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M E M O R A N D U M

March 12, 1998

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

FROM: DIVISION OF ELECTRIC & GAS (MAKIN, BULECZA-BANKS, LOWERY, BROWN)
DIVISION OF AUDITING & FINANCIAL ANALYSIS (L. ROMIG, REVELL)
DIVISION OF LEGAL SERVICES ([illegible])

RE: DOCKET NO. [redacted]-GU - PETITION OF FLORIDA DIVISION OF CHESAPEAKE UTILITIES FOR LIMITED PROCEEDING TO RESTRUCTURE RATES AND FOR APPROVAL OF GAS TRANSPORTATION AGREEMENTS

AGENDA: 03/24/98 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\EAG\WP\971559GU.RCM

CASE BACKGROUND

The Florida Division of Chesapeake Utilities Corporation (Chesapeake) currently serves approximately 8,800 residential, commercial, and industrial customers in Polk and Osceola counties.

Chesapeake has not sought any increase in base rates since 1989. Because of the industrial nature of Chesapeake's customer profile, and the close proximity of the industrial customers to the Florida Gas Transmission (FGT) pipeline, Chesapeake has a significant exposure to loss of load of industrial customers through physical bypass to the FGT pipeline.

On November 26, 1997, Chesapeake filed a Petition for Limited Proceeding to Restructure Rates and approval of Gas Transportation Agreements. On February 10 and 11, 1998, staff conducted customer meetings in Chesapeake's service areas of Winter Haven and Plant City to hear and respond to customer testimony and questions related to Chesapeake's petition. No customers attended the Winter Haven or Plant City meetings.

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FPSC-RECORDS/REPORTING

ISSUE 1: Should the Commission approve Chesapeake's petition for a limited proceeding to restructure its rates?

RECOMMENDATION: Yes. The Commission should approve Chesapeake's petition to restructure its rates.

STAFF ANALYSIS: Chesapeake's proposed rate restructuring is designed to retain existing industrial customers and to the extent possible, ensure equity among all rate classifications.

Under the proposed rate restructuring, each rate class will pay rates that reflect the actual cost of service. Chesapeake has established the rates from a cost of service study using 1996 data. This is the most recent Commission-audited data available. It is important to note that Chesapeake will be held revenue neutral in the proposed rate restructuring.

Chesapeake has not sought an increase in its base rates since 1989. The test year used in this proceeding is the 12 months ended December 31, 1996, which is a representative period for the rate restructuring process. The test year reflects Chesapeake's revenue levels recorded prior to any special contract arrangements with two industrial customers. The 12-month period ended December 31, 1996, is the end of the calendar and fiscal year of Chesapeake and has been audited by its independant outside auditors and contains all appropriate year-end adjustments for income taxes and accrued liabilities.

As reflected in its surveillance report for the 12 months ended December 31, 1996, the company's achieved NOI is $1,363,260 on a rate base of $15,055,150. This represents an achieved return on equity of 10.96%. Chesapeake's authorized midpoint on its authorized return on equity is 11%. Total non-fuel revenue for 1996 was $6,855,750.

If Chesapeake were to lose the throughput of its two largest industrial customers, one-fifth of non-fuel revenue would be lost. Chesapeake would need to pursue recovery of the lost non-fuel revenues from the remaining customers, at rates higher than those proposed in this filing. Chesapeake seeks to retain these two large industrial customers, and reduce the cross-subsidization among its customers by restructuring its rates to more closely reflect the actual cost to serve each customer class.

