State of Florida

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-

DATE: April 2, 2015

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Ollila) S.O. EJD MFB PR J.W.D.
Office of the General Counsel (Barrera)

RE: Docket No. 150073-GU – Petition for approval of revised flexible gas service tariff by Florida Division of Chesapeake Utilities Corporation.

AGENDA: 04/16/15 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 05/04/15 (60-Day Suspension Date)

SPECIAL INSTRUCTIONS: None

Case Background

On March 5, 2015, the Florida Division of Chesapeake Utilities Corporation (Chesapeake) filed a petition for approval to revise its Flexible Gas Service (FGS) tariff. Chesapeake's FGS tariff was initially approved in Order No. PSC-98-1485-FOF-GU.[1] In 2014, the Commission approved similar FGS tariffs for Florida Public Utilities Company (FPUC), FPUC – Fort Meade, and FPUC – Indiantown Division.[2] Chesapeake and the FPUC companies are subsidiaries of Chesapeake Utilities Corporation. The Commission has jurisdiction in this matter pursuant to Section 366.06, Florida Statutes.

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[1] Order No. PSC-98-1485-FOF-GU, issued November 5, 1998, in Docket No. 980895-GU, In re: Petition by Florida Division of Chesapeake Utilities Corporation for authority to implement proposed flexible gas service tariff and to revise certain tariff sheets.

[2] Order No. PSC-14-0710-TRF-GU, issued December 30, 2014, in Docket No. 140204-GU, In re: Joint petition for approval of flexible gas service tariff by Florida Public Utilities Company, Florida Public Utilities Company – Fort Meade, and Florida Public Utilities Company – Indiantown Division.

Discussion of Issues

Issue 1: Should Chesapeake's revised FGS tariff be approved?

Recommendation: Yes. The Commission should approve Chesapeake's revised FGS tariff as shown in Attachment 1. When Chesapeake executes an FGS service agreement, notice of such agreement should be filed within 30 days with the Office of Commission Clerk. (Ollila)

Staff Analysis: Customers, especially large industrial customers, have multiple fuel options available to them. These options include the ability to bypass Chesapeake's distribution system and connect directly to interstate or intrastate pipelines, or replace natural gas with fuel oil or electricity. Chesapeake provides transportation service only. In a transportation service environment, the utility such as Chesapeake only transports the gas to the customer using its distribution system. The customer is responsible for purchasing gas from other parties, such as shippers or gas marketers.

Chesapeake's revision to its FGS tariff is intended to create consistency in the FGS tariff language between Chesapeake and the FPUC companies. The FGS tariff enables Chesapeake to negotiate competitive rates with customers who can provide verifiable documentation of a viable energy alternative and places Chesapeake's shareholders at risk, not the general body of ratepayers. All incremental capital costs, expenses, and revenues associated with this tariff are placed below-the-line in earnings surveillance reports and future rate cases. Chesapeake will not attempt to recover the difference between the applicable tariff and the negotiated lower FGS rate from other customers through cost recovery clauses or in future rate cases. In its recent order approving FGS tariffs for the FPUC companies, the Commission found that the FGS tariffs contained adequate safeguards to protect existing customers from being adversely affected by or subsidizing FGS customers.

Chesapeake's current tariff includes a provision requiring it to file each confidential service agreement and related documents with the Office of Commission Clerk so that staff can review the documents. This provision does not require Commission approval of each FGS contract; it is strictly a reporting requirement. When recently approving the FGS tariffs for the FPUC companies, the Commission found that the filing of each agreement was not necessary; instead, a notice filed with the Office of Commission Clerk, within 30 days of the execution of an FGS service agreement, would be sufficient since any executed agreements would be available for review by staff if necessary.

Staff recommends that Chesapeake's revised tariff as shown in Attachment 1 be approved. As with the tariffs approved for the FPUC companies, staff recommends that when Chesapeake executes an FGS service agreement, notice of such agreement should be filed within 30 days with the Office of Commission Clerk.

