State of Florida

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: January 20, 2005

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Wheeler, Baxter, Draper, Hewitt, Slemkewicz)
Division of Competitive Markets & Enforcement (Makin)
Office of the General Counsel (Brubaker)

RE: Docket No. 040956-GU – Petition for authorization to establish new customer classifications and restructure rates, and for approval of proposed revised tariff sheets by Florida Division of Chesapeake Utilities Corporation.

AGENDA: 02/1/05 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

CRITICAL DATES: 5-month Proposed Agency Action deadline – 2/1/05

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\040956.RCM.DOC

Case Background

On August 25, 2004, the Florida Division of Chesapeake Utilities Corporation (Chesapeake or the company) filed a petition for approval of a revenue-neutral restructuring of its retail gas transportation service rates. This means that the proposed rate changes are not designed to produce an increase in the company's revenues, but rather to adjust the manner in which existing revenues are collected from the various rate classes. The company requested that the Commission process its petition pursuant to Section 366.076(1), Florida Statutes, and under its Proposed Agency Action procedure. By letter dated December 16, 2004, the company agreed to extend the five-month deadline for action on a Proposed Agency Action to February 1, 2005.

Customer meetings were held on December 8 and 9, 2004, in four cities located within the company's service territory: Winter Haven, St. Cloud, Plant City and Crystal River. Several commercial and industrial customers attended the meetings in Plant City and Crystal River.

On December 22, 2004, the company filed revisions to its proposal which included revised rates for some classes. The proposed revisions were supported by a revised cost of service study, and proposed changes to the tariff language included in the original filing. The revised cost of service study and proposed rates reflect the inclusion of billing determinants for a large customer (IMC Noralyn) that were excluded from the original filing because the company anticipated the loss of this customer in the future. The inclusion of these billing determinants allowed the company to adjust its proposed rates to mitigate the large rate impact that otherwise would have occurred to some customers under the company's original proposal.

The Commission has jurisdiction over this matter pursuant to section 366.06(4), Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission approve Chesapeake's request to establish an Environmental Cost Recovery clause to recover the expenses incurred for the remediation of its manufactured gas plant site in Winter Haven?

Recommendation: No. (Makin)

Staff Analysis: Chesapeake is obligated to investigate and remediate soil and groundwater impacts attributable to its past operation of a manufactured gas plant at its facility in Winter Haven, Florida, pursuant to the terms and conditions of a consent order entered into with the Florida Department of Environmental Protection (FDEP), effective February 5, 1990.

The total cost to continue the operation of the treatment system for the next four years is estimated to be $200,000. In addition to that sum, remediation of impacted soil and groundwater that is not being treated by the existing system is projected to cost approximately $250,000, but could be as much as $1,000,000, if FDEP requires Chesapeake to remediate sediments along the shoreline of Lake Shipp. Chesapeake believes that this sum will be incurred sometime over the next four years, depending on the result of additional field investigations that are underway with FDEP oversight.

The Commission's most recent review of Chesapeake's remediation costs authorized the continued recovery of $71,114 per year in base rates to fund the environmental remediation of the Site (Order No. PSC-00-2263-FOF-GU, issued November 28, 2000, in Docket No. 000108-GU, Request for rate increase by Florida Division of Chesapeake Utilities Corporation). As of December 31, 2004, the company had collected approximately $184,460 in excess of costs incurred.

Chesapeake proposes to establish an Environmental Cost Recovery (ECR) Clause, similar to that used to develop the Energy Conservation Cost Recovery factors. The ECR Clause would be used to recover the on-going costs associated with the site remediation.

Staff does not believe that the establishment of an ECR Clause is appropriate at this time. Chesapeake does not have a reasonable estimate of the amount, volatility or timing of future environmental expenses. Currently, $71,114 is embedded in Chesapeake's base rates to recover projected environmental costs, and the company has not shown with any certainty that this amount is insufficient to cover future remediation efforts. The company's proposal would remove these expenses from base rates, and recover them through initial ECR Clause factors to be applied concurrently with its restructured rates.

Staff believes that Chesapeake should continue to recover $71,114 in environmental expenses in base rates, as there is a reasonable expectation that additional costs will be incurred. However, staff believes it would be more appropriate for Chesapeake to petition the Commission for recovery of additional remediation costs, and for approval of the appropriate mechanism for recovery, once the company is able to substantiate the amount and timing of the expense.

Issue 2: Should the Commission approve Chesapeake's redesigned customer classifications that result in greater stratification among its large volume rate classes?

Recommendation: Yes. (Baxter)

Staff Analysis: Chesapeake proposes to rename and expand the number of customer rate classes under which its retail customers are served. The present and proposed rate classes are compared in the following table:

Present Rate Schedule	Present Classification of Service – Annual Therms	Proposed Rate Schedule	Proposed Classification of Service - Annual Therms
TS-1A	0-130 therms	FTS-A	0-130 therms (closed to new premises)
TS-1B	131-250 therms	FTS-B	131-250 therms (closed to new premises)
TS-1C	251-500 therms	FTS-1	0 to 500 therms
TS-2	501 to 3,000 therms	FTS-2	501 to 3,000 therms
TS-3	3,001 to 10,000 therms	FTS-3	3,001 to 10,000 therms
TS-4	10,001 to 25,000 therms	FTS-4	10,001 to 25,000 therms
TS-5	25,001 to 50,000 therms	FTS-5	25,001 to 50,000 therms
TS-6	50,001 to 100,000 therms	FTS-6	50,001 to 100,000 therms
TS-7	100,001 to 500,000 therms	FTS-7	100,001 to 200,000 therms
		FTS-8	200,001 to 400,000 therms
TS-8	500,001 to 1,000,000 therms	FTS-9	400,001 to 700,000 therms
		FTS-10	700,001 to 1,000,000 therms
TS-9	1,000,001 therms and up	FTS-11	1,000,001 to 2,500,000 therms
		FTS-12	2,500,001 to 10,000,000 therms
		FTS-13	10,000,001 therms and up

The restructuring will expand Chesapeake's three largest rate classes into seven new classes. Specifically, customers in the present TS-7 class will be assigned to the FTS-7, FTS-8, and FTS-9 rate classes. Customers currently in the TS-8 rate class will be assigned to the FTS-9 and FTS-10 rate classes. Customers currently in the TS-9 rate class will be assigned to the FTS-11, FTS-12, and FTS-13 rate classes. Chesapeake states that the current therm thresholds for its large rate classes are overly broad, and contain a wide range of customers whose cost profiles are not similar. Increased stratification, Chesapeake asserts, will create more homogenous groups of customers with similar usage and cost characteristics and reduce the subsidization of smaller customers within a class by larger customers that can occur when a class is defined too broadly.

One of the key principles of rate design is that rates should accurately reflect the costs incurred by the customer classes. Customer classes which are defined in such broad terms that they contain large numbers of customers with dissimilar usage and cost characteristics impede the equitable assignment of costs, and make it difficult to design fair and reasonable rates. Staff has examined the company's cost of service study and believes that greater stratification of the large customer rates will yield a more equitable distribution of the costs of serving various customer classes. Staff therefore believes that the proposed rate classes are appropriate, and recommends that they be approved.

<u>Issue 3</u>: Should Chesapeake's proposed treatment of customers who use 500 therms or less per year be approved?

<u>Recommendation</u>: Yes. (Draper)

<u>Staff Analysis</u>: Chesapeake currently provides service to customers using 0 to 500 therms per year under three rate schedules: TS-1A, TS-1B, and TS-1C. The current and proposed rate schedules and associated charges for these customers are shown below:

	Present Rate Schedule	**Proposed Rate Schedule**
	TS-1A	**FTS-A***
Annual Therm Usage	0-130	0-130
Customer Charge – per month	$10.00	$10.00
Transportation Charge - per therm	$0.44073	$0.44073
	TS-1B	**FTS-B***
Annual Therm Usage	131-250	131-250
Customer Charge – per month	$12.50	$12.50
Transportation Charge – per therm	$0.44073	$0.44073
	TS-1C	**FTS-1**
Annual Therm Usage	251-500	0-500
Customer Charge – per month	$15.00	$15.00
Transportation Charge – per therm	$0.44073	$0.44073

* Closed to new premises.

