on issues discussed at the Gas Unbundling Workshop held on October 21 and 22, 1996 in the above docket. A diskette containing the positions is also enclosed.

Finally, I enclose a certificate of service with respect to service of the enclosed comments on parties of record.

Please acknowledge your receipt of the enclosures on the duplicate copy of this letter, and return the same to me in the enclosed preaddressed envelope.

Many thanks for your usual assistance.

Sincerely,

Ansley Watson

ANSLEY WATSON, JR.

AWjr/a
Enclosures

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cc: Mr. Joseph W. McCormick
Parties of Record

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Unbundling of natural gas services	)))	Docket No. 960725-GU Submitted for Filing: 12-9-96

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the follow-up comments of Peoples Gas System, Inc. on issues discussed at the Gas Unbundling Workshop held October 21 and 22, 1996 in the above docket, has been furnished by regular U.S. Mail to all parties of record in the above docket, this 6th day of December, 1996.

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Peoples Gas System, Inc.
Follow-up Comments on Issues
Gas Unbundling Workshop
October 21-22, 1996
Docket No. 960725-GU

BALANCING

16. Should the LDC be required to file balancing tariffs that establish a period when transportation customers can balance deliveries into and out of the utility's system? (Staff)

No. Balancing tariffs should not be required, but should be permitted. The Commission should not attempt to have such tariffs standardized across the state.

The LDC must be permitted to establish whatever balancing tariffs are necessary to operate its system safely and efficiently. Those tariffs will, in most cases, include a time window for balancing without penalties. Those no-penalty windows should be set at the discretion of utility management, who will be held responsible for the prudent management of their systems.

17. Should the LDC be allowed to issue Operational Flow Orders and impose special volume conditions and/or balancing provisions in case of system emergencies and capacity constraints? (Staff)

Yes. Either separately or as part of the balancing tariffs referred to in the previous response, the LDC may need the ability to implement Operational Flow Orders and various special conditions in order to manage its distribution system on a day-to-day basis, particularly during system emergencies and periods of capacity constraints.

18. Should the LDC be allowed to impose penalties when a customer fails to balance deliveries and withdrawals within an established time frame? (Staff)

Yes. If a customer's actions create an imbalance condition, the LDC, as the party responsible for maintaining safe operation of its system, must take action to cure the imbalance. There will be costs associated with those corrective actions. The LDC must have the ability to recover costs, as much as possible from the party that caused those costs to be incurred. This cost recovery can be thought of as a penalty, but is truly just a cost recovery.

The LDC must also be able to impose penalties where needed to ensure the disciplined use of its system for transportation of customer owned gas. The LDC should be permitted flexibility in application of those penalties.

19. Should the LDC be required to institute a tolerance range for purposes of setting the threshold before an Operational Flow Order is issued? (Staff)

No. An Operational Flow Order is a reaction to a system problem that is caused by operating factors outside normal conditions. It is a response to a condition that needs timely corrective action to assure continued stable system operations. Tolerance ranges are more applicable to imbalance provisions and the application of penalties.

20. Should balancing obligations, costs and penalties be based on a "no harm/no foul" principle? (Staff)

No. One customer on an LDC system may use significantly over nominated quantities, while another, purely by coincidence, uses below nominated quantities by a like amount. There may be no harm to the utility's system in that circumstance. The LDC should still be authorized to assess a penalty, however, to maintain disciplined use of its system. A customer should know with certainty that costs and penalties will be the result of its own actions, not dependent upon random coincidence with the actions of another.

Some parties may argue that two customers should be able to agree to net out each other's imbalances, thereby permitting both to avoid costs or penalties. That may be appropriate in some cases, but the Commission must use caution in creating circumstances in which private deals are made that could consistently exclude all but a select group of parties.

21. Should the LDC be allowed to impose metering requirements on the transportation customers to ensure the LDC remains in balance with the pipeline? (Staff)

Yes. The LDC must have the flexibility to require metering for customers transporting on its system. Those requirements will vary commensurate with the impact on the utility's system of an imbalance created by any single customer, aggregated group of customers, or customer class.

