



Public Service Commission

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COMMISSION CLERK

DATE: DECEMBER 23, 2003

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

FROM: DIVISION OF COMPETITIVE MARKETS & ENFORCEMENT (MARSHALL, MAKIN, BULECZA-BANKS) OFFICE OF THE GENERAL COUNSEL (BRUBAKER)

RE: DOCKET NO. 030952-GU - PETITION FOR AUTHORIZATION OF METHODOLOGY FOR FINAL DISPOSITION OF PURCHASED GAS ADJUSTMENT, AND FOR APPROVAL OF PROPOSED TARIFF SHEETS PERTINENT TO TRANSITIONAL TRANSPORTATION SERVICE AND TRANSPORTATION AGGREGATION PROGRAMS, BY FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION.

AGENDA: 01/06/04 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\CMP\WP\030952.RCM

CASE BACKGROUND

On April 23, 2000, Rule 25-7.0335, Florida Administrative Code (Gas Transportation Rule), became effective. The rule requires all local distribution companies (LDCs) to offer transportation service to all of its non-residential customers. The rule further provides that natural gas utilities "may offer the transportation of natural gas to residential customers when it is cost effective to do so."

At the time of the Commission's adoption of the new gas transportation rule, Chesapeake Utilities Corporation (Chesapeake or the Company) offered transportation service to certain non-residential customers. On November 13, 2000, the Company filed a proposed transportation service tariff that was similar in form and

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

DOCKET NO. 030952-GU
DATE: DECEMBER 23, 2003

substance to the staff's model transportation service tariff. By Order No. PSC-00-2263-FOF-GU, issued November 28, 2000, Docket No. 000108-GU, In Re: Request for rate increase by Florida Division of Chesapeake Utilities Corporation, the Commission approved Chesapeake's transportation service tariff.

On March 28, 2002, Chesapeake filed a petition seeking Commission approval of its proposal to exit the merchant function and transfer all remaining sales customers to transportation service under its established Transitional Transportation Service (TTS) program. As proposed, Chesapeake would implement the unbundling process in three phases. Phase One would be for a two-year period where all remaining residential and non-residential sales customers would receive gas supply service through one qualified Pool Manager, selected by the company through a Request for Proposal (RFP) process. Phase Two would expand the choices available. The Company would retain, through a RFP process similar to that used in Phase One, a minimum of two Pool Managers. Customers would have the ability to choose between the two Pool Managers. Phase Three would completely transition customers to a fully competitive marketplace.

By Order No. PSC-02-1646-TRF-GU, issued November 25, 2002, Docket No. 020277-GU, In Re: Petition of Florida Division of Chesapeake Utilities Corporation for authority to convert all remaining sales customers to transportation service and to exit merchant function, the Commission approved Phase One of Chesapeake's proposal as an experimental and transitional pilot program pursuant to Section 366.075, Florida Statutes, for a two-year period. Near the end of the initial two-year period, the Company will evaluate customer acceptance of the program, assess its own capabilities to expand program options, and make a determination of the feasibility and timing for initiating Phase Two. Chesapeake will also report to the Commission the results of Phase One, and the customer education and implementation plan for Phase Two. After submitting the report, Chesapeake will petition the Commission for approval to start implementing Phase Two.

The order further stated that Chesapeake would no longer participate in the Purchase Gas Adjustment (PGA) clause and would be required to file a petition to dispose of its final PGA true-up.

On September 30, 2003, Chesapeake filed a petition for approval of its final purchased gas adjustment true-up, and also

DOCKET NO. 030952-GU

DATE: DECEMBER 23, 2003

requested approval of its proposed tariff sheets pertinent to TTS and Transportation Aggregation Programs. This recommendation addresses Chesapeake's petition.

Jurisdiction in 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 Chesapeake Utilities Corporation's proposal to refund the PGA overrecovery balance of \$246,255 to all its customers who received sales service during 2002?

RECOMMENDATION: Yes. The Commission should approve Chesapeake Utilities Corporation's proposal to refund the final PGA overrecovery balance of \$246,255 to all its customers who received sales service during 2002, effective January 6, 2004, the date of the Commission's vote in this matter. (MARSHALL, MAKIN, BULECZA-BANKS)

STAFF ANALYSIS: Chesapeake has proposed to refund the final Purchased Gas Adjustment (PGA) overrecovery balance to all its customers who received sales service during 2002. The Company's final PGA balance, per staff's audit report, is a \$246,255 overrecovery. The Company proposes to refund the PGA true-up to customers that received sales service gas during the period of November 1, 2002 through October 31, 2003. The refund of the PGA true-up should be undertaken in compliance with Rule 25-7.091, Florida Administrative Code. In order to determine the customer's refund, the Company will divide each individual customer's therm usage for the period of November 1, 2002 through October 31, 2003 by the total therms for the same period. This will create an individual customer's percentage allocation of use which will then be multiplied by the total refund amount of \$246,255. Each individual customer's refund will be included on each billing statement during the month of the refund. The average residential customer will see a refund in the amount of \$22.50. Based on staff's analysis, staff recommends that the Commission should approve Chesapeake Utilities Corporation's proposal to refund the final PGA overrecovery balance of \$246,255 to all its customers who received sales service during 2002, effective January 6, 2004, the date of the Commission's vote in this matter.

