BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for approval of modifications to natural gas tariff and for approval of temporary transportation, relinquishment, and gas sales agreement by Florida Division of Chesapeake Utilities Corporation	DOCKET NO. 940107-GU ORDER NO. PSC-94-0303-FOF-GU ISSUED: 3/16/94

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK
JULIA L. JOHNSON
LUIS J. LAUREDO

ORDER APPROVING TARIFF

BY THE COMMISSION:

On April 8, 1992, the Federal Energy Regulatory Commission (FERC) issued Order No. 636, which made significant changes to the structure of service provided by interstate natural gas pipelines. FERC intended Order No. 636 to complete the natural gas industry's transition to a competitive market place initiated by the Natural Gas Policy Act of 1978. The traditional role of a natural gas pipeline was a merchant, where the pipeline purchased gas at the wellhead and sold it in a "bundled" sales service to local distribution companies (LDCs) at the city gate. In Order No. 636, FERC indicated the traditional role of pipelines was a hindrance to the development of a competitive gas market. Orders 636, 636-A, and 636-B required all interstate pipelines to restructure their service and eliminate their role as gas merchants.

At the conclusion of Florida Gas Transmissions's (FGT's) restructuring proceeding before FERC, FERC's Second Order on Compliance Filing was issued on September 19, 1993. FGT submitted its revised FERC gas tariff in response to that order on September 22, 1993. The tariff makes numerous and significant changes to the operation of FGT's pipeline system and the rights of FGT's customers. The FGT changes were effective November 1, 1993.

A result of the restructuring by FERC is that customers of a gas pipeline, such as LDCs like Chesapeake Utilities Corporation (Chesapeake) and to some extent the LDCs' end-use transportation customers, must now purchase their own natural gas in the market place. The pipeline no longer sells natural gas. The pipeline transports natural gas only. The LDCs can no longer rely on the pipeline for all needs, as they once did. All of the liabilities once incurred by the pipeline, such as purchasing, transporting, balancing, and interrupting customers' gas, are now the responsibilities of the LDCs.

To the extent that the LDCs' end-use transportation customers purchase their own gas, they will now face the responsibility of purchasing, transporting, balancing, and scheduling for each day of service, in order to maintain a balance between receipts into and deliveries out of both FGT's and the serving LDC's system. If an imbalance occurs where the amount of scheduled gas and the actual gas taken on a given day differs, the LDC will assign responsibility for the imbalance created by a particular customer to that customer and no others. The customer responsible for an imbalance is required to resolve the imbalance with the LDC at the end of the billing period through the LDC's Operational Balancing Agreement.

In response to these major change in the natural gas industry, and in particular the restructuring of FGT, on January 28, 1994, the Florida Division of Chesapeake Utilities Corporation filed a petition for approval of modifications it proposed for its natural gas tariff. The tariff sheets Chesapeake seeks to revise govern service on Chesapeake's distribution system. The changes are the result of months of negotiations between Chesapeake and its transportation customers. Because of the negotiations, Chesapeake believes the changes to its tariff are acceptable to its customers.

The major changes to Chesapeake's tariff are as follows:

<u>Conditions for Transportation of Customer-Owned Gas</u> - Provides primarily that each customer who receives transportation service must execute a Gas Transportation and Supply Agreement and an Operational Balancing Agreement, regardless of whether the customer also purchases gas from Chesapeake pursuant to a rate schedule that provides for sales service.

<u>Gas Transportation and Supply Agreement</u> - Sets forth general provisions with respect to nominating and scheduling service, and provides that quantities of gas nominated by the customer and confirmed by Chesapeake for delivery will be deemed to be Scheduled Quantities. Provides the times when customers' nomination for service are due to Chesapeake so Chesapeake can provide nominations to the pipeline for its system supply. Provides that Chesapeake

shall bill non-gas energy and transportation charges based on Scheduled Quantities. The Operational Balancing Agreement will resolve any difference between scheduled quantities and actual takes for each customer. Provides that, at times when Chesapeake must curtail deliveries of gas to its interruptible transportation customers in order to maintain service to its firm customers, Chesapeake may use the customer's gas that is flowing on or into Chesapeake's system.

Operational Balancing Agreement - Provides that, at the end of each billing period, the operational imbalance amount for each customer will be determined by subtracting the actual takes from the scheduled quantities for each day, and summing the differences for the month. The result is the monthly imbalance amount. Chesapeake will purchase any positive (scheduled quantities exceed actual takes) monthly imbalance amount from the customer at a price equal to the monthly average spot price for gas delivered to FGT at Tivoli, Texas (Zone 1) as reported in Natural Gas Week. Chesapeake will sell any negative (actual takes exceed scheduled quantities) monthly imbalance amount to the customer at a price equal to the monthly average spot price for gas delivered to FGT at St. Helena parish, Louisiana (Zone 3) as reported in Natural Gas Week. This method of buying low and selling high in order to resolve Chesapeake's transporting customers' imbalances should result in a net reduction in purchased gas costs which are flowed through the purchased gas adjustment (PGA) clause to all system supply customers.

We have reviewed the modifications to Chesapeake's natural gas tariff and find they are fair and reasonable responses to the restructuring of FGT and the fundamental changes in the natural gas industry. Accordingly, Chesapeake's revised tariff shall be approved.

It is, therefore,

ORDERED by the Florida Public Service Commission that the modifications to the Florida Division of Chesapeake Utilities Corporation's natural gas tariff are approved as discussed above, effective March 8, 1994. It is further

ORDERED that if a protest is filed in accordance with the requirement set forth below, the tariff shall remain in effect with any increase in revenues held subject to refund pending resolution of the protest. It is further

If this Order becomes final on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the date this Order becomes final, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.