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January 27, 1997

Blanca S. Bayo, Director  
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Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

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 Responses for Workshop #3, 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/pav  
Enclosures

ACK	<u>cc w/encl:</u>	Anne Wood (w/cover letter & certificate of service only)
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CAF	<u>      </u>	Marc Schneidermann
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LIN	<u>  5  </u>	
OPC	<u>      </u>	
RCH	<u>      </u>	
SEC	<u>  1  </u>	
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FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Unbundling of Natural Gas)  
Services )

Docket No. 960725-GU  
Filed: January 27, 1997

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of Chesapeake Utilities Corporation's Responses for Workshop #3, have been furnished by hand delivery (\*) or by U.S. Mail to the following individuals, on this 27th day of January, 1997:

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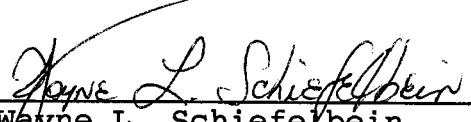
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**CHESAPEAKE UTILITIES CORPORATION  
RESPONSES FOR WORKSHOP #3  
UNBUNDLING NATURAL GAS SERVICE  
DOCKET 960725-GU**

GENERAL COMMENTS

Chesapeake Utilities Corporation (CUC) believes that the series of workshops held by the staff of the Florida Public Service Commission have been valuable in exploring some of the issues of unbundling LDCs' services and the mechanisms necessary for successful execution of this process. CUC also believes that there is more to unbundling than what has been discussed during the workshops. Some very important questions have not been addressed to date. These questions are: 1) Are there economic benefits to ratepayers as a whole from unbundling LDCs; and, 2) Is further Commission unbundling action warranted? CUC believes that what has been demonstrated in the workshop discussions and comments is that unbundling LDCs will potentially only shift costs from one class of customers (the largest with good load factors) to all other classes of customers.

We believe that the workshops have clarified that transportation only saves money to end-use customers in two (2) primary ways: through the use of discounted capacity and the avoidance of certain taxes and fees. CUC acquired primary firm capacity on FGT at FERC approved tariff rates for the benefit of all of our customers. The costs associated with this capacity are paid to FGT regardless of whether or not this capacity is fully utilized or not. If it is not fully utilized, then CUC attempts to release the unused portion on the secondary market. All unrecovered costs of this capacity are then rolled back into our PGA and are paid for by the sales customers on our system. Potentially, a third party can purchase our unused capacity on the secondary market, at a steep discount, and resell this capacity, and the associated supply, to transportation customers. The transportation customer receives some benefit from the discounted capacity, the third party receives benefits from marking up the discounted capacity and the remaining sales customers pay for the redistribution of these savings/profits.

Third parties may also transact these sales in such a manner as to avoid the taxation of the sale. This reduces the amount of revenues received by the State of Florida, the FPSC and local governments. This lost revenue must be compensated for by either a reduction in services rendered by the governing body or, more likely, an increase in taxes and fees to the taxpayers or remaining sales customers of the utility. To demonstrate the impact on CUC's system alone, the avoided gross receipts taxes and special assessment fees during 1996 were approximately \$274,747. On many systems there would have also been an avoidance of State sales tax and local government taxes and fees, but on our system these amounts were either zero or minimal.

In summary, it is CUC's belief that unbundling does not result in savings to our entire body of customers but rather simply redistributes costs among the various customer classes. It is also our belief that unbundling may place a heavier burden on the taxpayers of the state to make up for the avoidance of taxes afforded by transporting through third party transactions. We believe that these issues should be recognized and addressed by the Commission and Commission staff before proceeding with further unbundling of LDCs in Florida.

## BILLING AND RATES

43. Which dollars would flow to PGA customers, and which services would remain subject to the PGA?

**Ans.** CUC believes that the LDC should continue to provide sales services to both firm and interruptible customers that desire them. The LDC's cost of gas to provide such traditional sales services would remain part of the PGA. The PGA would contain, at minimum, the wellhead cost of gas and FGT demand and commodity charges including unused upstream capacity charges.

Today, all balancing costs are also included in CUC's PGA mechanism. Cashouts with third parties and on-system transportation customers are net in the PGA with the benefit flowing to the sales customers.

44. Should the LDC's have the discretion to bill the customer in one of two ways?

- a. Company bills distribution and commodity components.
- b. Company bills distribution component, supplier bills commodity component.

**Ans.** Yes. At minimum, the LDC would invoice its customers' distribution and transportation charges (the non-fuel component). LDC's should also be allowed to offer a billing service to suppliers which do not want to directly invoice customers for the gas component. This billing service should be negotiated between the LDC and supplier and not be under PSC jurisdiction.

