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: October 2, 2008

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Draper)
Office of the General Counsel (Fleming)

RE: Docket No. 080554-GU – Petition for approval of transportation cost recovery factors by Florida Division of Chesapeake Utilities Corporation.

AGENDA: 10/14/08 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 60-day suspension date: 10/17/2008

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\080554.RCM.DOC

Case Background

In April 2000, the Commission adopted Rule 25-7.0335, Florida Administrative Code (F.A.C.), which requires each investor-owned natural gas utility, also known as a local distribution company (LDC), to offer gas transportation service to all non-residential customers.[1] The rule further provides that each LDC may offer the transportation of natural gas to residential customers when it is cost-effective to do so. Prior to the rule adoption, transportation service had been available for industrial customers only. In a transportation service environment, the LDC, such as Chesapeake Utilities Corporation (Chesapeake or the company), only transports the gas from the gate station (delivery point at which gas is transferred from the interstate pipeline

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[1] See Order No. PSC-00-0630-FOF-GU, issued April 4, 2000, in Docket No. 960725-GU, In Re: Proposed Rule 25-7.0335, F.A.C., Transportation Service.

company to the LDC's distribution system) to the customer's meter. The customer is responsible for purchasing gas from other parties, such as shippers or gas marketers. In accordance with Rule 25-7.0335, F.A.C., Chesapeake received approval in 2000 to offer transportation service to all non-residential customers.[2]

As more customers began buying gas on the open market, Chesapeake's sales volumes decreased and it was no longer cost-effective for Chesapeake to buy gas for the remaining sales customers, which are primarily residential and small volume commercial customers. In November 2002, the Commission therefore approved a petition by Chesapeake to convert all remaining sales customers to transportation service, and to implement a transitional transportation service (TTS) program and associated tariff.[3] The TTS program is designed to allow residential and small volume commercial customers the opportunity to purchase gas from a shipper. Chesapeake proposed three phases that over several years would transition all customers to a fully competitive marketplace with each phase expanding the choices available to customers. The Commission authorized Chesapeake to implement the first phase of its TTS program. In Phase I, Chesapeake selected through competitive bids, one gas marketer or TTS shipper to serve Chesapeake's TTS customer pool. The TTS pool consists of all former sales customers. In May 2007, Chesapeake received approval to implement Phase Two of its TTS program.[4] In Phase Two, Chesapeake retained two TTS shippers instead of the single TTS shipper retained in Phase One.

On August 18, 2008, Chesapeake filed a petition for approval of a transportation cost recovery adjustment tariff, which will allow Chesapeake to recover certain incremental non-recurring costs to implement Phase Two of its TTS program from the TTS shippers.

The Commission has jurisdiction pursuant to Sections 366.03, 366.04, 366.05, 366.06, and 366.075, Florida Statutes (F.S.).

[2] See Order No. PSC-00-2263-FOF-GU, issued on November 28, 2000, in Docket No. 000108-GU, <u>In re: Request for rate increase by Florida Division of Chesapeake Utilities Corporation</u>.
[3] See Order No. PSC-02-1646-TRF-GU, issued November 25, 2002, in Docket No. 020277-GU, <u>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</u>.
[4] See Order No. PSC-07-0427-TRF-GU, issued on May 15, 2007, in Docket No. 060675-GU, <u>In re: Petition for authority to implement phase two of experimental transitional transportation service pilot program and for approval of new tariff to reflect transportation service environment, by Florida Division of Chesapeake Utilities Corporation</u>.

Discussion of Issues

Issue 1: Should the Commission approve Chesapeake's proposed Transportation Cost Recovery (TCR) Adjustment tariff (Original Sheet No. 103.1)?

Recommendation: Yes. (Draper)

Staff Analysis: Chesapeake proposes to recover from its TTS shippers certain incremental non-recurring expenses to implement Phase Two of its TTS program over a 12-month period. Specifically, Chesapeake seeks to recover through the proposed TCR tariff $77,980 in actual expenses and $100,000 in projected expenses. Any over- or under-recovery would be trued-up at the end of the recovery period. None of these costs will be recovered directly from the retail gas customers, although the shippers could pass along the costs through the gas prices.

