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September 27, 1996

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

HAND DELIVERY

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

Dear Ms. Bayo:

Enclosed for filing in the above docket are an original and 15 copies of Chesapeake Utilities Corporation's Comments On Issues Addressed at First Unbundling Workshop, along with our Certificate of Service.

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/jhg
Enclosures

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Florida Public Utilities Company
~~cc~~:w/o encl: Anne Wood
Chesapeake Utilities Corporation

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FPSC-RECORDS/REPORTING

CHESAPEAKE UTILITIES CORPORATION
DOCKET NO. 960725-GU
COMMENTS ON ISSUES ADDRESSED AT FIRST
UNBUNDLING WORKSHOP

OBLIGATION TO SERVE/SERVICE OFFERINGS

1. Should the LDC be required to be the supplier of last resort?

Ans. Chesapeake Utilities Corporation (CUC) believes that the LDC should not be required to be the supplier of last resort. However, the operational reality of LDC systems is that the LDC cannot quickly or easily disconnect a customer whose transportation gas has not been delivered by the supplier. As a result, the LDC may, by default, become the supplier of last resort. We strongly feel that any requirement to provide this service should be limited to a best-efforts basis. In order for the LDC to be able to provide this service, however, it will need to have various tools available to it. Examples of the necessary tools, include but are not limited to, no-notice service on FGT, firm transportation capacity, ability to secure excess gas supply and the ability to implement operational flow orders on the distribution system. The LDC must be compensated for the cost of providing this service. CUC envisions that some firm customers may contract for standby service, recognizing that on a best-efforts basis, the LDC may not always be able to secure back up supply at a reasonable cost. Other customers will forego the cost and security of standby service and be subject solely to the balancing provisions of the LDC. The LDC should have the ability to assess non-performance penalties directly on the supplier who fails to deliver a customer's gas, rather than on the customer themselves. The mechanisms used to determine the appropriate imbalance penalties should be determined by each individual LDC and outlined in their tariffs.

2. Should the LDC be required to offer transportation service to all classes of

customers?

Ans. LDC's should not be required to offer transportation service to all classes of customers at this time. CUC believes that transportation to residential customers should not be offered due to the negligible savings that would accrue to the customer. Transportation service to the commercial and industrial customers should be phased in over some reasonable period of time, given the administrative and operational constraints currently existing. Due to the large degree of customer variation between LDC's in Florida, each LDC may need varying lengths of time to implement systems and procedures to successfully administer and bill for transportation service. Each LDC should be permitted to propose its timetable for unbundling the commercial and industrial classes.

3. Should the LDC have the obligation to offer backup or no-notice service for firm transportation customers?

Ans. No, the LDC should not have the obligation to provide such services. LDC's should be given the option to provide these at market-based rates. In general, CUC does not envision shutting a firm customer off if its primary supplier does not deliver the customer's gas as long as serving such customer does not interfere with CUC's ability to serve higher priority firm customers. CUC would have the means to penalize the supplier for non-performance.

In the long-run, LDC's may not have the resources to be in a position to offer backup because capacity is held by others. Additionally, if third parties hold title to firm capacity, requiring the LDC to offer backup may lead to additional, unnecessary costs to consumers.

4. Should the LDC be relieved if its obligation to transport if the customer fails to secure firm supplies or backup service?

Ans. Yes. The LDC should have no obligation to transport gas to a customer if their supply has not been delivered to the city gate. As stated above in our responses to #1 and #3, it may be very difficult or impractical to shut off a firm customer whose supply does not show up. An LDC should have the option to offer back-up service to the customer at market based rates. CUC would also envision charging the supplier a penalty for non-performance.

5. Should the LDC be allowed to use transportation customers' gas in critical need situations?

Ans. Yes, but only during limited situations. Utilization of transporters' gas should only be allowed during system constraint conditions and should not be a backup for LDC supply shortfalls or be used by the LDC for economic reasons. CUC would still have a curtailment plan in its tariff. High priority customers (whether they are sales or transportation) would be the last to be curtailed. CUC envisions that its tariff would include a predetermined mechanism to compensate the transportation customer if it was forced to go off gas and CUC utilized the customer's gas to serve other customers.

6. Should LDC's be allowed to curtail gas service to a firm transportation customer who has demonstrated that their gas supply arrived at the LDC city gate?

Ans. Yes, as part of the tariff curtailment plan. CUC envisions that there will be two curtailment plans in its new tariff: (1) curtailments due to supply limitations, and (2) curtailments due to distribution system deliverability problems. Therefore, the instances where a transportation customer gets interrupted when its supplier has delivered its gas should be limited.

7. Should the LDC be allowed to require transportation customers using gas for "essential human needs" to contract for standby service?

Ans. Yes, the LDC should be allowed to require them to contract for standby service. However, the LDC should not be forced by the PSC to require these customers to take standby service. Furthermore, there may be other suppliers capable of providing backup and thus, it is not a foregone conclusion that the LDC, itself, has to provide the backup.