Issue 2: Should this docket be closed?

Recommendation: Yes. If Issue 1 is approved, the tariff should become effective on April 16, 2015. If a protest is filed within 21 days of the issuance of the order, the tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Barrera)

Staff Analysis: If Issue 1 is approved, the tariff should become effective on April 16, 2015. If a protest is filed within 21 days of the issuance of the order, the tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.

FLEXIBLE GAS SERVICE

(Rate Schedule FGS)

Objective:

The objective of this service classification is to enable the Company the opportunity to compete in markets where natural gas service is not a monopoly service.

This tariff provides the Company with both the opportunity and risk to compete in these markets. It is designed to increase load by working with customers with regard to the specific terms and conditions of service.

This tariff places the Company's shareholders at risk, not the general body of ratepayers (see rate-making treatment).

Applicability:

This service is available at the Company's option to customer(s) meeting the applicability standards, which include (1) the customer must provide the Company with a viable economic energy alternative including verifiable documentation of customer alternative and (2) the Company must demonstrate that this new customer will not cause any additional cost to the Company's other rate classes. The Company is under no obligation to grant service under this tariff. Absent a service agreement with the Company under this rate schedule, customers are under no obligation to accept service under this rate schedule, and may elect to receive service under other applicable tariff rate schedules.

Terms of service under this rate schedule, including pressure, capital repayment, operating conditions and length of service are separately set forth in individual agreements between the Company and the Customers.

(Continued to Sheet No. 97.2)

Issued by: Michael P. McMasters, President
Chesapeake Utilities Corporation

Effective:

FLEXIBLE GAS SERVICE

(Continued from Sheet No. 97.1)

Monthly Rate:

The rate will be developed based on economic market conditions at the time gas service is requested.

Confidentiality:

The Company and Customer each regard the terms and conditions of the negotiated service agreement as confidential, proprietary business information.

The Company and Customer agree to utilize all reasonable and available measures to guard the confidentiality of said information, subject to requirements of courts and agencies having jurisdiction hereof.

In the event either party is asked to provide the information by such a court or agency, it will promptly inform the other of the request, and will cooperate in defending and maintaining the confidentiality of the information.

This provision shall not prohibit or restrict the FPSC from reviewing the service agreement in the performance of its duties, but the FPSC shall treat the service agreement as a confidential document.

Rate-Making Treatment:

To the extent that the Company enters into flexible gas service agreements with customers, the Company is at risk for the capital investment necessary to serve the flexible gas service tariff customers, not the general body of ratepayers.

(Continued to Sheet No. 97.3)

FLEXIBLE GAS SERVICE

(Continued from Sheet 97.2)

Rate Base:

In the case of providing service to a customer under this tariff, the Company will identify the incremental investment and capital costs required to provide service to the customer. These costs will be excluded from rate base.

Operating, Maintenance and Administrative Expenses:

The Company will specifically identify all incremental costs, if any, associated with the flexible gas service tariff Customer. These expenses will primarily be related to the incremental capital required to serve the customer. In addition, the Company will allocate embedded costs including general distribution and maintenance, meter reading, customer billing and accounting, sales, and administrative expenses.

In future rate cases and earnings surveillance reports, the Company will exclude all operating, maintenance, and administrative costs related to this tariff as determined by this methodology.

Depreciation and Amortization Expenses:

The Company will exclude all depreciation and amortization expenses related to this tariff in future rate cases and in its earnings surveillance report. Depreciation and amortization expenses may be incremental and/or allocated and will be determined based on the rate base allocated to each customer under this tariff as defined above.

Revenue and Related Taxes:

Revenues related to this tariff will be excluded from regulated revenues. In filing earnings surveillance reports, the Company will remove actual revenues related to this tariff, as well as revenue related taxes and income taxes from its calculation of FPSC adjusted rate of return.

All cost allocation related to this tariff shall remain subject to FPSC audit.

Issued by: Michael P. McMasters, President
Chesapeake Utilities Corporation

Effective: