

MEMORANDUM

NOVEMBER 5, 1998 NOV-5 AM 11:37

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REPORTING

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF LEGAL SERVICES (JALE) **RUE**

RE: DOCKET NO. 980895-GU - PETITION BY FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION FOR AUTHORITY TO IMPLEMENT PROPOSED FLEXIBLE GAS SERVICE TARIFF AND TO REVISE CERTAIN TARIFF SHEETS.

*PSC-98-1485-FOF-GU*

Attached is an ORDER APPROVING FLEXIBLE GAS SERVICE TARIFF FOR THE FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION, with attachments, to be issued in the above-referenced docket. (Number of pages in order - 7)

GAJ/js

Attachment

cc: Division of Electric and Gas (Brown, Makin, Lowery, Bulecza-Banks)

Division Auditing and Financial Analysis (Revell)

I:980895or.gaj

*see 4*

**ATTACHMENT(S) NOT ON-LINE**

*2 mailed RAR 11/6/98*

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Florida  
Division of Chesapeake Utilities  
Corporation for authority to  
implement proposed flexible gas  
service tariff and to revise  
certain tariff sheets.

DOCKET NO. 980895-GU  
ORDER NO. PSC-98-1485-FOF-GU  
ISSUED: November 5, 1998

The following Commissioners participated in the disposition of  
this matter:

JULIA L. JOHNSON, Chairman  
J. TERRY DEASON  
SUSAN F. CLARK  
JOE GARCIA  
E. LEON JACOBS, JR.

ORDER APPROVING FLEXIBLE GAS SERVICE TARIFF FOR THE FLORIDA  
DIVISION OF CHESAPEAKE UTILITIES CORPORATION

BY THE COMMISSION:

On July 15, 1998, Chesapeake Utilities Corporation (Chesapeake) filed a petition for approval to implement a proposed Flexible Gas Service tariff and revise certain tariff sheets. On September 21, 1998, Chesapeake Utilities Corporation filed a revision to its petition. By this petition, Chesapeake seeks authority to implement a new Flexible Gas Service tariff. The tariff is designed to meet Chesapeake's need to compete for potential customers who have viable energy options in a way that assures existing customers will not be required to subsidize contracts entered into pursuant to the Flexible Gas Service Tariff. Chesapeake's proposed Flexible Gas Service tariff will apply to customers who demonstrate to Chesapeake that viable alternatives to natural gas exist. Only after receipt and investigation of a documented statement detailing a customer's option would Chesapeake offer Flexible Gas Service. A similar flexible gas tariff was approved by the Commission for City Gas Company of Florida in Docket No. 960920-GU, Order No. PSC-96-1218-FOR-GU, issued September 24, 1996.

DOCUMENT NUMBER - DATE

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Chesapeake also modified its petition to allow for expanded payment alternatives to customers. Chesapeake proposes to expand its payment options to include payment by credit card, direct bank draft or debit card. In addition, Chesapeake seeks authority to bill customer deposits to residential customers who are unable to physically come to the payment center. Billing the required deposit will facilitate the application process for new customers.

According to the proposed tariff for Chesapeake, customers under this class will individually negotiate contract prices, and must demonstrate that the customer has access to an alternate fuel supply. The purpose of the flexible gas tariff is to enable Chesapeake to compete for new customers, and maintain existing ones. The tariff is designed to attract new customers by having the flexibility to offer rates that can compete with other sources of energy such as propane, fuel oil, and electricity.

The tariff also serves to assist Chesapeake in maintaining existing customers who may choose to bypass Chesapeake's distribution system and connect directly to the pipeline or decide to move their establishment within the territory of a more economically favorable local distribution company.

As proposed, Chesapeake will only offer Flexible Gas Service after receipt and review of a documented statement detailing a customer's alternatives. The documented statement of alternatives, along with the executed contract, will be submitted to the Commission within 30 days of execution of the contract. The information will include the name of the customer, the contract rate, the alternative energy sources available, and a copy of the contract entered into between the customer and the Company. Because each contract will be separately negotiated, Chesapeake regards the confidentiality provision as an essential component of the tariff. Without the opportunity to demonstrate that the contracts should be held confidential pursuant to the criteria of Section 366.093, Florida Statutes, Chesapeake would not offer the program.

The proposed tariff incorporates several protective measures designed to ensure that the general body of ratepayers will not be adversely affected by the adoption of the Flexible Gas Service tariff. Chesapeake will not attempt to recover from other customers the difference between the otherwise applicable tariff rate and the Flexible Gas Service tariff, either through cost recovery clauses or directly or indirectly in future base rate

cases. For new customers served off Chesapeake's existing distribution system, the Flexible Gas Service tariff will have a floor price equivalent to the incremental cost of providing service to that customer.

To further clarify Chesapeake's objective for the tariff, to the extent that the company enters into flexible gas service agreements with customers, Chesapeake is at risk for the capital investment necessary to serve the flexible gas service customers, not the general body of ratepayers. Chesapeake indicates in its petition that there will be protective measures in place to insure that existing customers will not be adversely affected by the adoption of this tariff. One such measure Chesapeake proposes is for all capital costs, expenses and revenues associated with this tariff to be placed below-the-line for earnings surveillance report purposes.

The Company proposes to make specific adjustments to its earnings surveillance report removing all capital costs, including a portion of common plant, Operation and Maintenance (O&M) expenses, and revenues from the per books amounts. Attachment One states that the Company will use the methodology in the Company's most recently approved cost of service study to allocate common plant and embedded O&M expenses. Chesapeake agreed with us at the October 6, 1998, Agenda Conference that we have the jurisdictional right to audit and review all contracts and financial data associated with the tariff for the reasonableness of the results. Additionally, we reserve the right to change the methodology if necessary to achieve reasonable results.