<u>Existing Customers.</u> As shown above, the company is not proposing any changes to base rates for these rate schedules. Chesapeake has proposed to restrict the availability of the TS-1A and TS-1B rates to premises that currently take service under those rate schedules. Customers that restore service after disconnecting service at the same premises (i.e., seasonal customers) will also be permitted to continue to take service under rate schedules TS-1A or TS-1B. If an existing TS-1A customer's usage exceeds 130 therms per year, that customer will be able to take service under the TS-1B rate as long their usage remains below 250 therms per year. If their usage at that premises exceeds 250 therms per year, they are permanently reclassified as an FTS-1 customer.

<u>New Customers.</u> New customers who move into existing premises that were billed under the TS-1A or TS-1B rates could continue to receive service under those rates. However, once a customer's usage at a specific premises exceeds 250 therms per year, the customer residing at that premises will be permanently reclassified as an FTS-1 customer. Any customers using between 0 and 500 therms per year who move into newly constructed premises will be classified as FTS-1 customers.

Chesapeake asserts that the proposed change is necessary because its current rate structure for low-usage customers, i.e., customers with one or two gas appliances, does not recover Chesapeake's costs to serve the customers. As an example, Chesapeake states that it incurs large fixed capital costs to provide gas service to a new residential subdivision. However, the current TS-1A or TS-1B rates do not provide the company an adequate return on that investment. The company states that all new customers requesting gas service have the opportunity to be fully informed about Chesapeake's rates and the costs of fuel alternatives.

Staff believes that Chesapeake's proposal will achieve the goal of more closely aligning the rates of low-usage customers with the actual cost to serve them, and therefore recommends approval of the proposal. The proposal is applicable only to service requested at new premises after the effective date of the tariff revision. Premises that currently take service under rate schedules TS-1A or TS-1B are not affected, unless the usages at the premises exceed 130 therms per year for TS-1A and 250 therms per year for TS-1B.

Staff believes that it is appropriate to allow customers that reside in premises that are currently being served under the TS-1A or TS-1B rates to remain on those rates. Requiring such customers to take service under the TS-1C rate that includes a $15 customer charge would result in a large percentage increases, particularly for low-use residential customers.

Issue 4: Should the Commission approve Chesapeake's proposal to discontinue the CTS Rider discount applicable to IMC New Wales, and recover the revenues currently recovered from IMC New Wales through a tariffed rate schedule?

Recommendation: Yes. Chesapeake's proposal does not impact IMC New Wales or the general body of ratepayers. This is an issue of customer classification only. (Draper)

Staff Analysis: The Contract Transportation Service Rider (CTS Rider) is available to large customers who have the capability to use an alternative fuel source at a lower equivalent cost than natural gas, or to physically bypass Chesapeake's distribution system. The rate reduction offered to customers taking service under the CTS Rider is based upon the customer's alternate fuel or bypass costs. Customers must provide monthly certification of their alternative fuel or bypass capability to continue receiving a discount. Offering at-risk customers a rate discount enables Chesapeake to retain customers who make a contribution to fixed costs that might otherwise be borne by the general body of ratepayers.

The Competitive Rate Adjustment (CRA) clause allows Chesapeake to recover 50% of the discount offered to CTS Rider customers from the general body of ratepayers on a cents per-therm basis. The CRA charge is included on customer bills in the cents-per-therm transportation charge. Customers taking service under the CTS Rider, Flexible Gas Service tariff or a special contract do not pay the CRA charge. The CRA charge is adjusted annually, and is trued up based on actual costs.

Chesapeake currently provides a CTS Rider discount to three industrial customers, and in 2003, Chesapeake received $727,683 in CRA revenues. This amount represents 50 percent of the discount Chesapeake offered to the three CTS Rider customers. Of the three customers, IMC Global at New Wales (IMC) receives the largest discount, which accounts for $717,503 of the total CRA revenues. IMC is Chesapeake's largest industrial customer, and its plant is in close physical proximity to both the Florida Gas Transmission and the Gulfstream interstate pipelines. Based on the cost IMC would incur to build an interconnection with the interstate pipeline and bypass Chesapeake's distribution system, Chesapeake negotiated a fixed CTS Rider discount with IMC in 2002.

