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November 26, 1997

Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

HAND DELIVERY

971559-GU

RE: Petition for Limited Proceeding to Restructure Rates and for Approval of Gas Transportation Agreements

Dear Ms. Bayo:

Enclosed on behalf of Chesapeake Utilities Corporation for filing in the above docket are an original and 15 copies of:

1. Petition for Limited Proceeding to Restructure Rates and for Approval of Gas Transportation Agreements (with Exhibits 1, and redacted copies of Exhibits 2 through 6; 12161-97

2. Request for Confidential Classification, together with:
a) Composite Attachment A: confidential copy of Exhibits 2 through 6 (one copy only); 12162-97

b) Composite Attachment B: redacted copies of Exhibits 2 through 6; 12163-97

c) Composite Attachment C - detailed justification for confidential classification.

Also enclosed is a high density computer diskette containing the enclosed Request for Confidential Classification (WIN 3.1, WP6.1) as required by the Commission's rules.

Please acknowledge receipt of the foregoing by stamping the enclosed extra copy of this letter and returning same to my attention. Thank you for your assistance.

Sincerely,

Wayne L. Schiefelbein

Wayne L. Schiefelbein

WLS/cas
Enclosures

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition of the Florida Division of Chesapeake Utilities Corporation for Limited Proceeding to Restructure Rates and for Approval of Gas Transportation Agreements	Docket No. 971659-GU Filed November 26th, 1997

PETITION FOR LIMITED PROCEEDING
TO RESTRUCTURE RATES AND FOR APPROVAL OF
GAS TRANSPORTATION AGREEMENTS

The Florida Division of Chesapeake Utilities Corporation ("Chesapeake" or "Florida Division" or "Petitioner"), by and through undersigned counsel, petitions the Florida Public Service Commission (the "Commission"), pursuant to Rule 25-22.036(4), Florida Administrative Code, to conduct a limited proceeding pursuant to Section 366.076(1), Florida Statutes, for the purpose of restructuring the natural gas rates Chesapeake is authorized to collect from its Florida Division customers, and, in tandem therewith, to approve two certain Gas Transportation Agreements, pursuant to Rule 25-9.034(1), Florida Administrative Code. Chesapeake respectfully requests that the Commission expedite consideration of this Petition to the greatest extent possible, including using proposed agency action procedures. The Commission's expedited approval of the rate restructuring and the two Gas Transportation Agreements is critical for Chesapeake's Florida Division to retain its two largest existing industrial customers and to ensure equity among its rate classifications. In support of this Petition, Chesapeake states the following:

DOCUMENT NUMBER-DATE
[redacted] NOV 26 97
FPSC-RECORDS/REPORTING

1. The name and address of the Petitioner is:

Chesapeake Utilities Corporation
Florida Division
P. O. Box 960
Winter Haven, FL 33882-0960

2. The name, address and telephone number of the person authorized to receive all notices, pleadings, correspondence and other communications with respect to this Petition is:

Wayne L. Schiefelbein
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1709-D Mahan Drive
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Attorneys for Chesapeake Utilities Corporation

3. Chesapeake's Florida Division is a public utility subject to the Commission's regulation pursuant to Chapter 366, Florida Statutes. Chesapeake's Florida Division is a natural gas utility, functioning as a local distribution company.

4. Although the Florida Division serves only approximately 8800 customers (as of December 31, 1996), it is, in terms of volume of gas distributed, the second largest local distribution company providing service to the public in Florida. The Florida Division is unlike most local distribution companies in Florida in light of the high throughput volumes delivered by the Florida Division to the industrial customers served. Of the approximate 130,000,000 (annual) therms distributed to Florida customers on its system, over 90% are delivered to the largest 60 customers. Because of the industrial nature of Chesapeake's customer profile, and the

