

FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center • 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

M E M O R A N D U M

AUGUST 22, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF ELECTRIC & GAS (DILLMORE, GING, MAKIN, BULECZA-BANKS, *CLB*)
DIVISION OF LEGAL SERVICES (CULPEPPER) *AC* *UVA* *JDJ*

RE: DOCKET NO. 960738-GU - FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION PETITION FOR APPROVAL OF LOAD PROFILE ENHANCEMENT DISCOUNT RIDER TO RATE SCHEDULES C AND CLV AND FOR APPROVAL OF RATE SCHEDULE RSLE.

AGENDA: 09/03/96 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 60-DAY SUSPENSION DATE EXTENDED TO 09/03/96

SPECIAL INSTRUCTIONS: S:\PSC\EAG\WP\960738.RCM

CASE BACKGROUND

On June 17, 1996, Chesapeake Utilities Corporation (Chesapeake) filed a petition for approval of tariff modification to include a Load Profile Enhancement Rider LE and Rate Schedule RSLE. Chesapeake filed minor modifications to its petition on July 12, 1996, and August 21, 1996.

Chesapeake's current load profile reflects a significant degree of seasonal variation. Chesapeake's average monthly firm sales quantity is approximately 40-percent higher in the winter period than in the summer period. The winter period is defined as November through March; the summer period as April through October. Due to this seasonal variation, Chesapeake must negotiate for larger quantities of gas in the winter and less in the summer. Pricing and contract terms are generally less favorable under these conditions.

A local distribution company can improve its load profile by increasing summer gas consumption. Interests in new gas technology with summer intensive load profiles such as gas-fired air conditioning, gas-fired desiccant cooling, and gas-fired

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cogeneration have appeared to strengthen due to expanded product availability, technological improvements, and concern for energy efficiency.

Chesapeake's current rate schedules, including Residential (RS), Commercial (C), and Commercial Large Volume (CLV), each contain a single, year-round non-fuel tariff charge. They provide little incentive for customers to add summer-intensive gas usage. As a result of an increase in new gas technology applications, with summer intensive load profiles and significant seasonal variation in gas use, Chesapeake has filed this petition for approval of modifications to its natural gas tariff.

The Commission approved a similar petition in Docket No. 941324-GU, a Load Profile Enhancement Rider for Peoples Gas System, Inc., by Order No. PSC-95-0348-FOF-GU, issued on March 13, 1995.

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DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Chesapeake's petition for approval of the Load Profile Enhancement Rider LE to Rate Schedules C and CLV?

RECOMMENDATION: Yes. The Commission should approve Chesapeake's petition for approval of the Load Profile Enhancement Rider LE to Rate Schedules C and CLV.

STAFF ANALYSIS: Chesapeake's petition is designed to improve the load profile of the company which will result in lower costs, to both the company and the general body of ratepayers.

To qualify for service under Rider LE, the customer's incremental consumption must result in an overall increase in the customer's total annual gas usage. However, the total incremental consumption for the summer period must be at least two times the incremental consumption for the winter period. These provisions ensure that incremental load is added in a manner that enhances the load profile. In addition, Chesapeake proposes to meter incremental service separately to ensure that the rates provided by Rider LE are applied only to eligible, incremental, summer-intensive gas load. The Company will review actual consumption at the end of the year to determine if the customer is eligible for Rider LE the following year.

Rider LE would provide for incremental load service to be charged at a rate equal to 50-percent of the non-fuel charge for all incremental therms consumed during the summer period, plus the otherwise applicable charges for such service.

Chesapeake anticipates the majority of the Rider LE customers will be existing customers, or customers, located in the vicinity of existing mains. Any main extensions required to initiate service under Rider LE will be subject to Chesapeake's main extension tariff provisions. Chesapeake will incur costs for meters, pressure regulating equipment, and service lines where such facilities are necessary to initiate service. Chesapeake also anticipates minimal advertising, personnel, operations and maintenance costs associated with Rider LE.

Chesapeake projects cumulative annual load additions under Rider LE of up to 402,000 therms by the end of the fifth year and 882,000 therms by the end of the tenth year. The additional load will not only improve the Company's overall load factor, but will also result in the spreading of fixed costs over a greater

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throughput. Chesapeake also projects that within the first year, incremental revenues derived from the Rider LE will exceed the incremental cost of service.

Staff believes that Rider LE will provide incentive for C and CLV customers to increase summer gas usage, thus improving Chesapeake's load profile. As a result, Chesapeake will have the ability to negotiate more favorable and cost efficient gas contracts. Improved capacity usage and more level gas purchases will ultimately lead to lower prices. Subscribers of Rider LE will benefit from lower incremental rates. The general body of ratepayers will benefit from lower gas costs. It is Staff's opinion that Chesapeake has included necessary provisions to ensure that the Rider LE will apply only to the incremental load of qualified customers.

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ISSUE 2: Should the Commission approve Chesapeake's petition for approval of the Load Profile Enhancement Rate Schedule RSLE?

RECOMMENDATION: Yes. The Commission should approve Chesapeake's petition for approval of the Load Profile Enhancement Rate Schedule RSLE.

STAFF ANALYSIS: Chesapeake also seeks approval of a tariff modification which includes a Load Profile Enhancement Rate Schedule RSLE. This schedule is also designed to improve its load profile. Improving the load profile will result in lower costs to both the company and the general body of ratepayers.

To qualify for service under Rate Schedule RSLE, the customer's incremental consumption must result in an overall increase in the customer's total annual gas usage. However, the total incremental consumption for the summer period must be at least two times the total of the incremental consumption for the winter period. These provisions ensure that incremental load is added in a manner that enhances the load profile.

The only difference between Rate Schedule RSLE and RS is that incremental consumption over 30 therms per month, during the summer period, will be assessed at 50 percent of the non-fuel energy charge. All other applicable charges, such as purchased gas adjustment and conservation, will remain.

Chesapeake anticipates that the majority of the RSLE customers will be existing customers or customers located in the vicinity of existing mains. Any main extensions required to initiate service under Rate Schedule RSLE will be subject to Chesapeake's main extension tariff provisions. Chesapeake will incur costs for meters, pressure regulating equipment, and service lines where such facilities are necessary to initiate service. Chesapeake also anticipates minimal advertising, personnel, and operations & maintenance costs associated with Rate Schedule RSLE.

Chesapeake projects cumulative annual load additions under Rate Schedule RSLE of up to 162,000 therms by the end of the fifth year and 432,000 therms by the end of the tenth year. The additional load will not only improve the Company's overall load factor, but will also result in the spreading of fixed costs over a greater throughput. Chesapeake also projects that within the first year incremental revenues derived from the Rate Schedule RSLE will exceed the incremental cost of service.

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Staff believes that Rate Schedule RSLE will provide incentive for RS customers to increase summer gas usage, thus improving Chesapeake's load profile. As a result, Chesapeake will have the ability to negotiate more favorable and cost-efficient gas contracts. Subscribers of Rate Schedule RSLE will benefit from lower incremental rates and the general body of ratepayers will benefit from lower gas costs. It is Staff's opinion that Chesapeake has included the necessary provisions to ensure that Rate Schedule RSLE will apply only to incremental load of qualified customers. The Company will review actual consumption at the end of the year to determine if the customer is eligible for Rate Schedule RSLE the following year.

ISSUE 3: What is the appropriate effective date of the Load Profile Enhancement Rider LE and Rate Schedule RSLE?

RECOMMENDATION: The effective date for the Load Profile Enhancement Rider LE and Rate Schedule RSLE should be effective the date of the Commission vote.

STAFF ANALYSIS: Staff believes the effective date for the Load Profile Enhancement Rider LE and Rate Schedule RSLE should be the date of the Commission vote.

ISSUE 4: Should this docket be closed?

RECOMMENDATION: Yes. If no substantially affected person files a protest within 21 days of the issuance of this order, the docket should be closed. If a protest is filed within 21 days from the issuance date of the order, the tariff should remain in effect with any increase held subject to refund, pending resolution of the protest.

STAFF ANALYSIS: If no substantially affected person files a protest within 21 days of the issuance of this order, the docket should be closed. If a protest is filed within 21 days from the issuance date of the order, the tariff should remain in effect with any increase held subject to refund, pending resolution of the protest.