ISSUE 2: Should the Commission grant Chesapeake Utilities Corporation's proposal to activate the Operational Balancing Account and close all service rate schedules?

RECOMMENDATION: Yes. The Commission should approve Chesapeake Utilities Corporation's proposal to activate the Operational Balancing Account and close all sales service rate schedules, effective January 6, 2004, the date of the Commission's vote in this matter. (MARSHALL, MAKIN, BULECZA-BANKS)

STAFF ANALYSIS: Although Chesapeake has established procedures for administering an Operational Balancing Account (OBA), the Company continued to use its traditional purchased gas adjustment (PGA) mechanism to reconcile and book typical transactions related to interstate pipeline capacity (until such capacity is fully allocated to shippers) and to record the Company's Delivery Point Operator (DPO) functions. The DPO functions consist of imbalance resolution, pipeline operator orders, no-notice capacity charges, and other charges or credits historically recorded in the PGA.

The intent of the Company's OBA, as approved by Order No. PSC-02-1646-TRF-GU, issued November 25, 2002, Docket No. 020277-GU, In Re: Petition of Florida Division of Chesapeake Utilities Corporation for authority to convert all remaining sales customers to transportation service and to exit merchant function, is to:

...maintain the customer service function, maintain customer account transaction records, and provide gas supply billing and collections indefinitely. Customers would continue to receive one monthly bill, and the Pool Managers' charges would appear in lieu of the Company's purchased gas adjustment.

In an unbundled environment, the Company continues to perform all duties required of the pipeline DPO. As the DPO, the Company continues to bear full responsibility for all imbalance charges and credits and operator order charges. The Company's tariff authorizes that any net over or underrecoveries of costs associated with its performance of the DPO function would be periodically refunded or collected from each shipper on its system through its approved OBA mechanism.

Establishing a date for discontinuing the PGA and activating the OBA ensures an orderly transition between the two mechanisms.

DOCKET NO. 030952-GU
DATE: DECEMBER 23, 2003

This will enable both the Company and the Commission to clearly differentiate between PGA and OBA activity. Based on staff's analysis, staff recommends that the Commission should approve Chesapeake Utilities Corporation's proposal to activate the Operational Balancing Account and close all sales service rate schedules, effective January 6, 2004, the date of the Commission's vote in this matter.

ISSUE 3: Should the Commission grant Chesapeake Utilities Corporation's proposal to eliminate the tariff provision that requires a shipper to have a minimum of ten customers?

RECOMMENDATION: Yes. The Commission should grant Chesapeake Utilities Corporation's proposal to eliminate the tariff provision that requires a shipper to have a minimum of ten customers, effective January 6, 2004, the date of the Commission's vote in this matter. (MARSHALL, MAKIN, BULECZA-BANKS)

STAFF ANALYSIS: Chesapeake has proposed to eliminate the Transportation Aggregation Service (TAS) requirement that a valid pool manager must contain a minimum of ten customers on the Company's system. This requirement poses a barrier to new pool managers that want to accomplish business on the Company's system. All customers are transportation customers and are either in the Transitional Transportation Service (TTS) Pool or under contract with another TAS pool manager. Hence, the requirement of a new or existing pool manager to have a minimum of ten customers on the Company's system is no longer necessary. The Company believes that all customers benefit when there are increased pool manager options to promote competition and choice. Based on staff's analysis, staff recommends that the Commission should grant Chesapeake Utilities Corporation's proposal to eliminate the requirement to have a minimum of ten customers on its revised tariff, effective January 6, 2004, the date of the Commission's vote in this matter.

DOCKET NO. 030952-GU
DATE: DECEMBER 23, 2003

ISSUE 4: Should this docket be closed?

RECOMMENDATION: Yes. This docket should be closed upon the issuance of a Consummating Order if no person whose interests are substantially affected by the proposed action files a protest within the 21-day protest period. (BRUBAKER)

STAFF ANALYSIS: At the conclusion of the protest period, if no protest is filed, this docket should be closed upon the issuance of a Consummating Order.