proximity of the industrial customers to the FGT pipeline, Chesapeake has a significant exposure to loss of load of industrial customers through physical bypass to the FGT pipeline. IMC - Agrico Company ("IMC") and Alumax Extrusions, Inc. ("Alumax"), the Florida Division's two largest industrial customers, together contributed nearly one-fifth of the Florida Division's total non-fuel revenues in 1996. As will be explained hereinbelow, IMC and Alumax have advised Chesapeake of their imminent intention to physically bypass the Florida Division's system unless appropriate agreements are entered into with Chesapeake and approved by this Commission. Thus, Chesapeake has entered into Gas Transportation Agreements with said two customers and seeks Commission approval of such Agreements and the rate restructuring detailed hereinbelow. Accordingly, Chesapeake's substantial interests will be affected by the Commission's disposition of this Petition in that such disposition will determine whether Chesapeake's Florida Division will continue to provide service to its two largest industrial customers, and whether it will continue to provide service to its general body of customers on terms that are fair and equitable and which would preserve Chesapeake's opportunity to earn a reasonable return on the Florida Division's property used and useful in the public service.

5. Chesapeake is not aware of any disputed issues of material fact.

NEED FOR EXPEDITED TREATMENT

6. IMC and Alumax have unequivocally expressed to Chesapeake that the substantial subsidy that they have provided to the general body of customers of the Florida Division must end as quickly as possible, and that failure to obtain relief on a rigorously expedited basis will result in their pursuing their alternative course of action of physical bypass.

7. As detailed hereinbelow, Chesapeake has diligently responded to the potential loss of these two industrial customers with proposals and negotiations which culminated within the last week in the execution of two Gas Transportation Agreements for which Commission approval is requested. Chesapeake has kept Commission Staff at both the Bureau of Gas and the Division of Auditing and Financial Analysis informed of the significance of this situation and has met with Staff to discuss the various options available to retain these two customers and to minimize the effect of such alternatives on Chesapeake's earnings and on the rates applicable to the general body of customers.

8. Chesapeake therefore requests that this Petition be processed and disposed of on an expedited basis.

RATE RESTRUCTURING

9. Through the rate restructuring herein proposed, the Florida Division seeks to retain the opportunity to generate revenues at a level equal to the level generated in a recent

representative historical period. The Florida Division is <u>not</u> proposing an increase of the total revenue requirement of its system, but rather, is seeking to obtain a minimal level of relief while avoiding the expense and regulatory lag of a full rate case.

10. The Florida Division has not sought any increase in its base rates to the customers on its system since 1989. The Final Order in its last rate case is Order No. 23166, issued on July 10, 1990. A projected June 30, 1991 test year was employed in that proceeding. It is clearly appropriate to identify a more recent test year period to use as a basis for determining the appropriate level of revenues for use in the instant rate restructuring process.

11. The test year ended December 31, 1996 is a representative period for the rate restructuring process and reflects the Florida Division's revenue levels recorded prior to any special contract arrangements with the two industrial customers discussed herein. The twelve months ended December 31, 1996 is the end of the calendar and fiscal year of the Florida Division, has been audited by its independent outside auditors, and contains all appropriate year-end adjustments for income taxes and accrued liabilities.

12. As reflected in its Surveillance Report for the twelve months ended December 31, 1996, as previously filed with the Commission, the Florida Division achieved $1,363,260 in net operating income on a rate base of $15,055,150. This represents an

overall rate of return of 9.06%, which favorably compares with the authorized mid-point rate of return of 9.07%. The level of non-fuel revenues collected during 1996 and included in the Florida Division's earnings was $6,855,750. This level of revenues is used in the Cost of Service Study prepared by Chesapeake and submitted herewith (Exhibit "1") as the basis for the proposed rate restructure. Further, the Florida Division has been subject to two earnings audits by the Commission's Division of Accounting and Financial Analysis for the years ended December 31, 1994 and 1995. In said two earnings audits, the combined excess earnings totalled $292,000, which were applied by the Commission to the Florida Division's reserve for environmental clean-up costs, in lieu of a refund to customers. See Order No. PSC-95-1205-FOF-GU (September 28, 1995) and Order No. PSC-97-0136-FOF-GU (February 10, 1997). The Surveillance Report for the period ended December 31, 1996 properly reflects all adjustments made as a result of the aforesaid two audits and Commission disposition of excess earnings.