45. Should the PSC adjust rates to parity before requiring further unbundling of LDC's?

**Ans.** No. The Commission should not require all utilities to simultaneously file rate cases. If an LDC decides to align its rates among classes, it should be permitted to file a rate proceeding before unbundling.

## OTHER ISSUES

46. Should LDC's be required to unbundle meter reading, billing, and collection services?

**Ans.** No. CUC does not feel that unbundling of such administrative functions should be mandated. The primary focus of this docket should be unbundling of transportation service from merchant service. Outsourcing of such things as meter reading, billing and collections should be left up to the management of the LDC.

47. Should the LDC be required to file unbundled tariffs within 90 days of the issuance of a Commission Order on unbundling?

**Ans.** No. CUC believes that 90 days will not be sufficient time for LDC's to address administrative and operational issues that will be required to implement unbundling. LDC's will need to address staffing requirements and training needs, as well as implement changes to field equipment, and information and billing systems in order to implement unbundling on their systems. CUC believes that LDC's should be able to propose individual unbundling deadlines within some reasonable period of time, such as 180 days from the date the order in the docket becomes final.

48. Who is responsible for tax collection and remittance, who is responsible for bad debts and collection costs, etc.?

**Ans.** The LDC should be responsible for tax collection and any cost related to services that it is providing. For cases where a third party supplier is selling gas to a customer behind the LDC, the supplier should be responsible for collection and remittance of taxes, bad debts and collections, etc.

49. Who is responsible for the costs of educating customers about transportation: LDC's, marketers, state government?

**Ans.** The parties that stand to benefit the most from unbundling should help fund this effort. This includes the new transportation customers and the third party gas suppliers. They should have to bear some of these costs. This could be handled through a transition cost surcharge.

50. Should LDC's be permitted to recover costs of educating customers if they are required to perform that service?

**Ans.** Yes. See response to issue 49.

51. Should the FERC Gas Tariff of FGT be used as an unbundled tariff model?

**Ans.** FGT's tariff should not be used as an unbundled tariff model for the Florida LDC's. The LDC's differ widely with respect to each other. The services offered and balancing tools used by FGT may not be appropriate for each individual LDC. Each LDC should be allowed to develop and present unbundled tariffs which are appropriate for its unique situation.

52. Should the LDC's start up issues allow for implementation of procedural requirements (such as paperwork, metering, initial eligibility limitations, access fees, and mandatory agreements) if they act as barriers to service?

**Ans.** Each LDC should be allowed to implement the necessary requirements it needs to offer transportation and still operate effectively. The PSC will have the opportunity to review the reasonableness of such requirements in each LDC's unbundling filing.

53. Should supplier's competitively sensitive information, such as upstream contracts, remain confidential?

**Ans.** In general, this is a moot issue since the PSC has no jurisdiction over suppliers. However, the LDC may require certain information from the suppliers to administer transportation services. For instance, the supplier will need to provide the LDC with enough information on the upstream contract(s) to allow the LDC to confirm deliveries to its distribution system. Such information is provided today and typically is not very sensitive. The supplier and its customer should not have a problem making this information available.

54. Should LDC unbundled rates be held confidential to prevent the marketer/broker a competitive advantage?

**Ans.** Unbundled rates would become part of the utilities' tariffs and as such would not be held confidential. Confidential treatment of special contracts for negotiated rates would be considered on a case-by-case basis under existing PSC confidentiality rules.

55. What types of alternative regulation of unbundled rates should take place to allow unbundled service to "stand alone" from continued regulation of bundled customer services?

**Ans.** Unbundled services should not be confused with deregulated services. LDC rates today include, in one single charge, the full spectrum of services used by the utility to deliver gas to the customer's meter. Unbundling breaks that full spectrum into all of its components and lets the customer choose which ones to buy. Some of those unbundled services will still be regulated because they are considered as

monopoly services and others will become unregulated because they are considered sufficiently competitive.

Unregulated competitive services should be free of any regulation.

Regulated monopoly services can still be regulated under rate of return, cost based regulation, but probably should not be. Commission decisions in this docket can be expected to result in a smaller piece of total LDC revenues remaining subject to Commission jurisdiction. It follows that there should be less need for regulatory protection. The cost of future regulation of monopoly services must be balanced against any perceived benefit to the state's natural gas consumers. The Legislature and the Commission must evaluate whether the cost of the protector exceeds the value of the protection. Current detailed levels of regulation may well be excessive.