8. Should the LDC be required to offer customers the ability to combine unbundled and bundled services?

Ans. No. The LDC should have the option to offer both types of services to a customer. Customers should be free to choose the mix of services they want to purchase. Until customers gain experience under transportation, they may wish to transport only a percentage of their requirements. To clarify the line between bundled and unbundled services, the LDC's will need to specify "determination of delivery" policies in their tariffs. In other words, the LDC needs to designate which service is "first through the meter". These policies may differ between LDC's. CUC's tariff currently provides that transportation gas is first through the meter. We believe this policy reduces the administrative costs of balancing CUC's system. At this point, CUC anticipates offering bundled sales service to all customer classes for the foreseeable future.

9. Should LDC's be permitted to stream gas on a competitive basis using a negotiated rate?

Ans. Yes, the LDC's should have this ability to compete with marketers in order to retain customers. This alternative would allow the LDC to meet customer desires for services such as fixed price contracts. The gas supply for negotiated rate customers would be outside of the PGA. The LDC would be at risk for collection of this cost of gas. Purchasing streamed gas from the LDC would be one option for the customer. The customer would also have the opportunity to acquire its supply from a marketer. It should be noted that due to taxation differences, the LDC may not be able to offer streamed gas sales at a price competitive with a marketer.

10. Should all LDC's be subject to unbundling?

Ans: The PSC should consider either making unbundling optional for small LDC's or at least delaying the timetable for the smaller LDC's.

11. Should all LDC services be performed pursuant to filed tariffs and should any desired rate flexibility be effected under a filed rider?

Ans. All monopolistic services provided by the LDC should be performed pursuant to filed tariffs, which establish the availability, terms and conditions of the service. However, the LDC's should have the opportunity to provide competitive services at negotiated rates and terms of service. In some instances, the terms of service may be included in the tariff but the rates will not.

Examples include:

Interruptible Sales Service: Terms of service included in the tariff but the LDC has rate flexibility.

Streamed Gas Sales: The tariff would only state that streaming is allowed and the streamed supplies are not part of the PGA. Actual terms and conditions may be unique to meet a specific customer, or group of customers' needs and therefore would be part of a contract between the Company and the Customer.

Back-up Service: The terms of service and rates would be pursuant to a contract between the LDC and the customer, not the LDC's tariff.

12. Should the LDC's have the right to unilaterally terminate transportation agreements without cause?

    Ans. No. LDC transportation service will be performed pursuant to the LDC's tariff and a transportation contract between the customer and the LDC. Both the LDC's tariff and the agreement should specify under what conditions an LDC may terminate an agreement with its customer.

13. Should LDC's be required to "act reasonable" and should "sole discretion" provisions in the tariffs read "reasonable discretion"?

    Ans. LDC's are already held to reasonableness standards by the PSC even when exercising their "sole discretion." There are instances where operation of the LDC's system must remain within the sole discretion of the LDC. The LDC has ultimate responsibility for the safe operation of its system. An example would be curtailment. The LDC should have "sole discretion" in initiating curtailment as long as the LDC follows the curtailment plan specified in its tariff.

14.. Should the LDC be allowed to require a waiting period to transportation customers wanting to return to bundled service?

Ans. Yes, the LDC should have the ability to set minimum term lengths for different services. At some point, the LDC may not have any upstream firm capacity to serve the customer wishing to return to bundled service. In this case, the customer should be treated like a new sales customer. Customers that go to transportation service and opt for third party capacity should not expect the LDC to reserve future capacity for them unless they are willing to pay to have it reserved for them. Returning customers which are utilizing released recallable capacity from the LDC should be required to wait long enough to discourage them from switching back and forth between transportation and sales in an effort to game the system by taking advantage of the lowest price of gas in a given month or period (supplier vs. LDC's PGA). This behavior would result in a tremendous burden on the non-transportation customers. As a result, suggests a six or twelve month waiting period.

15. Should the price for transportation service be based on cost of service principles?

Ans. Cost-based rates are appropriate for regulated services. As such, transportation service should be based on cost of service principles. LDC's should continue to be allowed to utilize the flexible rate mechanisms in their tariffs to address competitive situations, and share the surpluses and deficits with the remaining customers.

AGGREGATION

27. Should LDC's be required to have aggregation tariffs?

Ans. LDC's should not be required to have aggregation tariffs at this time. Aggregation tariffs are one of the unbundling components that should be phased in over time. CUC believes that allowing aggregation of customers to meet a minimum transportation threshold places a tremendous administrative burden on the LDC's. However, should the PSC require aggregation tariffs for the LDC's, CUC believes that each LDC should be able to establish reasonable limits on its use. CUC would support a minimum volume threshold for the aggregation pool, a minimum volume requirement for each customer within the pool and a limit on the number of service points (customers) that can be aggregated. We would also suggest limiting the initial percentage of throughput which can participate in aggregation - ie. set a cap over the first five years. The percentage could be raised as the LDC gains experience and systems are put in place to accommodate aggregation.

28. Should capacity releases to aggregators be subject to recall to correct any mismatch between customer load and assigned capacity outside a determined tolerance?