22. Should the LDC be allowed to vary the metering requirements between classes? (Staff)

Yes. LDC management must be allowed the flexibility to manage its system efficiently and safely. For some LDCs, that will mean application of consistent metering requirements, while for others, metering requirements will vary among customer classes, and possibly even between customers in the same customer class. The LDC must be prepared to defend imposition of metering requirements in line with the impact on its system (see previous response) or other considerations.

23. Should the LDC be required to institute:

- **Hourly flow limitations**
- **mid-day nominations**
- **no-notice service**
- **monthly cash out provisions**
- **transportation nomination rules**
- **delivery point allocation rules**

No. The PSC should not require standardized service offerings by all LDCs across the state. Each LDC should be permitted to institute the above transportation management tools if they are needed to prudently manage its system. No artificial requirements should be placed on the systems simply for purposes of statewide standardization.

24. Should the LDC's be permitted to establish non-performance penalties to be levied on suppliers, marketers, or brokers who create imbalance situations for the LDC? (AGDF)

Yes. As a matter of prudent management, an LDC will establish by contract, non-performance penalties and/or other balancing agreements between itself and an unregulated third party supplier sufficient to maintain the integrity of its system. The Commission's role is to review the LDC's actions on the basis of whether the contractual agreements are prudent. Peoples questions whether Commission authority extends to the setting of specific contractual terms with a person that is not a customer of the LDC.

Although third party suppliers are not customers of the LDC, they should be subject to the same operating privileges and restrictions as any customer of the LDC delivering gas into the LDC's system. This is especially critical if they become aggregators for groups of customers. Such operating tools should include all tools designed to let the LDC keep its system operating safely and efficiently, and not just penalties for failure to do so.

Penalties must be one of the available tools, however, in the event of severe and repetitive imbalance problems caused by any transporting party, whether customer or third party supplier. In the event of severe or repetitive nonperformance by a third party supplier, the ultimate tool should be the ability of the LDC to deny the opportunity to conduct any further business transactions on its system.

25. Should each LDC have the discretion to establish nomination and balancing procedures? If so, should third party suppliers be required to abide by these procedures? (City Gas)

Yes. Each LDC must have the tools to operate its own system safely and efficiently, including nomination and balancing procedures that can be effectively administered. Because the LDCs vary greatly in their levels of staffing, computer capabilities and system control and data acquisition systems, they must be able to develop procedures that work on their systems without incurring excessive or unnecessary costs simply to standardize across the state. All customers and other persons delivering gas for the account of the customers must abide by the procedures.

26. Should shippers erring on the side of caution and being out of tolerance in the "right" direction and that "help" the LDC's system during operational controls be rewarded? (CNB Olympic)

No. When an Operational Flow Order (OFO) is issued, the customer or other person causing the delivery of gas has a choice of complying or not complying. The LDC cannot calculate and quantify the number of shippers or volume of supply which will be out of tolerance in the "right" direction at the time of operational distress. Therefore, the LDC's gas control group will take appropriate action according to what is known at the time.

When an OFO is issued, a customer or other delivering entity could be out of tolerance in the "right" direction; for example, taking gas in excess of nominations during an overpressure condition. When the LDC issues the OFO in the opposite direction (in this case, ordering customers to increase delivery takes or reduce receipts) it may throw the system into a reverse operational condition, causing an underpressure condition. A customer or other delivering entity should be rewarded only if the LDC has a peak shaving agreement with the person. With a peak shaving arrangement, the LDC can plan, depend upon and quantify the person's actions to correct the system imbalance condition by being purposefully out of tolerance in the right direction. No individual customer or other delivering entity can possibly predict the effect its own actions will have on the LDC's system.

Further, for system discipline measures to work, they must be consistently applied and customers and third party suppliers must be able to predict the consequences of their actions. If a third party supplier is rewarded or simply not penalized for an action one time and then penalized for the same action the next time, system discipline measures will quickly become ineffective.

