



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-

RECEIVED-FPSC
98 JUN 18 AM 11:47
RECORDS AND REPORTING
see RVE RT
SM DM 108

DATE: JUNE 18, 1998

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

FROM: DIVISION OF ELECTRIC AND GAS (BROWN, MAKIN, LOWERY, BULECZA-BANKS) *CB*
 DIVISION OF LEGAL SERVICES (J. CRUZ-BUSTILLO) *see*
 DIVISION OF AUDITING AND FINANCIAL ANALYSIS (MERTA) *SM DM 108*

RE: DOCKET NO. 980630-GU - PETITION FOR APPROVAL OF REVISED TARIFF SHEETS AND TRANSPORTATION SERVICES AGREEMENTS WITH QUINCY FARMS AND FERNLEA NURSERIES, INC. BY FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION.

AGENDA: 06/30/98 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 60-DAY SUSPENSION DATE: 06/30/98

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\EAG\WP\980630.RCM

CASE BACKGROUND

On May 24, 1998, the Commission approved Chesapeake's petition for rate restructuring in Docket No. 971559-GU, Order No. PSC-98-0455-FOF-GU. As a result of the rate restructuring, the non-gas energy charge rate for the Firm Transportation Service Rate Schedule (FTS) and Industrial Sales Service Rate Schedule (I) increased from 7.348 cents per therm to 7.889 cents per therm.

On May 7, 1998, the Florida Division of Chesapeake Utilities Corporation ("Chesapeake") filed its petition to provide firm transportation service to Quincy Farms and Fernlea Nurseries. Chesapeake and the involved parties entered into a Transportation Service Agreement that provides for a fixed rate per therm for two years.

DOCUMENT NUMBER-DATE

06473 JUN 18 98

FPSC-RECORDS/REPORTING

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Chesapeake's petition for approval of Transportation Services Agreements and Revised Tariff Sheets?

RECOMMENDATION: Yes. The Commission should approve Chesapeake's petition for approval of Transportation Services Agreements and Revised Tariff Sheets. (Brown, Makin, Lowery, Bulecza-Banks, Merta)

STAFF ANALYSIS: In April 1997, Chesapeake met with representatives from the City of Chattahoochee, City of Quincy, and the Town of Havana regarding its intention to provide natural gas service in Gadsden County. Each municipality indicated they had no objection to Chesapeake's plan to offer natural gas service in Gadsden County.

Subsequent to meeting with the municipalities, Chesapeake met with Quincy Farms and Fernlea Nurseries, to determine whether they could agree on the terms for natural gas service. These negotiations led to a signed transportation agreement. The agreement calls for a two-year fixed non-gas energy charge of 7.348 cents per therm, and a monthly customer charge of \$40. These rates reflect the Commission approved rates that were in place prior to Chesapeake's Commission-approved rate restructuring. All economic analyses and discussions between the parties were conducted before Chesapeake's rate restructuring case was finalized.

The addition of these customers on the negotiated rate will not cause Chesapeake to earn above its authorized return on equity (ROE), nor will it adversely affect service to existing customers. As reflected in its 1997 Earnings Surveillance Report for the 12 months ended December 31, 1997, Chesapeake's achieved operating income is \$1,201,806 on a rate base of \$16,109,310. This represents an achieved ROE of 7.46%. Chesapeake's authorized midpoint on its ROE is 11%. The impact of adding these customers is expected to increase earnings by approximately \$1,678 after considering costs, including O&M, depreciation, taxes other, income taxes, and a return on investment. The revenue impact of a 1% change in ROE is approximately \$121,100.

These customers will be charged a rate lower than Chesapeake's current tariff for the first two years. The rates will be more than enough to cover the cost to serve. As indicated in Exhibit 2, Attached to Chesapeake's petition, the projected cost to serve these customers, including Chesapeake's authorized return equates to 7.306 cents per therm. Since Chesapeake will be charging these customers a rate of 7.348 cents per therm, the rate will be more than enough to cover the cost to serve. In addition, the company filed revised tariff sheets to reflect Gadsden County as part of their service area.

Accordingly, Staff recommends Approval of Transportation Services Agreements and Revised Tariff Sheets for the following reasons:

- The original negotiations were done prior to the timing of the Florida Division's filing of a Rate Restructure proceeding.
- The rates are sufficient enough to cover the cost to serve. Therefore, ratepayers will not be adversely affected by the addition of Quincy Farms and Fernlea Nurseries.

ISSUE 2: Should this docket be closed?

RECOMMENDATION: Yes. If no person, whose substantial interests are affected by the Commission's order in this docket timely files a protest within 21 days of the issuance of the order, this docket should be closed. If a protest is timely filed, the tariff should remain in effect with any revenue increase held subject to refund, pending resolution of the protest. (Cruz-Bustillo)

STAFF ANALYSIS: If no person, whose substantial interests are affected by the Commission's order in this docket timely files a protest within 21 days of the issuance of the order, this docket should be closed. If a protest is timely filed, the tariff should remain in effect with any revenue increase held subject to refund, pending resolution of the protest.