Whenever the rates for a customer class are above parity, the effect is that other customer classes below parity are being subsidized to some degree. According to Chesapeake's latest cost of service study, the rate of return on customers under the "Special Contracts" tariff, a tariff with individually negotiated rates, is above parity. Chesapeake's analysis suggests that the rate of return for residential customers is below parity. Thus, Chesapeake believes that the rate of return for special contracts customers subsidizes residential rates. These subsidies would be lost if these amounts were placed below the line, because present Special Contracts customers are the potential customers for the Flexible Gas Service tariff.

The remaining ratepayers may not be fully compensated through the use of fully allocated costs. Fully allocated embedded costs

are usually less than current replacement costs. The Company is in a position to serve larger customers, in part, because of its current embedded distribution plant. The Company will be using the embedded distribution system paid for by the general body of ratepayers. By being in the natural gas business, the company will have certain advantages. It has an available experienced workforce to use on an as-needed basis for maintenance, administrative support and other customer services. Existing customers should be able to share in the benefits received from larger customer contributions to revenue. If we find that the remaining ratepayers are not being adequately compensated, we reserve the right to modify the tariff including requiring all financial transactions under the tariff to be recorded above the line. We will continue to receive regulatory assessment fees from the company on the new contracts.

By allowing Chesapeake to expand its payment options to include payments by credit card, direct bank draft or debit card, customers can benefit from the convenience of other alternatives of payment. The application process for new customers will therefore be expedited by these other alternatives.

For these reasons, and based on the understanding of the operation of this tariff as discussed in this Order, we find that Chesapeake's Flexible Gas Service Tariff, as modified, should be approved.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Division of Chesapeake Utilities Corporation's Flexible Gas Service Tariff is approved as modified by the Company and discussed herein. It is further

ORDERED that Chesapeake Utilities Corporation's rate-making treatment, operating, maintenance and administrative expenses, depreciation and amortization expenses, and revenues and related taxes relating to the Flexible Gas Service Tariff and addressed in Attachment One to this Order are hereby incorporated by reference and made a part of this Order. It is further

ORDERED that the Company shall use the accounting treatment detailed in Attachment One to this order and incorporated herein by reference. It is further


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ORDERED that the effective date of this tariff is October 6, 1998. It is further

ORDERED that if a protest is filed in accordance with the requirement 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 5th day of November, 1998.

  
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BLANCA S. BAYÓ, Director  
Division of Records and Reporting

( S E A L )

GAJ

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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.

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Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

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 proposed action files a petition for a formal proceeding, in the form provided by Rule 28-106.201, 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 November 26, 1998.

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.

**CHESAPEAKE UTILITIES CORPORATION  
FLORIDA DIVISION  
FLEXIBLE GAS SERVICE TARIFF  
DOCKET NO. 980895-GU**

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Per Staff's request, Chesapeake Utilities Corporation ("the Company") offers the following additional information with respect to its Petition for Authority to Implement Proposed Flexible Gas Service Tariff.

**Rate-making Treatment:**

To the extent that the Company enters into flexible gas service agreements with customers, the Company is at risk for the capital investment necessary to serve the flexible gas service tariff customers, not the general body of ratepayers.

**Rate Base:**

In the case of providing service to a new customer under this tariff, the Company will identify the incremental capital costs, including construction work-in-progress, required to provide service to the customer. In this instance, the Company will separately account for all such costs, excluding them from rate base.

Where the customer is served from the Company's existing distribution system, a portion of the net book value of common distribution facilities, including mains and measuring and regulating stations, reflecting the customer's distance from the nearest point on an interstate Gas Pipeline and the size of pipe required to serve that customer's peak demand for gas shall be removed from rate base.

In the case of transferring an existing customer to this tariff, in addition to excluding all incremental capital costs and common distribution facilities from rate base, the net book value of the main, service line, and metering equipment that were specifically installed to serve the particular customer shall be removed from rate base.

Furthermore, in all cases, the Company will utilize the methodology approved in its most recent cost of service study to allocate common general plant and working capital to the flexible gas service customer, which shall also be removed from rate base.

**Operating, Maintenance and Administrative Expenses:**

As part of the cost of service analysis performed by the Company in determining the Customer's rate, the Company will specifically identify all incremental costs, if any, associated with the flexible gas service tariff Customer. These expenses will primarily be related to the incremental capital required to serve the customer. In addition, the Company will utilize its most recently approved cost of service study to allocate embedded costs including general distribution



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ATTACHMENT 1  
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**CHESAPEAKE UTILITIES CORPORATION  
FLORIDA DIVISION  
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and maintenance, meter reading, customer billing and accounting, sales, and general and administrative expenses.

In future rate cases and earnings surveillance reports, the Company will exclude all operating, maintenance, and administrative costs related to this tariff as determined by this methodology.

**Depreciation and Amortization Expenses:**

The Company will exclude all depreciation and amortization expenses related to this tariff in future rate cases and in its earnings surveillance report. Depreciation and amortization expenses may be incremental and/or allocated and will be determined based on the rate base allocated to each customer under this tariff as defined above.

**Revenues and Related Taxes:**

Revenues related to this tariff will be excluded from regulated revenues. In filing quarterly earnings surveillance reports, the Company will remove actual revenues related to this tariff, as well as revenue related taxes and income taxes from its calculation of FPSC adjusted rate of return.

All cost allocations related to this tariff shall remain subject to FPSC audit.