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ORIGINAL COPY

February 19, 1997

Blanca S. Bayo, Director  
Division of Records and Reporting  
Florida Public Service Commission  
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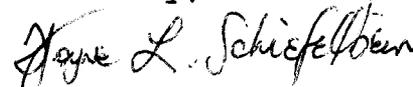
RE: Docket No. 960725-GU  
Unbundling of Natural Gas Services

Dear Ms. Bayo:

Enclosed for filing in the above docket are an original and 15 copies of Chesapeake Utilities Corporation's Response to February 6, 1997 Staff Memorandum, together 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

ACK \_\_\_\_\_

AFA \_\_\_\_\_

APP \_\_\_\_\_

CAF \_\_\_\_\_ WLS/pav  
CMU \_\_\_\_\_ Enclosures

CTR \_\_\_\_\_ cc w/encl:

EAG \_\_\_\_\_

LEG 1

LIN 5

OPC \_\_\_\_\_

RCH \_\_\_\_\_

SEC 1

WAS \_\_\_\_\_

OTH \_\_\_\_\_

Anne Wood (w/cover letter & certificate of service only)

Chesapeake Utilities Corporation

Marc Schneidermann  
Florida Public Utilities Company

DOCUMENT NUMBER-DATE

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February 18, 1997

Mr. Wayne R. Makin  
Florida Public Service Commission  
Division of Electric and Gas  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0868

RE: Docket No. 960725-GU

Dear Wayne,

This is in response to your memorandum dated February 6, 1997 in which you requested responses to the following question.

Question:

Should the Commission proceed to further direct the LDC's to unbundle natural gas services?

Chesapeake Utilities Corporation's Response:

Chesapeake Utilities Corporation ("CUC") submitted written comments on the unbundling of natural gas services in Florida at the outset of these proceedings in which we supported Staff's investigation into "unbundling". However, we identified several issues that Staff needed to address in order to more clearly define the objectives of this docket. The five issues addressed in our comments are restated below.

- 1) What is Staff's definition of unbundling?
- 2) Staff should convey to all parties its intended goal of these proceedings.
- 3) Staff should consider whether all of the Florida LDCs should be subject to unbundling.
- 4) To what degree will LDCs be required to unbundle?
- 5) What will be the implementation schedule for unbundling?

CUC has participated in the three PSC sponsored workshops on unbundling and has submitted written comments at the conclusion of each workshop. At this point in the process, we believe that the only issue listed above to which we may have reached consensus is issue #1. We believe

that all parties would agree that an appropriate definition of unbundling is the separating of the LDC's traditional sales service into its individual components (i.e., pipeline capacity, gas commodity, transportation, storage, etc.) and determining how the LDC will recover the segregated costs of these services that were formerly borne by the sales customers.

To date we do not yet know Staff's goal with respect to this docket (CUC issues #2, #3, #4 and #5). Chesapeake does not believe that the Commission should proceed to further direct the LDCs to unbundle natural gas service until the goals of this docket are developed and parties have an opportunity to respond to them. There are some very important questions related to unbundling which 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 to date 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.

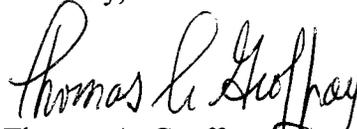
Third parties may also transact these sales in such a manner as to avoid the taxation of the sale in the State of Florida. This reduces the amount of revenues received by the State of Florida, the FPSC and local governments. This lost revenue must be compensated for by either a reduction in services 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 regulatory 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 in conjunction with the development of goals for this docket before proceeding with further unbundling of LDCs in Florida.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Thomas A. Geoffroy". The signature is written in a cursive style with a large initial 'T' and 'G'.

Thomas A. Geoffroy  
Florida Regional Manager

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Unbundling of Natural Gas Services)

Docket No. 960725-GU  
Filed: February 19, 1997

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of Chesapeake Utilities Corporation's Response to February 6, 1997 Staff Memorandum has been furnished by hand delivery (\*) or by U.S. Mail to the following individuals, on this 19th day of February, 1997:

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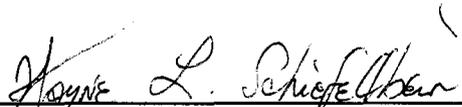
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