13. In the event that Chesapeake loses the throughput of its two largest industrial customers, nearly one-fifth of the Florida Division's non-fuel revenues would be lost. Under such circumstances, Chesapeake would need to pursue recovery of the lost non-fuel revenues from the remaining customers, at much higher rates than those proposed in the instant rate restructure. Chesapeake seeks instead to retain these two very large industrial

customers and reduce the cross-subsidization among its customers by restructuring its rates to more closely reflect the actual cost to serve each class of customers. The disparity among rate classes under current rates is reflected in the relative contributions by each of the Florida Division's rate classes, as set forth at page 10, 1[illegible] 16 of the Cost of Service Study attached hereto as Exhibit "1".

14. The Cost of Service Summary at Pages 13-14 of Exhibit "1" sets forth the proposed restructured rates, which are as follows:

	Monthly Customer Charge		Non-Fuel Charge (per therm)	
	Existing	Proposed	Existing	Proposed
Residential	$ 6.50	$ 7.00	$.43126	$.46905
Commercial	$ 15.00	$ 15.00	$.19532	$.221[illegible]
Commercial Large Volume	$ 20.00	$ 20.00	$.13465	$.17287
Industrial (Sales & Transportation)	$ 40.00	$ 40.00	$.07348	$.07889
Interruptible (Sales & Transportation)	$350.00	$350.00	$.04032	$.05312

The Florida Division also has three other Special Contract customers, served under its Large Volume Contract Transportation Service (LVCTS) rate schedule, which rates would not change as a result of the proposed rate restructure. These special contracts have been previously approved by the Commission.

15. The above schedule of proposed rates would apply to those

customers which would be served under the rate schedules therein identified, and would <u>not</u> apply to the two industrial customers under the Gas Transportation Agreements (Exhibits "5" and "6") for which Commission approval is requested in the instant proceeding. The rates to be charged to said two industrial customers are set forth in Exhibit B to each of said Agreements. These rates more than recover the respective cost to serve the two customers (including return). This is demonstrated at page 11, line 17 of the separate, more detailed Cost of Service Study (Exhibit "2"), and in the Supplemental Data (Exhibits "3" and "4") for IMC and Alumax, respectively. Portions of these exhibits are among the subjects of a Request for Confidential Classification separately filed herewith.

16. As shown on page 12 of Exhibit "1", under the proposed rate structure, all rate classes will move in the direction of paying a comparable share of the total cost of service. The proposed rate structure would substantially reduce the subsidy that the Florida Division's two largest customers have previously provided for the benefit of all other customers on the system, while to the extent practicable, continue to protect the general body of ratepayers from rate shock. The monthly impact on a typical residential bill of 25 therms, under the above proposed rates, is $1.44. The proposed restructuring would have no effect on total revenues, but would assist Chesapeake in retaining its two

largest industrial customers on the system, which customers would, under the proposed restructured rates, continue to generate sufficient revenues and provide significant fixed cost recovery of upstream pipeline capacity costs, and, therefore, benefit all classes of customers on the Florida Division's distribution system. Should the Florida Division's two largest industrial customers decide to no longer transport gas through the Florida Division's system, Chesapeake would lose nearly one-fifth of its non-fuel revenues. This would certainly cause Chesapeake to request a considerable increase in its residential, commercial and industrial rates through a general rate proceeding. Even more significantly, fixed upstream pipeline capacity costs would become stranded and would need to be recovered through the Commission's Purchased Gas Cost Recovery mechanism from the remaining general body of ratepayers.

GAS TRANSPORTATION CONTRACTS

17. The Florida Division has entered into two Gas Transportation Agreements, with IMC and Alumax, respectively. These agreements constitute special contracts for the sale of the Florida Division's gas transportation services in a manner or subject to provisions not specifically covered by the Florida Division's filed regulations and standard approved rate schedules. The parties understand (and specifically acknowledge within the agreements) that such special contracts are subject to the approval

of the Commission.

18. The maximum daily quantity of gas to be transported under each agreement, and the rate per dekatherm for such transportation service, are set forth in Exhibits A and B, respectively, to each said Agreement. These terms are among the subjects of a Request for Confidential Classification separately filed herewith. The redacted copies of the agreements with IMC and Alumax are appended hereto as Exhibits "5" and "6" respectively.

19. IMC is the largest phosphate producer in Polk County, Florida and operates several facilities on the Florida Division's distribution system. IMC's operations in Florida include several production facilities engaged in rock drying operations and in the production of fertilizers which are exported worldwide. IMC's New Wales facility, the world's largest phosphate production facility, is also the largest user of natural gas of any of IMC's Florida facilities.

20. Chesapeake has provided service to IMC's New Wales facility since 1985, initially under an Interruptible Sales Service rate schedule. In November, 1990, the facility became the first customer on the Florida Division's system to switch to the Commission-approved Contract Transportation Service tariff, by converting approximately 50% of the total facilities requirements to transportation service. The New Wales facility continued to operate under these arrangements until November, 997, when it

converted to 100% transportation service. The other IMC facilities served by the Florida Division are not included in the Gas Transportation Agreement; they would remain 100% Interruptible Sales Service customers.

21. As indicated hereinabove, IMC has advised the Florida Division that the substantial subsidy which it has provided to the Florida Division's general body of customers through the existing gas sales and transportation rates applicable to IMC under the Florida Division's tariff must end as quickly as possible, and that the absence of prompt action in that regard by the Florida Division and the Commission will result in the immediate physical bypass by the New Wales facility of the Florida Division's distribution system. IMC's New Wales facility is situated such that it can readily receive gas in two ways: through the Florida Division's distribution system, and/or through a direct connection with the interstate FGT pipeline. The direct connect with FGT was originally established to serve the IMC Kingsford facility. Subsequently, IMC constructed its own pipeline which runs from the Kingsford facility to the New Wales facility. In fact, IMC has in the past received gas directly from FGT for both of these facilities. Today, the Kingsford facility is not in operation. It would only require some minor updating of equipment by IMC at the interconnect, and the turn of a valve, for IMC to receive all of the New Wales facility's gas supply needs directly from FGT.

22. In February 1997, IMC sent out a nation-wide invitation to bid on gas supply and transportation for all of its North American facilities, including the New Wales site. IMC simultaneously entertained discussions and explored proposals from many different providers of natural gas service. IMC and Chesapeake were continually communicating during this process, and negotiations continued throughout the summer and fall months. Through lengthy and complex negotiations, Chesapeake has been successful in negotiating the price and terms and conditions which, if approved by the Commission, would successfully retain this customer on the Florida Division's system, while continuing to provide an opportunity for an adequate return. The Gas Transportation Agreement with IMC was executed on November 18, 1997.

23. The Gas Transportation Agreement with IMC provides for a maximum daily quantity of gas for transportation to the IMC New Wales facility, and a specific rate per dekatherm for such volume. The derivation of the cost of service for the IMC New Wales facility, and the amount of revenues projected to be generated by the contractual rate, are shown on Exhibit "2" (pages 5 through 14, column I) and Exhibit "3", hereto. These specific contractual terms and the derivation of the cost of service, are among the subjects of a Request for Confidential Classification separately filed herewith.

