



Public Service Commission

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COMMISSION CLERK

DATE: SEPTEMBER 6, 2001

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK
ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF COMPETITIVE SERVICES (MAKIN, BULECZA-BANKS)
DIVISION OF LEGAL SERVICES (C. KEATING) *WOL RVE*

RE: DOCKET NO. 011061-GU - PETITION OF FLORIDA DIVISION OF
CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL OF TARIFF
MODIFICATIONS RELATING TO COMPETITIVE RATE ADJUSTMENT COST
RECOVERY MECHANISM.

AGENDA: 09/18/01 - REGULAR AGENDA - TARIFF FILING - INTERESTED
PERSONS MAY PARTICIPATE

CRITICAL DATES: 60-DAY SUSPENSION DATE: OCTOBER 8, 2001

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\CMP\WP\011061.RCM

CASE BACKGROUND

Chesapeake Utilities Corporation (Chesapeake or Company) has a tariff in place which allows the Company to modify the non-gas energy charge to customers that demonstrate the ability and intent to bypass the Company's distribution system. Under its current tariff, General Sales Service Rate Adjustment, the Company has the discretion to discount the non-gas energy charge to a level necessary to retain the customer on the Company's distribution system. Similarly, when market conditions allow, the Company can increase the non-gas energy charge. As long as market conditions warrant, the Company can continue to charge the increased rate until the cumulative discounts have been offset.

The Commission has allowed Chesapeake to collect (or refund) the difference between the base rate and the discounted rate (or

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increased rate), from the general body of ratepayers, on a cents per therm basis. Cents per therm is based on the cumulative discount or surplus divided by the total projected annual therm sales.

On August 8, 2001, Chesapeake filed its petition for approval of tariff modification to its Competitive Rate Adjustment Cost Recovery Mechanism to become effective September 18, 2001, the date of the Commission's vote in this matter.

Jurisdiction over this matter is vested in the Commission by several provisions of Chapter 366 Florida Statutes, including Sections 366.04, 366.05, and 366.06 Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission grant the Florida Division of Chesapeake Utilities Corporation's (Chesapeake or Company) petition for approval of tariff modifications relating to its Competitive Rate Adjustment Cost Recovery Mechanism?

RECOMMENDATION: Yes. The Commission should grant Chesapeake's petition for approval of tariff modifications relating to its Competitive Rate Adjustment Cost Recovery Mechanism. The modifications should become effective September 18, 2001, the date of the Commission's vote in this matter. (MAKIN, BULECZA-BANKS)

STAFF ANALYSIS: On August 8, 2001, Chesapeake filed its petition for approval of tariff modification to its Competitive Rate Adjustment Cost Recovery Mechanism to become effective the date of the Commission's vote in this matter.

The intent of the Company's petition is four fold: modify its current General Sales Service Rate Adjustment tariff provision to include all non-contracted and transportation customers; utilize the same methodology as used in calculating the Energy Conservation Cost Recovery factors; change the name of the General Sales Service Rate Adjustment to Competitive Rate Adjustment; and modify its current affidavit forms.

When Chesapeake's General Sales Service Rate Adjustment was initially approved, transportation service was not yet available on the Company's system. As transportation service options have

become available, the existing mechanism did not authorize the Company to apply the rate adjustment to transportation service, so customers electing the service were not subject to the rate adjustments that were applied. The regulatory intent of the Commission was that the rate adjustment should be applied to all customers, except those whose rates were set in response to market pressures.

The current recovery mechanism does not allow for the equitable distribution of surpluses or collection of discounts from the general body of ratepayers because it does not apply to transportation customers. Transportation service now accounts for about 95% of the Company's total throughput. The flexible rate adjustment applies only to customers who either do not currently have the option of transportation service (residential customers) or who have otherwise opted to continue to receive sales service.

Unbundled transportation service on the Company's system became available to all non-residential customers in March 2001, pursuant to Commission Order No. PSC-00-2263-FOF-GU. Since that time, the percentage of the Company's system throughput associated with third-party transportation service has increased. Chesapeake's current transportation customers (approximately 240 customers representing about 95% of the total throughput) are not subject to the flexible rate adjustments. The Company believes that significant migration of its commercial customers to unbundled transportation service will occur by the end of the calendar year, further exacerbating the situation.

The Company believes that the rate adjustment refund or surcharge should apply to all non-contracted sales and transportation customers. As a result, the Company proposes to change the name of its flexible rate mechanism, from General Sales Service Rate Adjustment, to the Competitive Rate Adjustment.

The Company proposes to change the methodology used to allocate any discounts or surpluses. Currently, a single factor is applied to all customer classes. Chesapeake believes it would be more appropriate to apply the methodology used in calculating the Energy Conservation Cost Recovery (ECCR) factors. This methodology develops a specific rate per therm to be applied to each rate class under the Competitive Rate Adjustment.

As is the case with the ECCR factors, it is appropriate for each rate classification to be allocated its pro rata share of any competitive rate surplus or discounts. To do otherwise would unfairly benefit or burden some rate classifications over others. If the one-factor-fits-all methodology continues to be applied, the large users would receive the bulk of the any potential refund and would bear the majority of any surcharge. Therefore, Staff believes it is inappropriate to utilize the single factor for every rate classification.

The Company also proposes to modify the affidavit forms used by customers to justify their ability and intent to bypass the Company's distribution system and purchase gas or another source of energy from an alternate supplier. This modification is intended to simplify the language and reflect the name change.

Based on the foregoing, Staff believes that Chesapeake's proposed tariff modifications are reasonable and should be approved. The modifications should become effective as of the date of the Commission's vote on this matter.

ISSUE 2: Should this docket be closed.

RECOMMENDATION: Yes. If no protest is filed within 21 days of the issuance of the Order by a person whose substantial interests are affected, this docket should be closed upon the issuance of a Consummating order. (C. Keating)

STAFF ANALYSIS: If a protest is filed within 21 days of the Commission Order approving this tariff by a person whose substantial interest are affected, the tariff should remain in effect pending resolution of the protest, with any charges held subject to refund pending resolution of the protest. If no protest is filed, this docket should be closed upon the issuance of a Consummating Order.