

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

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In the Matter of : DOCKET NO. 000108-GU
:
REQUEST FOR RATE INCREASE BY :
FLORIDA DIVISION OF :
CHESAPEAKE UTILITIES :
CORPORATION. :

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* AND DO NOT INCLUDE PREFILED TESTIMONY. *
* *

PROCEEDINGS: WINTER HAVEN SERVICE HEARING

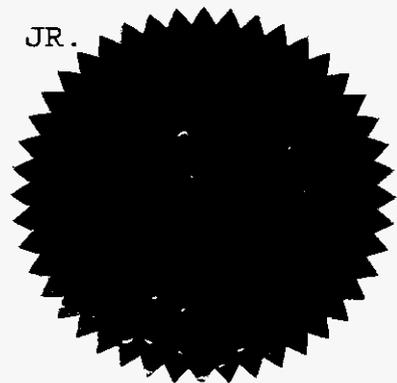
BEFORE: CHAIRMAN J. TERRY DEASON
COMMISSIONER E. LEON JACOBS, JR.
COMMISSIONER LILA A. JABER

DATE: Thursday, August 31, 2000

TIME: Commenced at 12:00 p.m.
Concluded at 12:23 p.m.

PLACE: John Fuller Auditorium
City Commission Chambers
451 3rd Street NW
Winter Haven, Florida

REPORTED BY: KORETTA E. STANFORD, RPR
Official FPSC Reporter
Division of Records & Reporting



1 APPEARANCES:

2 WAYNE L. SCHIEFELBEIN, Wiggins &
3 Villacorta, P. A., Post Office Drawer 1657, 2145
4 Delta Boulevard, Tallahassee, Florida 32302,
5 Appearing on behalf of 1776 K Street, NW, Washington
6 D. C. 20006, appearing on behalf of Chesapeake
7 Utilities Corporation.

8 WILLIAM COCHRAN KEATING, Florida Public
9 Service Commission, Division of Legal Services, 2540
10 Shumard Oak Boulevard, Tallahassee, Florida
11 32399-0870, appearing on behalf of the Commission
12 Staff.

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P R O C E E D I N G S

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CHAIRMAN DEASON: Call the hearing to order.

Are the microphones working okay?

COURT REPORTER: Yes.

CHAIRMAN DEASON: Can we have the notice read, please.

MR. KEATING: Pursuant to notice issued August 2nd, 2000, this time and place has been set for the customer service hearing in docket number 000108-GU, request for rate increase by Florida Division of Chesapeake Utilities Corporation.

CHAIRMAN DEASON: Thank you. Appearances.

MR. SCHIEFELBEIN: Is that the live mike?

MS. MOSES: Yes.

MR. SCHIEFELBEIN: Thank you.

Good afternoon, Commissioners, Staff. My name is Wayne Schiefelbein entering an appearance as attorney for Chesapeake Utilities Corporation.

MR. KEATING: Cochran Keating appearing on behalf of the Commission Staff.

CHAIRMAN DEASON: Thank you.

Let me take this opportunity, first, to welcome everyone to this service hearing. This is in regard to Chesapeake Utilities' request for a rate increase, which is currently pending before the Commission.

1 The purpose of today's hearing is to have the
2 Commission come out into the service territory's utility
3 and give members of the public, customers of this utility,
4 an opportunity to address the Commission concerning, both
5 the pending rate increase and to comment on the quality of
6 service provided by this utility.

7 Let me introduce myself. My name is Terry
8 Deason, Chairman of the Public Service Commission. With
9 me today is Commissioner Lila Jaber. Commissioner Leon
10 Jacobs called and said that he's going to be temporarily
11 delayed and requested that we go ahead and begin the
12 hearing today without him. He may arrive before we
13 conclude, but then, again, he may not, depending on the
14 length of today's hearing. We're also scheduled for a
15 hearing this evening. It is in St. Cloud. It begins at
16 6:00 p.m.

17 I want to take just a moment to briefly go over
18 the procedure we're going to follow here today. At the
19 appropriate time, I'm going to ask members of the public
20 who wish to testify to stand and to be sworn in. This is
21 so that your testimony can become part of the official
22 record of this proceeding.

23 Today's hearing is being transcribed by a court
24 reporter, and it will become part of the record and can
25 and will be relied upon by the Commission in making its

1 ultimate decision in this case.

2 The podium to my left is the area which we ask
3 members of the public to come and give their statement to
4 the Commission. We ask that you begin by giving your name
5 and your address. If you think it would be helpful to the
6 court reporter, you may wish to spell your name so that it
7 will be accurate in the record.

8 We're also going to give Chesapeake an
9 opportunity to make a brief opening statement, which is
10 really for clarification purposes to give some background
11 information for the benefit of members of the public.

12 Are there any -- oh, one other thing. There is
13 a special report printed on green paper, which gives some
14 background information. Also, the last page of that
15 report is designed to be attached such that comments can
16 be written and it can be folded and mailed to the Public
17 Service Commission. If you wish to provide comments, but
18 do not wish to formally come up and make a statement on
19 the record, you still may use this page to write your
20 comments and mail it to the Public Service Commission.

21 You may also call the Public Service Commission
22 on our 800 number or you can contact us through the
23 Internet, and that information is also provided on the
24 front page of the special report.

25 Are there any other preliminary matters? All

1 right. With that, Mr. Schiefelbein, or whoever is going
2 to be providing evidence today, if you will come forward.
3 Please give us your name and your address, please.

4 MR. JEFFREY: Thank you.

5 My name is Tom Jeffrey. I'm the Assistant Vice
6 President for the Florida Division of Chesapeake Utilities
7 Corporation. My business address is P.O. Box 960, Winter
8 Haven, Florida.

9 Good afternoon Commissioners, Commission Staff,
10 members of the public. I'm pleased to give a brief
11 overview of our case. The Florida Division of Chesapeake,
12 known locally as Central Florida Gas Company, serves about
13 10,000 customers in the Hillsborough, Polk, Osceola area
14 and the new service area, Citrus County, and various other
15 places around the state.

16 We are dominated by some large use customers
17 that represent over 90% of our throughput. We have
18 undertaken a program to diversify some of our customer
19 base, and we have experienced customer growth, residential
20 and small commercial sector 3 1/2% to 5% over the last
21 several years.

22 We are projecting a customer growth of nearly
23 double that, about 10%, in this proceeding. As you may
24 have noticed, there's quite a bit of activity going on, on
25 Highway 27 and some other areas in our service territory

1 and as a result of our new distribution system in Citrus
2 County.

3 The Florida division last filed for a general
4 rate increase in 1989, 11 years ago. Since then, we have
5 had one proceeding following 1997 and approved. It was a
6 rate restructuring, which was relevant and neutral to the
7 company, and that was so that we could better reflect the
8 actual cost of service to our different customer groups.

9 What has occurred since then is that our
10 existing rates and charges have been inadequate to allow
11 us to earn a fair and reasonable return on our
12 investments. For example, at the end of 1999, our
13 achieved rate of return was 5.7%. We expect, absent any
14 relief, that that achieved rate of return would drop to
15 about 3.8% at the end of 2001.

16 There are four primary reasons for both that and
17 for us seeking a rate relief at this time. First, we have
18 experienced significant and permanent loss of industrial
19 load, primarily in the phosphate industry. Second, we
20 have incurred significant capital expenses needed to
21 diversify our customer base, both the types of customers
22 that we're attracting as well as geographically.

23 Third, as a result of federal deregulation, some
24 of the costs that have previously been borne by
25 interstate pipeline systems have been shifted to the local

1 level, and we now are incurring those costs. And fourth
2 and finally, the cumulative effects of inflation of
3 ordinary customer growth since 1989 have caught up with
4 us.

5 As a result, the company is seeking approved
6 rates that would generate additional base revenues of
7 \$1,826,569, which represents an overall increase of
8 23.75%. The company has also sought interim rate relief.
9 The company requested \$830,330. On July 11th of 2000 the
10 Florida Public Service Commission authorized interim
11 revenue increase of \$591,579 to be effective for meter
12 readings on or after August the 10th of 2000. So, they
13 are now in effect.

14 We have also sought other relief from the
15 Florida Public Service Commission in this filing. As a
16 result of recent rule promulgation by the Commission, we
17 have incorporated in the filing our offer of
18 transportation services of natural gas to all
19 nonresidential customers.

20 We have also sought other changes to
21 transportation services that we offer. Substantial --
22 additional changes are being proposed in our rate
23 classifications where traditionally we have billed rates
24 based on whether a customer was residential or commercial.
25 We are proposing to change that to be based --

1 volumetric-based classification. So, it depends on what
2 the customer's usage is as to what the rate would be
3 effected for them, irregardless of what type investment,
4 residential or commercial.

