



Public Service Commission

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DATE: AUGUST 20, 1998

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAY)

FROM: DIVISION OF ELECTRIC AND GAS (BROWN, MAKIN, LOWERY, BULECZA-BANKS) (JAY) *383* *RVE* *JDJ*

RE: DOCKET NO. 980895-GU - PETITION BY FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION FOR AUTHORITY TO IMPLEMENT PROPOSED FLEXIBLE GAS SERVICE TARIFF AND TO REVISE CERTAIN TARIFF SHEETS.

AGENDA: 9/1/98 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 60-DAY SUSPENSION DATE: 9/14/98

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\EAG\WP\980895.RCM

CASE BACKGROUND

On July 15, 1998, Chesapeake Utilities Corporation (Chesapeake) filed a petition for approval to implement a proposed Flexible Gas Service tariff and revise certain tariff sheets. By this petition, Chesapeake seeks authority to implement a new Flexible Gas Service tariff. The tariff is designed to meet Chesapeake's need to compete for potential customers who have viable energy options in a way that assures existing customers will not be required to subsidize contracts entered into pursuant to the Flexible Gas Service Tariff. Chesapeake's proposed Flexible Gas Service tariff will apply to customers who demonstrate to Chesapeake that viable alternatives to natural gas exist. Only after receipt and investigation of a documented statement detailing a customer's option would Chesapeake offer Flexible Gas Service. A

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REPORTING

similar flexible gas tariff was approved by the Commission for City Gas Company of Florida in Docket No. 960920-GU, Order No. PSC-96-1218-FOR-GU, issued September 24, 1996.

Chesapeake also seeks to make changes in its tariff to expand payment alternatives to customers. Chesapeake proposes to expand its payment options to include payment by credit card or debit card. In addition, Chesapeake seeks authority to bill customer deposits to residential customers who are unable to physically come to the payment center. Billing the required deposit will facilitate the application process for new customers.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Chesapeake's petition to implement a Flexible Gas Service Tariff?

RECOMMENDATION: Yes. The Commission should approve Chesapeake's petition to implement a Flexible Gas Service Tariff. (Brown, Makin, Lowery, Bulecza-Banks)

STAFF ANALYSIS: The purpose of the flexible gas tariff is to enable Chesapeake to compete for new customers, and maintain existing ones. The tariff is designed to attract new customers by having the flexibility to offer rates that can compete with other sources of energy such as propane, fuel oil, and electricity.

The tariff also serves to assist Chesapeake in maintaining existing customers who may choose to bypass Chesapeake's distribution system and connect directly to the pipeline or decide to move their establishment within the territory of a more economically friendly local distribution company.

As proposed, Chesapeake will only offer Flexible Gas Service after receipt and review of a documented statement detailing a customer's alternatives. The documented statement of alternatives, along with the executed contract, will be submitted to the Commission within 30 days of execution of the contract. The information will include the name of the customer, the contract rate, the alternative energy sources available, and a copy of the contract entered into between the customer and the Company. Chesapeake will account for the imputed revenue component in its quarterly surveillance reports. Because each contract will be separately negotiated, Chesapeake regards the confidentiality

provision as an essential component of the tariff. Without the approval of confidentiality, Chesapeake could not offer the program.

The proposed tariff incorporates several protective measures designed to ensure that the general body of ratepayers will not be adversely affected by the adoption of the Flexible Gas Service tariff. To ensure that the general body of ratepayers is not burdened with costs attributed to this tariff, Chesapeake will, in future rate cases, impute revenues sufficient to offset the administrative costs (meter reading, billing, and maintenance of facilities) of serving customers under the Flexible Gas Service Tariff. This is equivalent to placing these expenses "below the line."

Chesapeake will not attempt to recover from other customers the difference between the otherwise applicable tariff rate and the Flexible Gas Service tariff, either through cost recovery clauses or directly or indirectly in future base rate cases.

For new customers served directly off the FGT main, the Flexible Gas Service tariff will have a floor price equivalent to the incremental cost of providing service to that customer. The Company will exclude from rate base all incremental capital costs related to serving the customer, and will retain all revenue received from these customers.

For new customers served off Chesapeake's existing distribution system, the Flexible Gas Service tariff will have a floor price equivalent to the incremental cost of providing service to that customer. Chesapeake will exclude from rate base all incremental capital costs related to serving the customer, and a portion of the depreciated costs of common distribution mains reflecting the size of the pipe serving the customer plus the distance from the interstate pipeline, and will retain all revenue received from these customers.

If Chesapeake offers this tariff to existing customers, it will exclude all incremental capital costs from rate base, and will remove from rate base the depreciated cost of the service line, metering equipment, and any other facilities that were installed specifically to serve the customer. In all instances, Chesapeake will remove from rate base, a portion of the depreciated costs of common distribution mains reflecting the size of the pipe serving the customer plus the distance from the interstate pipeline.

Accordingly, Staff recommends the Commission approve Chesapeake's proposed Flexible Gas Service tariff.

ISSUE 2: Should the Commission approve Chesapeake's request to expand its payment options?

RECOMMENDATION: Yes. The Commission should approve Chesapeake's request to expand its payment options. (Brown, Makin, Lowery, Bulecza-Banks)

STAFF ANALYSIS: By allowing Chesapeake to expand its payment options to include payments by credit card or debit card, customers can benefit from the convenience of other alternatives of payment. The application process for new customers will therefore be expedited by these other alternatives.

ISSUE 3: What is the appropriate effective date for the Flexible Gas Service tariff and revise certain tariff sheets?

RECOMMENDATION: The effective date for the Flexible Gas Service tariff and revise certain tariff sheets should be the effective date of Commission vote. (Brown, Makin, Lowery, Bulecza-Banks)

STAFF ANALYSIS: Staff believes the effective date for the Flexible Gas Service tariff should be the effective date of Commission vote.

ISSUE 4: Should this docket be closed?

RECOMMENDATION: Yes. If no substantially affected person files a protest within 21 days of the issuance of the order, the docket should be closed. If a protest is filed within 21 days from the issuance of the order, the tariff should remain in effect with any increase held subject to refund, pending resolution of the protest.
(Jaye)

STAFF ANALYSIS: If no substantially affected person files a protest within 21 days of the issuance of the order, the docket should be closed. If a protest is filed within 21 days from the issuance of the order, the tariff should remain in effect with any increase held subject to refund, pending resolution of the protest.