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December 4, 1996

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HAND DELIVERY

RE: Docket No. 960725-GU
Unbundling of Natural Gas Services

Dear Ms. Bayo:

Enclosed for filing in the above docket are an original and 15 copies of Chesapeake Utilities Corporation's Responses for Second Workshop along with our Certificate of Service.

Please acknowledge receipt of the foregoing by stamping the enclosed extra copy of this letter and returning same to my attention. Thank you for your assistance.

Sincerely,

Wayne L Schiefelbein

Wayne L. Schiefelbein

WLS/adw
Enclosures

cc w/encl: Anne Wood (w/cover letter & certificate only)
Chesapeake Utilities Company

Marc Schneidermann
Florida Public Utilities Company

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Unbundling of Natural Gas Services) Docket No. 960725-GU
) Filed: December 4, 1996

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of Chesapeake Utilities Corporation's Responses for Second Workshop have been furnished by hand delivery (*) or by U.S. Mail to the following individuals, on this 4th day of December, 1996:

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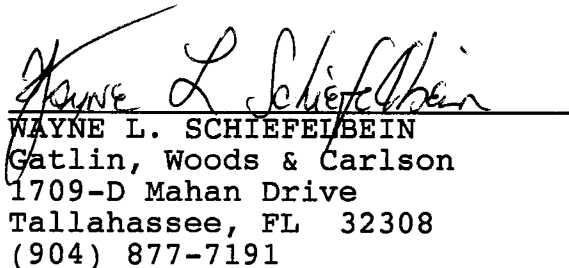

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CHESAPEAKE UTILITIES CORPORATION
RESPONSES FOR SECOND WORKSHOP
UNBUNDLING NATURAL GAS SERVICE
DOCKET 960725-GU

BALANCING

16. Should the LDC be required to file balancing tariffs that establish a period when transportation customers can balance deliveries into and out of the utility's system?

    Ans. LDC's should not be required to file balancing tariffs. However, CUC believes that it is necessary for an LDC to specify terms and conditions for imbalance reconciliation in its tariff. The LDC must have sufficient flexibility to manage the differences between deliveries into its system and actual consumption by end-users on its system. Each LDC must individually determine the degree of flexibility it can provide to customers (or their agents) with respect to daily balancing tolerances and charges, monthly balancing, and reconciliation of imbalances. The PSC should not mandate the terms.

17. Should the LDC be allowed to issue Operational Flow Orders and impose special volume conditions and/or balancing provisions in case of system emergencies and capacity constraints?

    Ans. Yes. The LDC is ultimately responsible for the reliability and integrity of its distribution system. As such, an LDC should be allowed to establish the operational controls that it needs to provide safe and reliable service. The use of OFOs or volume restrictions in the case of system emergencies or capacity constraints is an essential tool to protect the integrity of the distribution system and to ensure transportation customers (or their agents) do not contribute to, or create, additional system constraints. OFOs provide an appropriate incentive for customers (or their agents) to deliver sufficient suppliers and/or restrict takes of gas in accordance with their balancing obligations.

18. Should the LDC be allowed to impose penalties when a customer fails to balance deliveries and withdrawals within an established time frame?

    Ans. Yes. As stated above in the response to issue 16, the LDC should have the

DOCUMENT NUMBER-DATE
12927 DEC-4 98
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flexibility to structure imbalance tariffs that make sense for its system. These tariffs should provide for a mechanism for resolving transportation imbalances with customers or their agents, third party suppliers and aggregators.

19. Should the LDC be required to institute a tolerance range for purposes of setting the threshold before an Operational Flow Order is issued?

Ans. No. The LDC may need to issue a Flow Order as a result of a variety of on-system operational problems or in response to an FGT order. The constrained operational circumstances which necessitate the use of an OFO limit the degree to which an LDC may allow penalty-free imbalances.

20. Should balancing obligations, costs and penalties be based on a "no harm/no foul" principle?

Ans. No. When choosing transportation service, customers and/or their agents become responsible for balancing deliveries into the LDC's system with their consumption on a monthly or daily basis. Balancing provisions and related penalties are designed to create discipline in the administration of transportation services. CUC believes that the balancing language included in the tariff should be clear and should be exercised consistently in order to send the proper signals to customers and their suppliers. Balancing provisions should provide significant incentives for customers to maintain a reasonable balance between deliveries and consumption on a monthly or daily basis.

21. Should the LDC be allowed to impose metering requirements on the transportation customers to ensure the LDC remains in balance with the pipeline?

Ans. Yes. The LDC should be allowed to impose metering requirements on transportation customers. Each LDC should also have the discretion to determine what its requirements are based on its individual operating conditions. Electronic metering provides the LDC with the information it needs to manage and control its system and to ensure that transportation customer imbalances are not negatively impacting the LDC or the non-transportation customers.