5 We have also -- I know one of the persons in the
6 audience here is an industrial customer. We've also
7 proposed changes to our interruptible customer
8 designations. And we are also proposing to eliminate the
9 practice of allowing customers to split their volumes
10 between transportation and sales. We are proposing that
11 they will either become a full transportation customer or
12 they will become a full sales customer, but not a hybrid
13 approach, as they have today.

14 We are also proposing significant modifications
15 to our traditional rate design. We are moving --
16 proposing to move significantly towards what's called a
17 straight fixed variable rate design. And what that has an
18 impact on is the customer charge, a fixed portion of the
19 customer's bill, would be increasing significantly. And
20 the volumetric charge or the per therm charge will be
21 dropping, in some cases, significantly.

22 We also are proposing increases for connection
23 and reconnection charges, or turn-on charges, and other
24 regulated charges for services that we provide. And
25 finally, we have filed an entirely reconfigured tariff

1 that incorporates all of these changes. The changes that
2 we're making are very significant and very much have an
3 impact on our existing tariff. And we made a
4 determination that it would be in the best interest of our
5 customers and the company to follow a completely new
6 tariff making it more user-friendly and reflecting the
7 changes in the industry standards and accommodating new
8 service offerings.

9 Finally, I would like to just say that a copy of
10 the synopsis of the company's filings is available at the
11 county libraries, specifically, the ones nearby here, the
12 Winter Haven library, the libraries in Bartow, Haines City
13 and Lake Wales.

14 A complete copy of the filing, the petition that
15 was filed for this case and the synopsis, are also
16 available for inspection during normal business hours at
17 the company's offices, which is located at 1015 Sixth
18 Street Northwest here in Winter Haven, at our office in
19 Plant City, which is 1514 Alexander Street, Suite 107, and
20 our office in Lecanto, Florida, which is in Citrus County,
21 which is 1639 West Gulf to Lake Highway.

22 Thank you very much.

23 CHAIRMAN DEASON: Thank you. Just let me
24 acknowledge, as I indicated earlier, that Commissioner
25 Jacobs has joined us. Welcome.

1 COMMISSIONER JACOBS: I'm sorry for the delay.

2 CHAIRMAN DEASON: At this point, I believe,
3 we're ready to take comments from the public. So, as I
4 indicated earlier, all members of the public who wish to
5 testify, if you'll please stand and raise your right hand.

6 This matter before the Florida Public Service
7 Commission, do you swear or affirm to tell the truth, the
8 whole truth and nothing but the truth?

9 MR. VARNADOE: I do.

10 CHAIRMAN DEASON: Thank you. Please come
11 forward to the podium and begin by giving us your name and
12 your address, please.

13 MR. VARNADOE: Good afternoon. My name is Glen
14 Varnadoe. I'm President of Arr-Maz Products here in
15 Winter Haven, Florida. Our address is 621 Snively Avenue,
16 Winter Haven, zip code 33880.

17 CHAIRMAN DEASON: Sir, could you spell the last
18 name?

19 MR. VARNADOE: Spelling of the last name is V,
20 as in victory, A-R-N-A-D-O-E.

21 CHAIRMAN DEASON: Thank you.

22 MR. VARNADOE: Our company is Arr-Maz through a
23 division of processed chemicals. We have similar chemical
24 manufacturing sites around southeastern United States. My
25 interest really in being here today was to try to learn

1 the basis for the rate increase and probably don't have
2 enough background information on that.

3 I wanted the Commission to be aware that small
4 businesses like ourselves, we're experiencing increases
5 right now on natural gas costs. As we speak, ours have
6 gone up year to date about 75%, year over year from last
7 year.

8 So, our cost of operation of our business where
9 we consume natural gas, which is in production of steam
10 and heating facilities in our organization, we're
11 experiencing costs, dependent upon which supplier you look
12 at the natural gas that we're buying from Peninsula Energy
13 and Central Florida Gas, gas cost increases of 75% to 100%
14 year over year. And that's comparing the amount of money
15 we spent in June '99 versus July of 2000 on gas costs.

16 For us, for instance, we're looking at increases
17 in a month of \$11,000. So, the impact to our business, if
18 you could do the math on that, \$125,000, \$150,000,
19 depending on our consumption of gas, it's significant on
20 our industry. It's significant on the industry that we
21 serve.