Background. In May 2007, Chesapeake received approval to implement Phase Two of its TTS program. In Phase Two, Chesapeake retained, through competitive bid, two TTS shippers (as opposed to one TTS shipper Chesapeake retained in Phase One) and therefore increased the gas supply pricing options available to the TTS customers. The TTS shippers are Infinite Energy and Florida Natural Gas. A TTS shipper is a company-approved shipper that is authorized to deliver gas to Chesapeake's gate stations. Chesapeake subsequently transports the gas to the customers. Chesapeake acts as a supplier of last resort and provides all customer account functions for the TTS pool such as billing (to ensure the shipper's charges are correct), payment tracking, non-pay disconnects, and related administrative services. Other marketers who serve Chesapeake's larger commercial customers outside the TTS pool typically provide their own billing service.

Initially after approval of Phase Two of Chesapeake's TSS program, all customers in the TTS pool were assigned to the two shippers on an equal and random basis and received the standard pricing option, which is the same for both shippers. During the open enrollment period in February 2008, Chesapeake provided all TSS customers an opportunity to switch TTS shipper and/or elect an alternative gas supply pricing option. Chesapeake also provided each TTS shipper the opportunity to promote their various pricing options and other factors that would influence customer choice during the open enrollment. Chesapeake administered the open enrollment process and mailed the TTS shipper solicitation materials to all TTS customers. Chesapeake states that approximately 15 percent of all TTS consumers elected to either change TTS shipper or selected a pricing option other than the standard price option. On April 1, 2008, the consumer choices from the open enrollment period were activated in Chesapeake's billing system. Chesapeake will administer an open enrollment period on an annual basis.

Costs to implement Phase Two of TTS program. Chesapeake states that it implemented Phase Two of its TTS program with the knowledge that its current customer information system (CIS) was not programmed to handle many of the processes required to administer a multiple shipper and multiple pricing TTS program. Chesapeake further states that it completed the basic computer system modifications necessary to allow Phase Two to begin; however, it was the company's intent to operate Phase Two for several months to identify real, rather than projected, additional modifications required to its CIS.

Chesapeake states that it spent $77,980 in actual expenses from May 2007 through June 2008. The expenses consist of computer programming services, consultant fees, legal fees, and 2008 payments to a third party mail house.

Chesapeake further states that for the period July 2008 through May 2009, it projects an additional $100,000 in expenses to further modify its computer system, and provide an additional consumer education effort during the 2009 open enrollment period. Both actual and projected costs total $177,980. A breakdown and description of the costs provided by Chesapeake is shown in Attachment A to the staff recommendation.

Chesapeake's proposal. Chesapeake proposes a Transportation Cost Recovery (TCR) Adjustment tariff which would allow Chesapeake to recover over 12-months from its TTS shippers its non-recurring expenses stated above, plus interest and regulatory assessment fees, to implement Phase Two of its TTS program. The monthly interest rate would be the rate approved in the Commission's on-going natural gas conservation cost recovery and purchased gas adjustment (PGA) true-up dockets for the applicable months.

Chesapeake proposes to divide the total TCR amount of $177,980 into twelve monthly amounts of approximately $15,300 (the monthly TCR amount). Each month, Chesapeake would determine the actual number of customers assigned to each TTS shipper, and allocate the monthly TCR amount between the TTS shippers based on the ratio of consumers in each TTS shippers pool. For example, if the ratio of TTS customers between TTS shippers in a given month is 60 percent to 40 percent, the monthly TCR amount would be divided on a 60 percent to 40 percent basis to the respective shippers.

Chesapeake has an existing billing relationship with its TTS shippers, that would allow Chesapeake to recover the TCR amount from the shippers. Chesapeake bills its TTS shippers pursuant to the Shipper Administrative and Billing Services (SABS) tariff, Original Sheet No. 94.[5] The SABS rate schedule currently includes a $100 Shipper Administration Charge, which recovers Chesapeake's recurring billing and collection costs. The TTS shippers do not directly bill customers for the gas purchased, but rather contract with Chesapeake to provide all customer billing services. Customers served by a TTS shipper therefore receive one monthly bill from Chesapeake that includes both the shipper's and Chesapeake's charges. Chesapeake proposes to adjust the monthly Shipper Administration Charge contained in the SABS rate schedule by the monthly TCR amount.

Chesapeake proposes to recover the expenses over a 12-month period, beginning on the first day of the month following the issuance date of the Commission's Consummating Order in this proceeding. Chesapeake states that it will adjust the final TCR amount billed to the TTS shippers to match actual expenses occurred during the period July 2008 through May 2009.

Impact on customers. Chesapeake anticipates that the TTS consumers' bills will increase approximately $1.10 per month during the 12-month recovery period as the TTS shipper passes

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[5] See Order No. Order No. PSC-05-0208-PAA-GU, issued February 22, 2005, in Docket No. 040956-GU, In re: 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.

the TCR costs along to the consumers. As of June 2008, Chesapeake served 13,847 TTS customers. A monthly TCR recovery amount of $15,300 divided by 13,847 TTS consumers, results in a $1.10 monthly bill impact. While the TTS shippers are not required to pass the TCR costs along to the consumers in their pool, Chesapeake anticipates that the shippers will choose to do so.

Conclusion. The Commission has approved on several occasions the recovery of incremental non-recurring expenses associated with the offering of transportation service. In October 2000, Peoples Gas received approval to recover non-recurring costs of $2.9 million to make transportation service available to all non-residential customers.[6] In October 2001, the Commission approved $91,455 in expenses associated with offering transportation service for Florida Public Utilities Company.[7] In January 2002, Chesapeake received approval to recover $339,992 in incremental expenses incurred to provide transportation service over a two-year period.[8] In November 2002, Indiantown Gas Company exited the merchant function, and in October 2003, Indiantown received approval to recover $48,742 in transition costs.[9] In all the cases listed above, the Commission approved a specific cents per therm transportation charge applicable to the various customer classes on the basis of their therm consumption.

Chesapeake's proposal differs from the cases listed above in that Chesapeake seeks to recover the costs from the two TTS shippers, and not the individual retail consumers. Chesapeake states its proposed recovery methodology is easier to administer for the company than the traditional cents per therm transition charge assessed to individual consumers, since there is no need to modify the company's billing system to accommodate a billing surcharge. The TTS shippers are customers of Chesapeake and are billed by Chesapeake pursuant to the SABS rate schedule. In addition, the TTS shippers operate under contract with Chesapeake in accordance with Tariff Sheet Nos. 122-138, *Transitional Transportation Service Shipper Agreement*, which provides for all the terms and conditions under which the shippers operate. Chesapeake states that on a quarterly basis it audits the shipper's charges to ensure their accuracy.

Based upon its review, staff believes that Chesapeake's proposed Transportation Cost Recovery (TCR) Adjustment tariff is appropriate, and should therefore be approved. Staff has reviewed the costs as shown in Attachment A and they appear reasonable. The tariff allows Chesapeake to recover its non-recurring incremental expenses to implement Phase Two of the TTS program in a cost-effective manner.

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[6] See Order No. PSC-00-1814-TRF-GU, issued October 4, 2000, in Docket No. 000810-GU, In re: Petition for approval of modification to tariff provisions governing transportation of customer-owned gas and tariff provisions to implement Rule 25-7.0335, F.A.C., by Tampa Electric Company d/b/a Peoples Gas System.

[7] See Order No. PSC-01-1963-TRF-GU, issued on October 1, 2001, in Docket No. 010846-GU, In re: Petition for approval of initial transportation cost recovery factors by Florida Public Utilities Company.

[8] See Order No. PSC-02-0110-TRF-GU, issued January 24, 2002, in Docket No. 011579-GU, In re: Petition for approval of transportation cost recovery factors by Florida Division of Chesapeake Utilities Corporation.

[9] See Order No. PSC-03-1109-PAA-GU, issued October 6, 2003, in Docket No. 030462-GU, In re: Petition of Indiantown Gas Company for approval of transition cost recovery charge and for approval of final purchased gas adjustment true-up credit.

Issue 2: Should this docket be closed?

Recommendation: Yes. If Issue 1 is approved, this tariff should become effective on January 1, 2009. If a protest is filed within 21 days of the issuance of the order, this 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. (Draper, Fleming)

Staff Analysis: If Issue 1 is approved, this tariff should become effective on January 1, 2009. If a protest is filed within 21 days of the issuance of the order, this 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.

Florida Division of Chesapeake Utilities Corporation
Transportation Cost Recovery Petition
Actual and Projected TTS Program Phase Two Implementation Costs

***Actual Costs Incurred May 2007 through June 2008*: $77,980.60**

Computer Programming Services: $13,274.39

The Company contracted for several modifications to its UtiliCis Customer Information System. The modifications accommodated the addition of a second TTS Shipper and supported billing functions that enabled consumers to select from an expanded, but limited, menu of gas supply pricing options. The principal billing related modifications included adding a new receivable module for the second TTS Shipper and the expansion of various rate tables, adjustment codes and tax calculation fields. Various data reporting capabilities were expanded to provide enhanced information on gas usage to TTS Shippers (for imbalance resolution purposes). In addition, reports required to track payment status, bad debt and the transfer of consumers between Shippers were improved.

Consultant Fees: $9,715.00

The Company contracted for consulting services to assist in the development of CIS and other back office procedural modifications related to Phase Two implementation. The consultant also provided assistance in staff training on tariff and program procedural issues, the design of the Open Enrollment process and worked with Shippers on a variety of program implementation issues.

Legal Fees: $6,825.00

Prior to implementing Phase Two, the Company sought legal counsel to clarify several Federal Energy Regulatory Commission (FERC) rules and policies related to the release of interstate pipeline capacity and the applicability of the Hinshaw provisions related to the Phase Two program design.

2008 Open Enrollment Forms, Duplication, Mail Processing, Postage: $48,166.21

The Company contracted with a third party mail house to duplicate and process for mailing the various Phase Two program educational materials, selection forms and TTS Shipper pricing descriptions provided to consumers. Three separate mailings to over 15,000 consumers were handled by the mail house.

<u>Projected Costs Incurred July 2008 through May 2009</u>: $100,000

<u>Computer Programming Services</u>: $25,000

As noted in the paragraph 24 of the Company's petition, relatively minor modifications were undertaken to the Company's CIS prior to implementing Phase Two of the TTS Program. Only those modifications necessary to add an additional TTS Shipper and a limited number of pricing options were included. The Company has operated with multiple Shippers under Phase Two for over a year; including the past five months with multiple pricing options. Several additional CIS modifications are needed to:

- Expand consumer pricing options. The TTS Shipper's offered over a dozen different pricing programs (various fixed price terms, senior citizen pricing, etc.). At this time the Company is not able to fully accommodate the available options.
- Improve reporting functions. One of the key elements in reducing consumer gas supply costs is the reduction in imbalance resolution costs. Providing more timely usage data would enable Shippers to better manage imbalances.
- Reduce the hand keying required to set up a rate field. The process in the current system is complex and requires manual, repetitive keying of rates to ensure the correct factors are picked up across all system modules.
- Eliminate the manual processing required to final bill a consumer prior to setting up a new consumer at the same location with a TTS Shipper.
- Automate the process of assigning consumers between TTS Shippers at the time of initial account processing or order completion.

<u>Consultant Fees</u>: $22,500

The Company plans to contract for consulting services to assist in the development of the above CIS enhancements and other back office procedural modifications related to Phase Two implementation. The consultant would also continue to provided staff training on program procedural issues and work with TTS Shippers on a variety of program implementation issues. Of primary concern is the development of data reporting procedures that would result in imbalance and Alert Day cost reductions for members of the TTS Consumer Pool.

<u>Legal Fees</u>: $2,500

Legal expenses incurred to file the Phase Two TCR mechanism petition.

<u>2009 Open Enrollment Forms, Duplication, Mail Processing, Postage</u>: $50,000

The Company intends that its 2009 Open Enrollment process will be similar to the process followed in 2008. It is anticipated that three mailings to inform consumers and facilitate Shipper and pricing option selections will occur in 2009. The Company would again contract with a third party mail house to duplicate, process and mail the various Open Enrollment educational materials, selection forms and TTS Shipper pricing descriptions. It is expected that the cost for this service in 2009 will be approximately equal to the 2008 cost.