Concurrent with Chesapeake's proposal to redesign its customer classifications, the company proposes to discontinue the CTS Rider discount applicable to IMC and reclassify IMC as an FTS-13 customer. The proposed FTS-13 rate is designed to recover from IMC the same annual revenues ($160,000) as are currently recovered with the application of the CTS Rider discount. The FTS-13 rate includes a fixed monthly $13,333.33 ($160,000/12) Firm Transportation Charge and no variable per-therm charge. Concurrent with the proposal to discontinue the CTS Rider discount applicable to IMC, Chesapeake proposes to discontinue the recovery of the ratepayers' 50% share of IMC's discount through the CRA charge ($717,503) and include the amount in base rates to be recovered from the general body of ratepayers.

Chesapeake asserts that IMC has an on-going ability to directly connect to the interstate pipeline. Chesapeake states that the CTS Rider discount was designed to address temporary fluctuations in the price of alternate fuels available to large customers. However, since IMC's ability to bypass is permanent, Chesapeake believes it is appropriate to recover IMC's negotiated rate through a tariffed rate schedule.

Chesapeake's proposal does not impact IMC or the general body of ratepayers. Rather, it is an issue of customer classification. Staff believes that Chesapeake's proposal to discontinue the CTS Rider discount applicable to IMC and reclassify IMC as an FTS-13 customer is appropriate and should be approved. In addition, continuing to offer IMC a rate based on IMC's competitive choice will help to insure the retention of IMC's industrial load, the loss of which could necessitate rate increases to the remaining customers.

Staff notes that the current CRA factors are in effect for the period October 1, 2004 through September 30, 2005. These factors recover costs incurred over the previous 12-month period, i.e., October 1, 2003 through September 30, 2004. If the Commission approves the base rate recovery of the IMC-related revenue shortfall, the CRA factors will decrease accordingly. However, this decrease in the CRA factors will not occur on the effective date of Chesapeake's restructured rates on March 3, 2005. Because the CRA discount is recovered in arrears, the factors will continue to reflect the unrecovered IMC discount amount after the effective date of the rate restructuring.

As discussed in Issue 5, Chesapeake has proposed to change its CRA billing period from a September year-end period to a calendar year period. Staff therefore recommends that the current CRA factors remain in effect until December 31, 2005. Effective January 2006, customers will see a reduction in their CRA factors due to the removal of the IMC-related revenue shortfall.

Issue 5: Should the Commission approve Chesapeake's proposal to change its CRA billing adjustment period from a September year-end period to a calendar year period?

Recommendation: Yes. The current CRA factors should remain in effect until December 31, 2005. (Makin)

Staff Analysis: Chesapeake's approved tariff includes a Contract Transportation Service (CTS) Rider. The CTS Rider authorizes Chesapeake to adjust its base rates to meet alternate fuel competition, including the threat of by-pass. The CTS Rider rate discounts are designed to protect both Chesapeake and its ratepayers from the risk of stranding costs as a result of an alternate fuel conversion or bypass. Chesapeake currently provides CTS Rider rate discounts to three industrial customers.

The Competitive Rate Adjustment (CRA) clause allows Chesapeake to recover 50% of the discount offered to CTS Rider customers from the general body of ratepayers on a cents per-therm basis. The CRA charge is included on customer bills in the cents-per-therm transportation charge. Customers taking service under the CTS Rider, Flexible Gas Service tariff or a special contract do not pay the CRA charge. The CRA charge is adjusted annually, and is trued up based on actual costs.

The CRA was established in 1989 on a September year-end basis. The current CRA factors are in effect for the period October 1, 2004 through September 30, 2005. These factors recover costs incurred over the previous 12-month period, i.e., October 1, 2003 through September 30, 2004.

In 1999, the Purchased Gas Adjustment Cost Recovery (PGA) was changed to a calendar year-end projected period January though December. To be consistent with the PGA time frame and other year-end reporting requirements, staff recommends that Chesapeake's proposal to change their CRA to a calendar year-end basis be approved. Staff recommends that the current CRA factors remain in effect until December 31, 2005.

Issue 6: Are the company's proposed two new Third Party Marketer (TPM) rate schedules and their associated charges appropriate?

Recommendation: Yes. (Draper)

Staff Analysis: Chesapeake has proposed two new TPM rate schedules and associated charges applicable to third party marketers (TPMs): TPM-1 and TPM-2. TPMs obtain natural gas for Chesapeake's customers and deliver it to Chesapeake via the Florida Gas Transmission interstate pipeline. Chesapeake then transports the gas from the interstate pipeline to the customers. Chesapeake exited the natural gas merchant function and transferred all customers to transportation service in November 2002, pursuant to Order No. PSC-02-1646-TRF-GU, issued November 25, 2002, in Docket No. 020277-GU, Petition of Florida Division of Chesapeake Utilities to convert all remaining sales customers to transportation service and to exit the merchant function.

At present, ten TPMs have contracted with Chesapeake to serve Chesapeake's customers. Chesapeake has established a Customer Account Administration Service (CAAS) that provides billing, collection services, payment tracking, and related administrative services to the TPMs. Chesapeake currently recovers the costs of providing the services to the TPMs through a monthly $2 per transportation customer charge. The $2 charge is included in the *General Terms and Conditions* section of Chesapeake's tariff.

Chesapeake has proposed two TPM rate schedules which are designed for the two levels of service that Chesapeake provides to the TPMs. Rate schedule TPM-1 is applicable to third party marketers such as Infinite Energy who do not directly bill customers for the gas purchased, but rather contract with Chesapeake to provide all customer billing services. Customers served by Infinite Energy therefore receive one monthly bill from Chesapeake that includes both Infinite Energy's and Chesapeake's charges. Rate schedule TPM-2 applies to third party marketers such as Prior Energy who do not utilize Chesapeake for billing the cost of gas to customers. Customers served by Prior Energy therefore receive two monthly bills.

For the TPM-1 rate schedule, Chesapeake has proposed a fixed monthly Third Party Marketer Charge of $100 and a $3 CAAS charge for each customer served by the TPM. The proposed TPM-1 charges are designed to recover $392,769 in billing and administrative costs. Specifically, Chesapeake has proposed to allocate a percentage of rate base items such as the billing system and meters to the TPM-1 rate schedule. In addition, a portion of O&M expenses such as maintenance of meters, meter reading, and records and collection were allocated to the TPM-1 rate. Chesapeake projects that two TPMs serving a total of 11,849 customers will take service under TPM-1.

For the TPM-2 rate schedule, Chesapeake has proposed a fixed monthly Third Party Marketer Charge of $172.50. The $172.50 charge is designed to recover $16,567 in meter-related rate base and O&M expenses from eight TPMs, or 96 bills per year ($16,567/96=$172.50). Since TPM-2 marketers provide their own billing, no billing-related costs were allocated to the TPM-2 charge. Typically, Chesapeake's largest commercial customers chose TPMs that provide their own billing services. Chesapeake installs automatic meter reading devices that record the customer's actual daily therm consumption. That information is provided to both the marketer and the customer on a daily basis and allows the marketer to bill the customer.

The Commission has recently approved the creation of TPM rate schedules and associated charges for City Gas Company of Florida (Docket No. 030569-GU, Application for rate increase by City Gas Company of Florida), Indiantown Gas Company (Docket No. 030954-GU, Petition for rate increase by Indiantown Gas Company), and Sebring Gas Systems, Inc (Docket No. 040270-GU, Application for rate increase by Sebring Gas System, Inc.). Based upon its review, staff believes that the proposed new rate schedules and associated monthly charges applicable to TPMs are reasonable, and recommends that they be approved.

Issue 7: What are the appropriate restructured rates for Chesapeake?

Recommendation: The appropriate restructured rates are contained in Attachment 1, pages 1 and 2. (Wheeler)

Staff Analysis: Chesapeake's proposed rate restructuring was designed to be revenue neutral based on a calendar 2003 historic test year. This means that the rate changes proposed are not designed to produce an increase in the company's revenues, but rather to adjust the manner in which existing revenues are collected from the various rate classes. In support of its request, the company filed a cost of service study that developed the restructured rates. On December 22, 2004, the company filed a revised cost of service study that included certain changes to their original proposal. The changes included a revision to the projected billing determinants to add back the billing determinants of a large customer that were omitted from the original filing because the company anticipates the loss of this customer in the future.