22 Certainly, the service that we receive for
23 Central Florida Gas and the supply of gas, I don't think
24 there's any questions about their ability to service their
25 customers and do it in a very professional manner. And

1 there's absolutely no complaints on the service side of
2 the business.

3 So, I think, it's more driven from the timing of
4 the price of natural gas in today's marketplace and the
5 affect that's having on industrial consumers as well as
6 residential consumers. And, I think, the concern from our
7 end is, you know, what's going to happen to gas prices
8 with continued increases going into the winter?

9 We're at a time now with very high fuel prices
10 for automobiles and for home heating. And as we move into
11 the winter and consumption increases, typically, prices go
12 up even more. So, we're going to be affected, I think,
13 we're seeing, you know, in excess of 100%. And in most
14 cases, we look at as excessive increases in cost for us to
15 do business.

16 So, I'd ask for you to consider those things as
17 you make this decision.

18 CHAIRMAN DEASON: Thank you. Let me ask a
19 question. Do you purchase your gas as a customer of
20 Chesapeake or do you contract for your gas from the
21 supplier and Chesapeake simply transports your gas?

22 MR. VARNADOE: We purchase gas from Peninsula
23 Energy and Central Florida, and Chesapeake is the
24 transporter.

25 CHAIRMAN DEASON: Peninsula Energy?

1 MR. VARNADOE: Yes.

2 CHAIRMAN DEASON: Do you have some type of a
3 long-term contract with them or the price fluctuates
4 monthly?

5 MR. VARNADOE: We have a contract where we pay a
6 set fee for, like, I believe, it's 55 decatherms. And
7 then, what we use over that is paid at a higher rate.

8 For instance, a year ago from Peninsula Energy
9 we were paying \$2.86 a decatherm. In July of this year,
10 we paid \$5.01 of decatherm. From Central Florida Gas, we
11 were paying \$1.38 of decatherm. This year we're paying
12 \$2.21 a decatherm.

13 COMMISSIONER JACOBS: Are those annual
14 contracts?

15 MR. VARNADOE: Yes, we do have an annual
16 contract on gas consumption.

17 COMMISSIONER JACOBS: Can you get longer terms?

18 MR. VARNADOE: Can't answer that. We haven't
19 gone down that road with Central Florida Gas. I'm
20 guessing, we could. We've not got to that point in
21 negotiations.

22 COMMISSIONER JACOBS: Okay.

23 CHAIRMAN DEASON: And, of course, I'm sure you
24 realize that what we're here today to talk about is a rate
25 increase, especially from the transportation part, but

1 you're saying is that with the recent increases in the
2 price of the commodity, plus this based rate increase,
3 just adds to your burden.

4 MR. VARNADOE: Absolutely.

5 CHAIRMAN DEASON: Okay. Further questions for
6 the witness?

7 MR. VARNADOE: Thank you.

8 CHAIRMAN DEASON: Thank you for coming and
9 sharing that with us. Let me ask, are there other members
10 of the public who wish to address the Commission? Would
11 you please identify yourself. We certainly afford you
12 that opportunity. Let the record reflect that there are
13 no other members of the public who wish to address the
14 Commission.

15 I believe, as the notice indicates, we will
16 begin the hearing at 12:00, and we will continue until all
17 members of the public have had an opportunity to testify.
18 And all members who wish to testify, apparently, have done
19 so.

20 So, if there's nothing else to come before the
21 Commission, let me just reiterate one more time that we
22 will be convening a hearing this evening at 6:00 p.m. in
23 St. Cloud. And with that, this service hearing is
24 concluded. Thank you, all.

25 (Hearing concluded at 12:23 p.m.)

1 STATE OF FLORIDA)
 : CERTIFICATE OF REPORTER
2 COUNTY OF LEON)

3 I, KORETTA E. STANFORD, RPR, Official
4 Commission Reporter, do hereby certify that I was
5 authorized to and did transcribe the service hearing held
6 on August 31st, 2000, docket number 000108-GU in
7 Winter Haven, Florida.

8 I FURTHER CERTIFY that this transcript,
9 consisting of 15 pages, constitutes a true transcription
10 of the proceeding.

11 DATED this 14th day of September, 2000.

12 Koretta E. Stanford
13 KORETTA E. STANFORD, RPR
14 Official Commission Reporter
15 FLORIDA PUBLIC SERVICE COMMISSION
16 (850) 413-6734
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