MARKETERS AND AFFILIATED MARKETERS

33. Should the LDCs be allowed to charge marketers penalties for any daily over or under deliveries? (Staff)

Yes. Penalties should not be the first balancing tool used, and should not normally be used for daily imbalances. When used, though, they should be applied equally to any customer or third party supplier who has contractual or tariff responsibility to balance throughput on the utility's system.

If the third party supplier functions as the agent of the end-use customer, the supplier must be responsible for all operational constraints or penalties in place of the end-use customer. This is especially true in the case of suppliers that aggregate supplies for shipment to a number of customers on an LDC's system.

34. Should the LDC be required to develop eligibility policies/standards to evaluate potential marketers? (Staff)

No, but most will do so. The LDC should be held to a standard of prudence review of its actions

35. Should the Commission initiate rulemaking to establish guidelines for utilities with marketing affiliates? (Staff)

No. The vastly differing sizes of regulated LDCs makes rulemaking a poor choice. Rule requirements appropriate for large utilities might well be excessive for the smaller ones.

A better way to handle the matter is for the Commission to set expected guidelines for tariff development and permit the LDCs to file tariffs appropriate to the size of their company. The Commission thus has the ability to review each utility's standards. In the end, the Commission retains regulatory authority over the LDC, including authority to settle any disputes that may arise.

A simplified solution sometimes proposed to solve this problem is to simply prohibit an LDC's marketing affiliate from dealing with customers on the LDC's system. In Peoples' case, such a simplistic action by the Commission would deny Peoples' affiliate the opportunity to market to nearly one half of all available natural gas customers in the entire state of Florida. Such action would be grossly unfair and should not even be considered.

36. Should the LDCs be able to establish creditworthiness standards to ensure the financial capability of suppliers, marketers, and brokers? (City Gas)

Yes, as a matter of management prudence, the LDC should set such standards. The LDC already establishes uniform creditworthiness standards for customers. The prudently managed LDC should be able to similarly require third party suppliers to meet consistently applied creditworthiness standards. The role of the Commission is to review the prudence of management's decision.

STRANDED INVESTMENT

37. Should the LDC be allowed to require transportation customers to take capacity held by the LDC? (Staff)

Yes, or in some cases, the customer should be permitted to pay an exit fee.

During the transition to open access on the Florida Gas Transmission system, LDCs were required to commit to long-term contracts for firm capacity sufficient to serve all customers on our systems. There was no other way for LDCs to ensure pipeline capacity to serve their customers. Furthermore, at the time of those contracts, the FERC allowed only historical customers of the pipeline; that is, LDCs and FGT's direct customers, to make those commitments. Neither third party suppliers nor customers behind LDCs' city gates could do so.

If LDCs had failed to step up and make those long-term commitments, neither firm nor interruptible customers behind an LDC's city gates would have been able to use natural gas for the past several years. Now that pipeline open access is an established reality, LDC open access is the next step. It is imperative, however, that customers who may now convert to transportation service are not permitted to escape the responsibility to pay for the capacity the LDC acquired for their benefit and that they have used and are still using. The situation is analogous to the "buy-out" and "buy-down" costs incurred by interstate pipelines in the transition from their former merchant functions to their present roles as open access transporters.

Someone must pay the cost of those long-term contracts. If transportation customers use secondary released capacity, the LDC will have excess capacity under contract. The pipeline is not going to forgive the cost of that capacity. Whether the investment is partially stranded (released at a discount) or fully stranded (no takers), either the LDC shareholders or the remaining system sales customers will have to pay. The transporting customer will enjoy lower cost capacity only because someone else is subsidizing its cost.

If the Commission requires LDCs to release capacity at discount to third party suppliers, it will be directly responsible for enriching third party suppliers (from the windfall difference between maximum and discounted rates) at the expense of the LDC's system sales customers or the LDC's shareholders. That should be an unacceptable outcome to the Commission.