Currently the company serves its retail customers under 11 volumetric-based rate schedules. As discussed in Issue 2, the proposed restructured rates would consist of 15 schedules. The rate restructuring will further stratify the existing TS-7, TS-8 and TS-9 rate schedules into seven new rate schedules, FTS-7 through 14. The proposal will also create two new third party marketer rate schedules, as discussed in Issue 6.

The proposed restructuring will not affect the base rates of any existing customers who use less than 3,000 therms per year. This includes those customers in Chesapeake's TS-1A, TS-1B, TS-1C and TS-2 rate classes, and includes virtually all of the company's residential customers.

Chesapeake is proposing substantial increases to its customer charges (called "Firm Transportation Charges" in the proposed tariff) for all customers who use more than 3,000 therms per year (i.e., rate classes TS-3 through TS-12). These changes would result in the recovery of a much larger percentage of the company's revenues through a fixed monthly charge as compared with the per-therm Usage Charges.

The company indicates that these changes are intended to move toward a rate design that recovers a majority of their expenses from fixed charges. The company cites the use by the Federal Energy Regulatory Commission (FERC) of a similar rate design for the pricing of interstate gas pipeline capacity. This Straight Fixed Variable (SFV) rate structure concept involves the principle that fixed costs should be recovered through fixed charges, and variable costs should be recovered through variable (i.e., per therm) charges. The company believes that such a rate design is particularly appropriate because Chesapeake has exited the merchant function and is providing only distribution service to its customers. The actual gas commodity is provided by third party suppliers.

Staff is concerned about the magnitude of the proposed increases to Chesapeake's customer charges. Traditionally, the Commission has established customer charges for natural gas utilities so that they recover no more than the costs that are classified as customer-related in the cost of service study, such as service laterals, meters, meter reading, and billing expenses.

While staff acknowledges that a large proportion of the costs recovered through base rate charges do not vary with therm usage, staff also recognizes customer acceptance is an important criterion for judging the reasonableness of a rate structure. At the customer meeting held in Plant City on December 9, 2004, the representatives of two large commercial customers expressed concern regarding the large proposed increases in Chesapeake's customer charges. They indicated that such a change would provide little opportunity to lower their bill through decreases in gas usage. It is often difficult for retail customers to understand why they are paying large fixed charges even in months when they use few therms. Chesapeake's proposed large increases in the customer charges will also result in large rate increases for those customers who use fewer therms relative to other customers in their rate class.

Because of these concerns, staff is recommending customer charges that are lower than those requested by the company. The following table contains Chesapeake's current and proposed customer charges, and staff's recommended customer charges:

Proposed Rate Schedule	Present Customer Charge	Company Proposed Customer Charge	Staff Recommended Customer Charge
FTS-1A	$10.00	$10.00	$10.00
FTS-1B	$12.50	$12.50	$12.50
FTS-1	$15.00	$15.00	$15.00
FTS-2	$27.50	$27.50	$27.50
FTS-3	$42.50	$120.00	$90.00
FTS-4	$55.00	$240.00	$200.00
FTS-5	$125.00	$430.00	$350.00
FTS-6	$200.00	$795.00	$450.00
FTS-7	$300.00	$1,000.00	$600.00
FTS-8	$300.00	$2,000.00	$750.00
FTS-9	$500.00	$3,000.00	$900.00
FTS-10	$500.00	$4,275.00	$1,500.00
FTS-11	$700.00	$8,500.00	$3,000.00
FTS-12	$700.00	$12,500.00	$4,000.00

The calculations of staff's recommended charges are shown in Attachment 2. The per-therm Usage Charges were calculated to recover the revenues that remain after subtracting the revenues generated by staff's recommended customer charges as shown in the table above.