Ans. LDC's should have the ability to recall any assigned capacity to correct mismatches or for system integrity purposes as needed. If an LDC has assigned too much capacity to a transportation customer and that capacity is being used off system, an LDC should have the right to recall that capacity as needed.

29. Should aggregators become the customer of the LDC, rather than the individual customers whose loads are being aggregated?

Ans. CUC feels that the traditional customers would still be transportation service customers of the LDC. The LDC may also have a suppliers' tariff which would outline the terms and conditions of operating on the LDC's system, including creditworthiness, non-performance situations and penalties. CUC envisions having contracts with the suppliers also. As a result of the tariff and contractual relationship, the suppliers may be considered an additional "customer" of the LDC.

30. Do LDC's tell suppliers, marketers and brokers how much gas to deliver into LDC's system for aggregation of customers, or do the suppliers, marketers and brokers tell the LDC how much gas they are delivering? How are imbalances handled and who has financial responsibility to whom?

Ans. CUC envisions that its larger transportation customers will have daily contract entitlements. For these customers, the supplier and customer would determine the daily demand and nominate the appropriate gas quantity. For small transportation customers, CUC proposes to have the LDC specify the daily quantity that must be delivered by the supplier for the small customer's account.

The PSC should allow each LDC to develop its own balancing provisions based on the flexibility it is able to provide to transportation customers and its unique operating situation.

The financial responsibility for imbalances depends on the established relationship between LDC, the supplier, and the customer. If an aggregation contract or tariff incorporates responsibility for balancing, the supplier or aggregator is responsible for any charges resulting from imbalances. If the customer is not aggregating and takes responsibility for its own nominations and balancing, the customer is responsible for any imbalances and resulting charges.

31. Should customers [aggregators] be able to order transportation service by phone or simply ask their agents to take care of arranging service?

Ans. CUC will require a transportation service agreement to be executed between the customer and LDC before CUC initiates transportation service for a customer on its system. After the customer has executed an agreement, then the customer or its designee would be able to schedule/nominate volumes to be delivered to the customer's facility. CUC envisions that the nomination will be by fax so that there is a paper trail to verify all nominations and changes.

32. Should aggregators be afforded the same load management tools used by the LDC in its capacity as supplier of bundled sales service?

a) hold the upstream capacity of their customers, if asked to do so

Ans. CUC plans to require that, at minimum, firm customers are assigned part of CUC's upstream capacity. The release of such capacity will be governed by FGT's tariff. The customer may be able to re-release the capacity to its supplier. However, the LDC may place certain recall restrictions on the capacity (for example, if the customer terminates its transportation agreement with the LDC). CUC supports the idea that the capacity follows the customer. If the customer were to change suppliers, the capacity would return to the customer to be re-released to its new supplier.

b) receive and pay their customer's transportation bills

Ans. This option should be left to the individual LDC's to decide. The traditional customer (on-system) has the ultimate financial responsibility to the LDC. Some LDC's may be willing to provide a second copy of a customer's bill to the supplier, if requested by the customer, or possibly for a fee.

c) balance all their customers' usage as one pool

Ans. CUC does not believe that it will be operationally feasible to allow aggregators the ability to balance all their customers' usage as one pool without some restrictions. If aggregation tariffs are required of the LDC's, the LDC's should be able to restrict the type of customers included in a pool (ie. firm and non-firm). The LDC's should also be allowed to restrict pooling of customers from different areas on the LDC's system. Pooling would be most likely be feasible for firm customers within the same operational area of the system. Each LDC should be allowed to determine its balancing provisions based on its individual operating conditions.

d) choose to have all LDC penalties and operational flow orders direct at their pools, rather than their customers

Ans. This should not be required of all LDC's. An LDC should be allowed to determine its balancing provisions based on its individual operating conditions. From CUC's perspective, penalties directed at the pool may be acceptable, but operational orders would not. For example, consider a situation where the LDC initiates its curtailment plan and the supplier has customers in its pool from more than one rate class. These customers could be in different priority levels in the curtailment plan. In this instance, the pool concept would not work.

e) aggregate any collection of customers

Ans. If aggregation tariffs are required of the LDC's, the LDC should have the ability to limit the types of customers included for aggregation in a single pool. LDC's should also initially be able to limit the size of individual customers included for aggregation. (see response to #27)

f) aggregate upstream capacity for the purpose of submitting one city gate nomination for their customers

Ans. If customers choose to re-release their firm capacity to their supplier and the pooled customers are behind common city gate stations, an LDC may allow the aggregator to submit a single nomination for each city gate station. Specific nomination and scheduling requirements may differ between LDC's. If customers choose a variety of bundled and unbundled services, the aggregator would still need to communicate the individual customers' transportation nominations in order to calculate the determination of deliveries. As a result, CUC believes there may be diminishing returns associated with pooling for customers who choose both bundled and unbundled services.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Unbundling of Natural) Gas Services))	Docket No. 960725-GU Filed: September 27, 1996

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of Chesapeake Utilities Corporation's Comments On Issues Addressed at First Unbundling Workshop has been furnished by hand delivery (*) or by U.S. Mail to the following individuals, on this 27th day of September, 1996:

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