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April 26, 1999

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 -- Proposed Rule 25-7.0355, F.A.C., Transportation Service (docket formerly titled "Unbundling of natural gas services")

Dear Ms. Bayo:

Enclosed for filing in the above docket on behalf of Peoples Gas System, please find the original and 15 copies of its Comments on the Staff Workshop held on March 24, 1999.

Please acknowledge your receipt of the enclosures, and the date of their filing in the above docket, on the duplicate copy of this letter enclosed for that purpose, and return the same to me in the preaddressed envelope also enclosed herewith.

Thank you for your usual assistance.

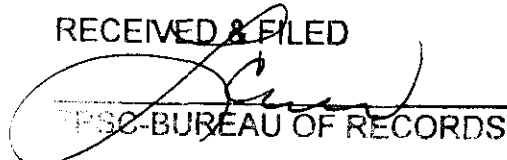
Sincerely,


ANSLEY WATSON, JR.

AFA
APP
CAF
CMU
CTR
EAG
LEQ
MSB
OIR
RFR
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GIM

AWjr/a
Enclosures

cc: Mrs. Cheryl R. Bulecza-Banks
Mr. J. Brent Caldwell
Parties of Record

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DOCUMENT NUMBER-DATE
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PEOPLES GAS SYSTEM
COMMENTS ON STAFF WORKSHOP HELD 03/24/99

Peoples Gas System ("Peoples") welcomes the opportunity to comment upon the proposed rule in Docket No. 960725-GU concerning unbundling of gas transportation service in Florida. Peoples believes that transportation service, when properly implemented, has the potential to provide ratepayer benefits. As the Staff has acknowledged, Peoples has made significant progress toward advancing unbundled natural gas service. In 1998, 65% of the gas distributed through the Peoples system was third-party supplied natural gas. With the expansion of Peoples' Firm Transportation Aggregation ("FTA") program that applies to all non-residential customer classes, over 75% of all throughput will be third-party supplied gas by June 1, 1999. Our decision to expand unbundled service was made in response to market forces and only after careful consideration of the implications of this decision on all stakeholders. The Commission had the opportunity to carefully consider our proposed program expansion and make an informed, program-specific decision. This existing approval process has enabled the Commission to base its decisions on the specific facts which make each unbundling proposal unique in terms of benefits and consequences.

Accordingly, Peoples does not believe that a rule that mandates every utility to offer Transportation Service to all non-residential customers by December 31, 1999 will achieve better results than the Commission's current approach. What works for some utilities may not work for other utilities. The point is "one size does not fit all,"

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a fact which staff explicitly recognized during the workshop and which is implicitly recognized by the very general nature of the proposed rule. Indeed, the extent to which complete non-residential unbundling makes sense has not yet been carefully analyzed.

In Peoples' opinion, at least three elements must co-exist for an unbundled natural gas service program to be successful. Those elements include 1) a regulatory framework which allows and encourages unbundled natural gas service, 2) a business environment with the logistic ability to manage an unbundled natural gas environment and 3) marketplace awareness and desire for unbundled natural gas service.

The first element, a supportive regulatory framework, is already in place. The current statutes, rules and regulations already permit unbundled service. The Commission has confirmed its support of these rules through the approval of Transportation Service tariffs for all LDC's in Florida. As the Commission encourages further unbundling, regulators will have to embrace, as well, the ancillary effects of increased competition. This includes the need for gas utilities to have greater operational and rate design options as well as greater flexibility to be even more innovative and creative in responding quickly to a changing, competitive market.

The second element, logistic ability, includes the implementation of numerous information system enhancements, telemetry and communication hardware, and most importantly, employee and customer education. Peoples is well underway

in addressing these prerequisites but more time is needed to be fully prepared.

Peoples believes the third element, marketplace desire, exists only to a limited extent. Peoples clearly intends to meet the growing gas service needs of our customers and to capture, for our customers' benefit, the economies of scale associated with reasonable growth. To be successful in this effort Peoples must be aware of and responsive to market forces. Under these circumstances, a rule is not needed to motivate Peoples Gas to provide the best solutions to its customers.

We respectfully suggest that the Commission can be more effective in helping the market to grow by continuing to oversee the utilities' responses to market forces and ensuring that the business decisions being made are in the best interest of the ratepayers.

If the Commission nonetheless concludes that the utilities need additional motivation to respond to market forces, then Peoples recommends that the Commission simply require each utility to file a specific unbundling plan for the Commission's review and approval. In reviewing the specific plans, the Commission would be in a position to evaluate the overall benefits and merits of each plan given the market and resource circumstances faced by each utility.

If the Commission chooses to proceed with the rule as proposed, then Peoples has some very specific concerns. Before any rule is adopted, the following key issues must be addressed:

1. The December 31, 1999 filing date contained in subsection (2) should be deferred until no earlier than September 30, 2000. It appears unlikely that a final rule will be adopted before the third quarter of 1999. Even by Staff's estimate during the workshop, the compilation of comments and solicitation of economic statements will not be completed until mid-summer. Considering the magnitude of the change in the industry which would be required by the rule, a hearing or hearings will be scheduled or, at a minimum, the rule will be discussed at one or more agenda conferences. Therefore, final adoption could easily slip past the proposed December 31, 1999 filing date. In addition, no change of this magnitude should be implemented in the middle of a winter heating season.

2. As currently written, subsection (2)(a) states that "The utility is not responsible for providing natural gas to a customer that elects service under the transportation service tariff." Peoples recommends that the clause ", but the utility may elect to provide natural gas" be added to the end of the above sentence since it is logistically unrealistic, and poor customer service, to interrupt natural gas customers taking service under a firm tariff. Peoples believes that the utility should be permitted to include provisions in the applicable transportation tariff at rates that compensate the utility for the costs incurred for providing service

and provisions that discourage non-performance of the third-party supplier. It is not within the Commission's jurisdiction to regulate supplier performance and it would not be appropriate for customers to be impacted by reduced levels of service due to unbundling. For a utility that elects to provide service in lieu of interruption, a new rate structure would be required to assess charges on the supplier. The charges and penalties should be strict enough to discourage a supplier's failure to perform.

3. The third required change relates to the requirement in subsection (2)(b) that the customer provide a notarized statement identifying its marketer, broker or agent. While it is critical that customer awareness and acceptance of third-party gas supply be confirmed, this can be adequately accomplished through a simple signature page, electronic notification, or voice recording as verification of customer designation.

In summary, the regulators can most effectively encourage the cost effective expansion of natural gas service by continuing to monitor the utility's response to the marketplace and ensuring that proposed rates and programs are in the best interest of the general body of ratepayers. This process is working well and the proposed rule will not improve upon it. The Commission should not adopt the proposed rule and should close this docket.