These calculations are based on the revenue targets by rate class reflected in the revised cost of service study filed by the company on December 22, 2004, with one adjustment. As discussed in Issue 1, the company removed $71,114 in expenses from base rates and proposed the recovery of these expenses from an Environmental Cost Recovery clause. Staff is recommending in Issue 1 that the Commission not approve the establishment of the clause. Therefore, in order to maintain the revenue neutrality of the rate restructuring, the revenue targets reflected in Attachment 2 include the $71,114 excluded by the company in its filing.

Attachment 3 contains monthly bills at various therm usage levels for each rate class reflecting both Chesapeake's existing rates and staff's recommended rates. The existing bills include the CRA factors that are currently in effect. The CRA factors included in the recommended bills are estimates of what the CRA factors will be once the 50% ratepayer share of the IMC discount is fully recovered, as more fully discussed in Issues 4 and 5.

Issue 8: Should the Commission approve Chesapeake's proposed tariff revision that would require customers to pay fixed monthly Firm Transportation Service charges for those months for which the customer has terminated service for less than 12 months?

Recommendation: No. (Baxter)

Staff Analysis: The Company has proposed to modify its General Terms and Conditions of Service so that customers who apply for restoration of service at the same location after a service termination period of less than twelve months would be billed the fixed monthly customer charge for each month of their service termination, provided that another customer had not been provided service at the same location during the interim. For example, an FTS-5 customer who pays the company-proposed monthly customer charge of $430.00 would owe $2,580 if they discontinued service for six months and then resumed service. The customer would not receive service until this amount was paid. The company believes this new requirement is justified because under the company's proposed restructured rates, a substantial portion of their revenues are recovered through increased customer charges paid by the larger customer classes. The company committed in its revised filing of December 22, 2004, that the proposed provision would apply only to customers in the FTS-4 and higher service classifications.

The company stated that the current selection of large transportation customers (10,000 therms annually and above) do not routinely disconnect and reconnect during the year, but that they were concerned that this would occur once the new rates were implemented. This concern results from the company's proposal to increase the customer charge that large customers pay by a factor of 3 to 18, depending upon the customer class. For example, an FTS-5 customer who used 30,000 therms per year would see their customer charge increase from $125 to $430 per month, while a FTS-12 customer who used 5,000,000 therms per year would see an increase from $700 to $12,500 per month. In response to staff inquiries, the company stated that it was concerned that six or seven large seasonal customers would disconnect and then reconnect to minimize their costs after the rates were raised, although these customers do not presently do so. Staff examined Chesapeake's billing data which identified seven large customers that may be capable of disconnecting from the system to minimize their costs, ranging from periods of one to nine months.

Staff recommends that the Commission deny the proposed tariff revision. No other investor-owned local distribution gas company in Florida requires customers to pay customer charges during the period when they discontinue service. Given the reduced level of staff's recommended customer charges, staff believes that the likelihood of such temporary disconnections is reduced. If such disconnections do occur, the potential lost revenues will be minimal, and thus the proposed revision is not necessary.

Issue 9: Is Chesapeake's proposal to establish a maximum allowable operating pressure appropriate?

Recommendation: Yes. (Makin)

Staff Analysis: Establishing a delivery pressure maximum would ensure that customers requiring delivery pressures above Chesapeake's maximum pressure would be served, if physically and economically feasible, via a special contract. This would ensure that those customers requesting delivery at elevated pressures would be responsible for the increased cost through the provisions of a special contract. Staff therefore recommends that Chesapeake's proposal to establish a maximum allowable operating pressure should be approved.

Issue 10: What is the appropriate effective date for Chesapeake's restructured rates and other tariff revisions?

Recommendation: The restructured rates and tariff changes should become effective for meter readings on or after 30 days from the date of the Commission's vote. (Wheeler)

Staff Analysis: The restructured rates and tariff changes should become effective for meter readings on or after 30 days from the date of the Commission's vote. If the Commission approves changes to the company's rates and other tariff revisions at its February 1, 2005 agenda conference, they should become effective for meter readings made on or after March 3, 2005.

Issue 11: Should this docket be closed?

Recommendation: Yes. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. If a valid protest is filed, the tariff should remain in effect pending resolution of the protest, with any changes held subject to refund pending resolution of the protest. (Brubaker)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. If a valid protest is filed, the tariff should remain in effect pending resolution of the protest, with any changes held subject to refund pending resolution of the protest.