24. The only provision of the Gas Transportation Agreement with IMC which deviates from the Florida Division's existing Commission-approved tariff (other than the specific rate per dekatherm), is the provision in Article VII, Section 7.1 of the Agreement, that IMC will be billed a transportation rate based on actual volumes delivered. The Florida Division's existing tariff provides that the transportation rate will be billed on scheduled transportation volumes. See the rate schedules for Contract Transportation Service (CTS) and Firm Transportation Service (FTS), sheet numbers 67 and 65, respectively.

25. Effective November 1, 1993, FERC Order 636 removed interstate pipelines from the merchant function and allowed customers on the interstate pipeline to purchase natural gas directly from producers in a competitive market. In many ways, Order 636 thrust local distribution companies, such as the Florida Division, and their end-use customers, into uncharted territory.

26. The Florida Division's existing tariff was approved in March, 1994, at the advent of the FERC Order 636 era, when it was unclear what flexibility would be desired or needed by transportation customers. However, as has been a recurrent theme of comments submitted to the Commission by Chesapeake and other local distribution companies in Docket No. 960725-GU, Unbundling of Natural Gas Services, flexibility is essential for such utilities so that they can be responsive to their customers and successfully

compete for customers who provide benefits to the system. Many of the Florida Division's transportation customers only transport the baseload portion of their gas requirements. The balance of the gas required for these customers is supplied under a sales service rate schedule. Thus, billing on the basis of scheduled transportation volumes is cost-effective because the customer consumes all such scheduled volumes, thereby paying for services actually received. However, for customers who are transporting all of their gas needs, actual consumption may fluctuate greatly on a day-to-day basis. On any specific day, these customers may (under the existing tariff) be subject to substantial charges for gas scheduled but not consumed. By being billed on the basis of actual deliveries, as proposed by the Gas Transportation Agreement with IMC, the customer would pay specifically for the services actually received from the local distribution company. It bears mention that all of the Florida Division's sales customers are currently billed on actual (metered) use (see Section 5.4, General Rules and Regulations, Sheet No. 28 of existing tariff). Chesapeake submits that billing IMC for transportation service based on actual consumption is fair and reasonable.

27. Alumax is a large industrial customer on the Florida Division's system, engaged in the business of manufacturing aluminum extrusion products. A significant amount of natural gas is used in that manufacturing process.

28. The Florida Division began providing service to Alumax's Plant City facility during the mid 1960s, under an Interruptible Sales Service rate schedule. In August, 1991, Alumax chose to switch to Firm Transportation Service (FTS) offered under the Commission-approved tariff. Alumax was one of the earliest customers on the system to convert to transportation service, and the first to transport gas for 100% of its facilities requirements.

29. Alumax has also advised the Florida Division that the substantial subsidy it has provided to the general body of customers through the existing gas transportation rate applicable to Alumax under the Florida Division's tariff must end as quickly as possible, and that the absence of prompt action in that regard by the Florida Division and the Commission will result in Alumax immediately taking steps to physically bypass the Florida Division's system. Alumax's Plant City facility is located in sufficiently close proximity to the FGT pipeline to make it economically attractive for Alumax to construct the necessary natural gas pipeline to connect to the FGT system.

30. Alumax contacted Chesapeake in June 1997 to discuss options available for the provision of natural gas to the Alumax facility in Plant City. Chesapeake responded and negotiations continued through the summer. Under the Gas Transportation Agreement with Alumax executed on November 19, 1997, the Florida Division has successfully negotiated a price and terms and

conditions, which, if approved by the Commission, would retain this customer on the Florida Division's system, while continuing to provide an opportunity for an adequate return.

31. The Gas Transportation Agreement with Alumax provides for a maximum daily quantity for gas transportation and a specific rate per dekatherm for such volume. The derivation of the cost of service for the Alumax facility and the amount of revenues projected to be generated by the contractual rate are shown on Exhibit "2" (pages 5 through 14, Column J) and Exhibit "4" hereto. These specific contractual terms and the derivation of the cost of service are among the subjects of a Request for Confidential Classification separately filed herewith.