DOCKET NO. 971559-GU
DATE: March 12, 1998

Based on its fully allocated embedded cost of service study, Chesapeake has proposed restructured rates as follows:

RATE CLASS	PRESENT CUSTOMER CHARGE	PROPOSED CUSTOMER CHARGE	PRESENT NON-FUEL ENERGY CHARGE	PROPOSED NON-FUEL ENERGY CHARGE
RESIDENTIAL	$6.50	$7.00	$.43126	$.46905
COMMERCIAL	$15.00	$15.00	$.19532	$.22115
COMMERCIAL LG.VOLUME	$20.00	$20.00	$.13465	$.17287
INDUSTRIAL	$40.00	$40.00	$.07348	$.07889
INTERRUPTIBLE	$350.00	$350.00	$.04032	$.05312

	PRESENT REVENUE	PRESENT RATE OF RETURN	PROPOSED REVENUE	REVENUE INCREASE AND %	PROPOSED RATE OF RETURN
RESIDENTIAL	1,659,667	-10.77%	1,812,929	153,262 9.23%	-1.68%
COMMERCIAL	1,052,182	3.47%	1,184,563	132,381 12.58%	9.08%
COMMERCIAL LG VOLUME	242,459	- 0.63%	314,488	72,029 29.71%	9.08%
INDUSTRIAL	1,224,437	5 33%	1,342,531	118,094 9.64%	9.08%
INTRRUP-TIBLE	824,651	-0.02%	1,088,539	263,888 32.00%	9.09%
SPECIAL CONTRACT	1,926,741	59.14%	1,187,088	-739,653 -38.39%	23.62%
TOTAL	6,930,137	9.06%	6,930,137	0	9.06%

The monthly impact of the proposed increase on a typical residential customer using 25 therms, is $1.44.

ISSUE 2: Should the Commission approve Chesapeake's petition for approval of Gas Transportation Agreements?

RECOMMENDATION: Yes. The Commission should approve Chesapeake's petition for approval of Gas Transportation Agreements.

STAFF ANALYSIS: IMC-Agrico Company (IMC) and Alumax Extrusions, Inc. (Alumax) are Chesapeake's two largest industrial customers, who contribute one-fifth of Chesapeake's total non-fuel revenues. Unlike most other local distribution companies in Florida, Chesapeake's 60 largest customers consume 90% of the total annual throughput of 130,000,000 therms.

Because of the industrial nature of Chesapeake's customer profile, and the close proximity of the industrial customers to the (FGT) pipeline, Chesapeake has a significant exposure to loss of load of industrial customers through physical bypass to the FGT pipeline.

IMC and Alumax have advised Chesapeake of their intention to physically bypass Chesapeake's system unless appropriate agreements are entered into with Chesapeake.

Chesapeake has entered into two Gas Transportation Agreements, with IMC and Alumax. These agreements constitute special contracts for the sale of transportation services in a manner not specifically covered by Chesapeake's filed regulations and standard approved rate schedules. The parties understand, and specifically acknowledge within the agreements, that the special contracts are subject to the approval of the Commission.

As part of its petition, Chesapeake requested confidential treatment of certain information contained in the Exhibits 2-6. On March 3, 1998, the Commission issued Order No. PSC-98-0353-CFO-GU granting Chesapeake's request for confidential treatment. Chesapeake alleged that public disclosure of this information would impair the ability of Chesapeake to negotiate terms and conditions in future Gas Transportation Agreements that are most favorable to Chesapeake and its general body of customers. Public disclosure of the pricing information would tend to cause irreparable harm to the competitive interest of Chesapeake and the two entities with whom it has negotiated Gas Transportation Agreements.

ISSUE 3: What is the appropriate effective date for implementation of Chesapeake's proposed rate restructuring and Gas Transportation Agreements?

RECOMMENDATION: The effective date for Chesapeake's proposed rate restructuring should be effective with all meter readings taken on or after May 2, 1998. Gas Transportation Agreements should be effective on May 1, 1998.

STAFF ANALYSIS: Staff believes the effective date for Chesapeake's rate restructuring should be effective with all meter readings taken on or after May 2, 1998. Gas Transportation Agreements should be effective on May 1, 1998. Chesapeake has proposed these dates to coincide with its meter readings and billing cycles, and staff believes this is reasonable.

ISSUE 4: Should this docket be closed?

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