Incentive rates, market-based rates and negotiated rates are alternatives the LDC's and Commission may want to consider. Hundreds of interrogatories in formal rate proceedings are very expensive. Detailed micromanagement of LDC's must be replaced with more common sense prudence reviews of utility actions. Future regulation should be further investigated following a period of experience with the regulatory change that will result from the Commission's decisions in this docket.

56. Should the Commission mandate intensive technical conferences on each LDC's unbundling proposal: involving all interested parties?

**Ans.** CUC believes it is reasonable to assume that all parties to an LDC's unbundling filing (customers, suppliers, utility) will participate in round-table discussions as a means to attempt to reach a consensus on the issues. We do not believe technical conferences need to be mandated by the PSC.

57. Should there be mandatory review of unbundled tariffs: Should there be a plan to come back and fine-tune tariffs implemented?

**Ans.** CUC believes that unbundling implementation schedules may involve phasing in services over a period of years. Since in reality, the process will be reviewed during the phase-in period, any necessary adjustments can be made during that time. CUC does not believe it is necessary for the PSC to require a mandatory post-implementation review of the unbundling tariffs.

58. Should large customers simply be deregulated?

**Ans.** CUC has not sufficiently analyzed the impact of deregulating large customers to comment definitively on this issue. Deregulation of the gas commodity services



for large customers is reasonable as long as the market for those services is sufficiently competitive. Distribution services may be competitive for large customers that can physically bypass the LDC by going to the pipeline, economically bypass the LDC by switching to oil or electricity, or move out of the service territory. Some of the LDC's have flexible rate tariffs today which are useful for addressing these competitive circumstances. Additionally, CUC would propose that the LDC's be given greater flexibility to negotiate rates with their large customers.

59. What issues are involved with total deregulation; cost allocation, tax collection and remittance, conflict resolution, etc.?

**Ans.** Cost Allocation: This is one of the more significant issues related to deregulation assuming only part of the LDC's services are deregulated. The PSC and LDC would have the challenge of determining what portion of the LDC's overall cost of service is attributable to the customers receiving unregulated services. Some mechanism would have to be developed for allocating facilities/plant.

Taxes Collection and Remittance: Our assumption is that the LDC still retain the tax collector role for taxes on services it provides. See response to issue 48.

Conflict Resolution: CUC assumes that during the initial phases of deregulation, it will only be the rates that are deregulated. The LDC's terms and conditions of service would not. The tariff would govern conflict resolution. Ultimately, when the service becomes fully deregulated, a contract between LDC and customer would dictate how conflicts are resolved.

Other issues include such things as territorial boundaries, oversight of safety matters, and collection of social costs.

60. Should the PSC use a different lighter-handed regulation for small LDC's as they move to unbundle services and to increase transportation?

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

61. Should the PSC permit greater discretion to LDC's in setting rates for commercial and industrial customers?

**Ans.** Yes. LDC's should continue to have the ability to use flexible rates and should be allowed to develop a wider range of services. CUC envisions expanding its three current commercial/industrial customer categories into five or six categories.

The PSC should also give LDC's more freedom to negotiate rates with both firm and interruptible customers. LDC's should have the ability to use flexible tariffs or special discounts for customer retention.

62. Should the PSC allow LDC's greater flexibility in setting unbundled transportation rates?

**Ans.** See response to issue 61.

63. Should the Legislature equalize tax levies on all suppliers?

**Ans.** CUC does not support any additional taxes that would be paid by gas consumers. Today, suppliers do have a competitive advantage over the LDC's because they avoid some taxes. The Legislature should equalize tax levies by reducing taxation on the sale and delivery of natural gas to be equal with oil and other unregulated energy suppliers.

64. Should municipals with their different state and federal tax treatments, be scrutinized when acting as a marketer outside of their municipal territory and competing with unbundled FPSC-regulated LDC market affiliates and independent natural gas marketers?

**Ans.** Since the PSC has no jurisdiction over the rates and actions of municipal utilities operating as a marketer, this question is moot.

65. Should the Legislature (or perhaps PSC) set requirements for financial capability of suppliers, marketers and brokers?

**Ans.** No. LDC's should have the ability to establish creditworthiness standards for suppliers, marketers and brokers as they would for any other customer on its system. The LDC's may also opt to have an agreement with suppliers to help ensure recovery of costs billed directly to suppliers and marketers.

66. Should the Legislature give the PSC authority to pre-qualify suppliers, marketers and brokers?

**Ans.** No. See response to issue 65. Each LDC should have the ability to set its own standards. CUC does not believe that the PSC should perform the supplier screening.