32. The only provisions of the Gas Transportation Agreement with Alumax which deviate from the Florida Division's existing Commission-approved tariff, other than the specific rate per dekatherm, are: a) the provision in Article VII, Section 7.1, that Alumax will be billed a transportation rate based on actual volumes delivered, rather than on scheduled transportation volumes, as provided by the existing tariff (see CTS and FTS rate schedules, Sheet Nos. 67 and 65, respectively, of the Florida Division's existing tariff); and b) the provision in Article V, Section 5.2 that if there is a curtailment event on the Florida Division's system, Alumax will not be economically harmed, with respect to gas supply and transportation charges, as a result of the curtailment.

33. The Florida Division's existing tariff was developed when it was unclear what flexibility would be desired or needed by transportation customers. As indicated in Paragraph 26 hereinabove, flexibility must be a key component of any gas utility's transportation tariff. Many of the Florida Division's transportation customers only transport the baseload portion of their gas requirements. The balance of the gas required for these customers is supplied under a sales rate schedule. Thus, billing on the basis of scheduled transportation volumes is cost-effective because the customer consumes all such scheduled volumes, thereby paying for services actually received. However, for customers who are transporting all of their gas needs, actual consumption may fluctuate greatly on a day-to-day basis. On any specific day, such customer may (under the existing tariff) be subject to substantial charges for gas scheduled but not consumed. By being billed on the basis of actual deliveries, as proposed by the Gas Transportation Agreement with Alumax, the customer would pay specifically for the services actually received from the local distribution company. It bears mention that all of the Florida Division's sales customers are currently billed on actual (metered) use (see Section 5.4, General Rules and Regulations, Sheet No. 28 of existing tariff). Chesapeake submits that billing Alumax for transportation service based on actual consumption is fair and reasonable.

34. The Florida Division's current tariff does not address

what would happen with transportation customers in a curtailment event caused by a peak usage event on the Florida Division's distribution system. However, if the Florida Division is unable to perform the functions required of it under the contract with a firm transportation customer due to a curtailment situation on the Florida Division's distribution system, it is only fair that the customer not be economically penalized, with respect to gas supply and transportation costs, for events which occur on that system that are outside of the customer's control. An example would be an extreme weather event necessitating curtailment of firm deliveries to industrial customers by the Florida Division in order to serve the needs of residential and small commercial customers. In such circumstance, the Florida Division may not only need the industrial customers' gas supply, but also their assigned transportation capacity on FGT's system to transport the additional gas supply to the distribution system. The Florida Division has not had a curtailment on its system since the Christmas 1989 freeze, which transpired prior to the implementation of transportation services. If the Florida Division were to have a curtailment occur today, caused by an event on its distribution system, it would treat all of its transportation customers similarly to the method specifically delineated in the proposed Agreement with Alumax. Therefore, although this provision is specifically set forth in the Alumax Agreement but is silent in the current tariff, the Florida

Division will, without undue discrimination, treat all of its transportation customers similarly. Chesapeake submits that it is fair and reasonable to keep all transportation customers whole with respect to gas supply and transportation charges in a curtailment event on the Florida Division system, as specifically set forth in the proposed Agreement with Alumax.

WHEREFORE, Chesapeake respectfully requests that the Commission:

a) address this Petition on an urgent, expedited basis, in a limited proceeding, pursuant to Section 366.076(1), Flori‿a Statutes, using its proposed agency action procedures;

b) approve Chesapeake's restructured rates, as set forth in this Petition and in Exhibit "1" hereto;

c) approve Chesapeake's Gas Transportation Agreements with IMC - Agrico Company and Alumax Extrusions, Inc., as set forth in this Petition and in Exhibits "5" and "6" hereto; and

d) grant such other relief as the Commission deems appropriate.

Respectfully submitted,

Wayne L. Schiefelbein

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