22. Should the LDC be allowed to vary the metering requirements between classes?

Ans. Yes. The LDC's should be allowed to vary metering requirements between classes. Since large customers will have the greatest impact on the LDC's system integrity, it is reasonable to assume that an LDC may require telemetering for those customers. LDC's may not require telemetering for smaller customers due to the current cost of automated metering. Smaller customers could be metered using existing technology. Each LDC should be allowed to determine which

customers require telemetering based on its individual circumstances.

23. Should the LDC be required to institute:

- hourly flow limitations
- mid-day nominations
- no-notice service
- monthly cash-out provisions
- transportation nomination rules
- delivery point allocation rules

Ans. No. The PSC should not require standardized service offerings by all LDC's across the state. Each LDC should have the flexibility to institute the balancing, nomination procedures, or system control measures that make sense for its unique situation. No artificial requirements should be placed on the systems simply for purposes of statewide standardization.

24. Should LDC's be permitted to establish non-performance penalties to be levied on suppliers, marketers or brokers who create imbalance situations for the LDC?

Ans. Yes. The LDC must have the authority to penalize suppliers for non-performance. Penalties must be high enough to provide an incentive to perform. If a firm customer's supplier fails to deliver the customer's gas, the LDC could find itself having to supply the customer. Penalties must cover, at minimum, the LDC's incremental gas supply costs to serve the firm customer.

25. Should each LDC have the discretion to establish nomination and balancing procedures? If so, should third party suppliers be required to abide by these procedures?

Ans. Each LDC should have the discretion to establish nomination and balancing procedures that work for their system. The PSC should not require standardized procedures for all LDC's. All shippers, including third party suppliers, should be required to abide by these procedures.

26. Should shippers erring on the side of caution and being out of tolerance in the "right" direction and that "help" the LDC's system during operational controls be rewarded?

Ans. CUC does not believe it is necessary to reward shippers erring in the "right" direction. The operation of the LDC's system is separate and distinct from the operation of FGT's system. Since the LDC has a very limited amount of line pack, small imbalances can create local problems on the distribution system, even if the imbalance is in the "right" direction with FGT. CUC's balancing provisions will provide for charges to be incurred by shippers in circumstances where an overrun

or underrun occurs beyond a specified tolerance. These disincentives are to assist the LDC in balancing with FGT as well as maintaining LDC system integrity. Situations may arise wherein the LDC is in balance with FGT (within a specified tolerance); however, there may be a shipper who is outside the LDC specified tolerance which is creating an operational control problem. In this case, the shipper may have been in the "right" direction with FGT, but was beyond the LDC's specified tolerance and should be subject to balancing provisions.

FGT operates its pipeline independent of the operation of the LDC's attached to the pipeline. It does not design its operating guidelines around the operation of the LDC's. The LDC's are not operating arms of FGT. For the same reasons FGT functions independently from the LDC's, the LDC's must be able to function independently of FGT.

MARKETERS AND AFFILIATED MARKETERS

33. Should the LDC's be allowed to charge marketers penalties for any daily over or under deliveries?

Ans. Yes. The LDC should be allowed to charge the party responsible for imbalances any associated penalties as part of the LDC's balancing provisions. The transportation customer's contract with the LDC should specify the responsible party. The LDC may also have a contract with the customer's agent, third party supplier, or an aggregator which specifies operational terms and conditions and the consequences of not adhering to tariff or contract terms.

34. Should the LDC be required to develop eligibility policies/standards to evaluate potential marketers?

Ans. The LDC's should not be required to develop eligibility policies and standards to evaluate potential marketers. However, CUC believes most LDC's will develop these standards and procedures as part of the management of their transportation services.

35. Should the Commission initiate rule-making to establish guidelines for utilities with marketing affiliates?

Ans. No, CUC does not feel that it is needed. The PSC already has the authority to investigate any complaints or perceived improprieties as they arise. Utilities should be allowed to have marketing affiliates serving customers behind their systems.

However, if the Commission determines that such guidelines are necessary, CUC believes that such guidelines should exclude transactions which occur between the LDC's affiliate and customers which are not behind the LDC's system. If the purpose of affiliated guidelines is to eliminate the perceived competitive advantage for the LDC's marketing affiliate, these guidelines would not be needed for such off-system customers. No perceived competitive advantage exists for the marketing affiliate doing business with an off-system customer.

Furthermore, if the Commission determines that such guidelines are necessary, CUC believes that some phased in approach or transitional guidelines should be developed in order to allow the LDC's marketing affiliate to fulfill existing contracts until they expire.

36. Should the LDC's be able to establish creditworthiness standards to ensure the financial capability of suppliers, marketers, and brokers?

Ans. LDC's should be allowed to establish non-discriminatory creditworthiness standards for suppliers, marketers and brokers. The LDC's may also opt to have an agreement with suppliers to help ensure recovery of balancing and non-performance penalties.