38. Should the LDC be allowed to require marketers to pay the maximum rate for capacity purchased from an LDC? (Staff)

Yes. When third party suppliers want to transport gas to an LDC's firm customers the LDC should be able to require them to pay the maximum rate for the LDC's primary firm capacity. Only by using such primary firm capacity can the Commission be assured customers will receive service comparable to the firm system sales service they have received from the LDC. Only primary firm capacity will permit the LDC to transport without extensive metering requirements. Only primary firm will permit the LDC to continue to be held to the obligation to serve. All these things happen because only primary firm has top priority transportation rights on pipeline(s) upstream of the city gate. For those reasons and in order to mitigate stranded investment, the LDC should be able to require third party suppliers to take primary firm capacity at maximum rate.

39. Should the LDC be allowed to require an exit fee payment when a customer chooses to use third party capacity? (Staff)

Yes, however, such a fee might not be collectible.

A customer behind an LDC's city gate may stop using an LDC's capacity because of choosing to buy other capacity. Perhaps in that case an exit fee could be collected on future throughput. Other customers may stop using an LDC's capacity and either bypass the LDC, go out of business or leave the service territory. There may be no way to recover the costs stranded by a customer leaving the system directly from that customer. For this reason, Peoples favors a capacity realignment adjustment.

40. Should the LDC be required to make permanent relinquishments of unneeded capacity at max rates to lessen stranded capacity costs? (Staff)

No. This question assumes LDC's have unneeded capacity and that they could permanently relinquish it at maximum rate. Both assumptions are wrong.

First, what is unneeded capacity and who makes that determination?

Capacity held for future growth is not unneeded capacity. The luxury we enjoy today of having excess pipeline capacity into Florida is not a permanent condition. Capacity shortages will return before pipeline expansion brings more capacity into the state. If the Commission decides that LDC capacity held for future growth is excess and unneeded, there will be no growth in natural gas use. How are LDCs to serve incremental firm customer loads if they have been forced to give up their firm capacity and rely on third party suppliers using secondary market capacity, which is not firm? They cannot. In fact, they will not even be able to serve existing firm loads as secondary capacity becomes increasingly subject to interruption or preemption.

Capacity that becomes excess if an aggregating supplier is permitted to transport using secondary capacity is not unneeded capacity. Capacity can be released to an aggregating third party supplier with rights to recall to balance load among various third party suppliers, but it should not be permanently relinquished. The Commission could wrongly decide to require LDCs to relinquish primary firm capacity as excess or unneeded if it permits customers to transport through a third party supplier. If it does so, the Commission will essentially create a monopoly -- an unregulated monopoly -- for that third party supplier when the supply of available capacity tightens, as it inevitably will.

Finally, regarding price, LDCs will have no control over the price of firm capacity if required to permanently relinquish it. They may hold out for maximum rate, but the market will only pay a market clearing price. Therefore, the second part of this question becomes moot.

41. Should the LDC be allowed to institute a temporary Capacity Realignment Adjustment to recoup the LDC's stranded capacity costs? (Staff)

Yes. A temporary Capacity Realignment Adjustment paid by all customers will protect system sales gas customers from paying costs created by those who move to transportation service.

42. Should the LDCs require interruptible customers to pick up released firm FGT capacity from the native LDC as a prerequisite to transportation service? (CNB Olympic)

No, but the LDC must be made whole for its investment. Historically the LDC has held capacity on behalf of all its end users, including capacity for future growth. Had the LDC not stood up for this firm capacity, the interruptible customer's gas would not have flowed for the past several years of FGT's open access. In addition, third party suppliers are currently making a windfall within the capacity release market at the expense of all system sales gas customers within the state.

If an interruptible customer does not choose to utilize the LDC's firm capacity, then an exit fee should be charged to make all of the other sales customers whole. Alternatively, stranded costs could be recovered through a Capacity Realignment Adjustment mechanism.