STRANDED INVESTMENT

37. Should the LDC be allowed to require transportation customers to take capacity held by the LDC?

Ans. Yes. LDC's must be allowed to require transportation customers to take a proportionate share of the capacity that the LDC procured on behalf of that customer to provide firm sales service.

During the transition to open access on FGT, LDC's were required to commit to long-term contracts for firm capacity sufficient to serve all customers on our systems. There was no other way for LDC's to ensure pipeline capacity to serve their customers. Furthermore, at the time of those contracts, the FERC allowed only historical customers of the pipeline to make those commitments. Neither third party suppliers nor customers behind the LDCs' city gates could do so.

If LDC's had failed to step up and make those long-term commitments, neither firm no interruptible customers behind an LDC's city gates would have been able to use natural gas for the past several years. Now that pipeline open access is an established reality, LDC open access is the next step. It is imperative, however, that customers who may now convert to transportation service are not permitted

to escape the responsibility to pay for the capacity they have used and are still using.

Someone must pay the cost of those long-term contracts. If transportation customers use secondary released capacity, the LDC will have excess capacity under contract. The pipeline is not going to forgive the cost of that capacity. Whether the investment is partially stranded (released at a discount) or fully stranded (no takers), either the LDC shareholders or the remaining system sales customers will have to pay. The transporting customer will enjoy lower cost capacity only because someone else is subsidizing its cost.

If the Commission requires LDC's to release capacity at a discount to third party suppliers, if will be directly responsible for enriching third party suppliers (from the windfall difference between maximum and discounted rates) at the expense of the LDC's system sales customers or the LDC's shareholders. That should be an unacceptable outcome to the Commission.

38. Should the LDC be allowed to require marketers to pay the maximum rate for capacity purchased from an LDC?

Ans. Chesapeake interprets this issue to mean the marketer is acquiring the capacity to serve an existing sales customer. If an LDC determines that converting sales customers must take an assignment of firm pipeline capacity, such capacity may be priced at the maximum rate for capacity release. If an LDC holds all of the primary firm capacity at a particular pipeline delivery point, shippers may have no option to its customers other than to take the firm capacity of the LDC, if the shipper wants to provide the highest level of firm service. The payment of less than the maximum rate for firm capacity which will be used by a converting customer to meet its daily firm requirements, including peak day needs, would result in remaining sales customers subsidizing the firm service of transportation customers (see response to issue 37).

39. Should the LDC be allowed to require an exit fee payment when a customer chooses to use third party capacity?

Ans. Yes. The LDC should be allowed to include an exit fee in its tariff to recover or mitigate stranded capacity costs. CUC believes that a capacity realignment adjustment is a likely method to recover the costs of stranded capacity as well as future costs of capacity for growth (see responses to issues 40 and 41).

40. Should the LDC be required to make permanent relinquishments of unneeded capacity at maximum rates to lessen stranded capacity costs?

Ans. No. The PSC should not mandate permanent relinquishments of pipeline capacity held by the LDC's. With today's market, there would be limited takers even if the PSC did require it. An issue that the PSC must address is defining "unneeded" capacity. Today, CUC has no unneeded capacity. It acquires capacity on FGT to meet is customers' demands and to have some capacity available for future growth. At this point, CUC does not believe marketers/suppliers, in general, are going to commit to long-term (10-20 years in length) firm contracts with FGT. This raises the issue about who will make such long-term commitments to the upstream pipelines to enable them to finance capacity expansion projects. CUC believes that this role will remain with the LDC for the foreseeable future. Otherwise, natural gas growth in Florida will stagnate. A mechanism must be put in place for LDC's recovery of costs associated with "growth" capacity.

41. Should the LDC be allowed to institute a temporary Capacity Realignment Adjustment to recoup the LDC's stranded capacity costs?

Ans. A Capacity Realignment Adjustment is another cost recovery method that the LDC should be allowed to consider as a method of addressing stranded cost recovery. Each LDC should determine at its own discretion how to deal with potential stranded costs associated with long-term firm capacity contracts as customers convert from sales to transportation services.

As indicated in the response to issue 40, there is not only a temporary cost recovery issue. A mechanism must be put in place that provides for equitable recovery of upstream demand charges both in the short-term and long-term and also encourages growth of the LDC's.

42. Should LDC's require interruptible customers to pick up released firm FGT capacity from the native LDC as a prerequisite to transportation service?

Ans. Where possible, the LDC should require all customers to acquire and pay for LDC capacity that had been previous used to serve them. Interruptible customers have benefitted from the available LDC capacity used to serve them and should be required to continue to utilize that capacity under transportation. In competitive markets with alternative fuel customers, the LDC should be allowed to negotiate (a) the capacity release price and (b) the requirement to utilize the LDC's capacity at all.