

**FLORIDA PUBLIC SERVICE COMMISSION**

**Fletcher Building  
101 East Gaines Street  
Tallahassee, Florida 32399-0850**

**MEMORANDUM**

**September 12, 1991**

**TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING**

**FROM : DIVISION OF LEGAL SERVICES [BROWN] MCB [McCORMICK, MAKIN] JdJ**  
**DIVISION OF ELECTRIC AND GAS [McCORMICK, MAKIN]**

**RE : DOCKET NO.: 910701-GU - INVESTIGATION INTO THE  
APPLICATION OF THE FLEXIBLE RATE SCHEDULE OF FLORIDA  
DIVISION OF CHESAPEAKE UTILITIES CORPORATION (FORMERLY  
CENTRAL FLORIDA GAS COMPANY).**

**AGENDA: SEPTEMBER 24, 1991 - CONTROVERSIAL AGENDA - PROPOSED  
AGENCY ACTION PARTIES MAY PARTICIPATE**

**CRITICAL DATES: NONE**

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**INTRODUCTION**

This item was deferred from the August 6, 1991 Agenda Conference. At that Agenda, a number of interrelated issues surfaced regarding staff concerns with Chesapeake Utilities Corporation - Florida Division's application of its flex rate interruptible tariff. The Commission directed the staff to review and clarify the issues and resolve all matters possible.

After the agenda, Commission staff met with Chesapeake staff, the company's attorney and the attorney for West Florida Natural Gas. (The Chesapeake tariff in question was approved by stipulation based upon a very similar West Florida tariff that the Commission had approved earlier in West Florida's stipulated rate case.)

Staff has revised the issues of concern regarding Chesapeake's application of its flex rate tariff. This recommendation will recount significant events in the development of the Commission's policy on flexible interruptible rates and present the issues that arise from the most recent event that has occurred, Chesapeake's increase of its flexible interruptible rates before it has experienced any loss associated with a decrease in its flexible interruptible rate. Staff's recommendations on Issue 6 will be presented in the alternative in order to present to the Commission the full scope of the arguments for and against this issue.

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

**BACKGROUND**

In Order No. 14965 (Attachment 1), issued September 17, 1985, the Commission approved modifications to the interruptible rate schedules of three natural gas utilities; Peoples Gas, West Florida Natural Gas, and Central Florida Gas Company, which is now the Florida Division of Chesapeake Utilities. In that order the Commission recognized that the utilities were in danger of losing a significant portion of their interruptible load to lower priced alternate fuel sources, a circumstance that did not bode well for the economic viability of the utilities.

. . . (L)oss of significant interruptible load by a utility could result in a request for relief that would seek to have the remaining investment (after reductions for that plant not used and useful) and costs borne by the remaining customers through higher rates.

The Commission approved the establishment of a separate class of customers, the "Contract Interruptible Service Customers" (CIS), and permitted the utilities to offer competitive discounts to the new class of customers. The new rates provided the utilities the flexibility needed to compete with alternate fuels and to address potential bypass by their interruptible customers.

The Commission recognized that the new "flexible" rates would benefit both the utilities and their non-interruptible ratepayers by retaining interruptible load on the utility system, but it required the utilities to absorb all losses of revenue associated with the rate reductions under the new rates.

In 1988, three years after the flexible rate tariffs were first approved, Peoples Gas System, Inc. petitioned the Commission for modification of its tariff to provide relief from the revenue losses the company had experienced in the implementation of its flex rates. In Order No. 20529, Docket No. 881341-GU (Attachment 2), issued December 27, 1988, the Commission approved the tariff modifications that Peoples suggested, including a "Competitive Rate Adjustment Clause". The competitive rate adjustment clause provided a mechanism by which the utility could recover any revenue shortfalls that resulted from the use of the flexible rate tariff from its other ratepayers, the non-CIS customers. The clause also permitted the utility to refund to non-CIS ratepayers any revenue surplus the utility collected from the application of the tariff in times when the market for alternate fuels permitted the utility to raise its flexible rates above the usual tariffed rate. The tariff modification would, the Commission said:

. . . permit PGS to recover revenues lost due to rate reductions to contract customers. The utility's proposal also presents the opportunity for non-contract customers to realize a reduction in rates through refunding of surpluses if natural gas again achieves a competitive advantage over alternate fuels used by the utility's contract customers. . .

We feel that the utility's proposal meets our concerns regarding flexible rates: that any change to flexible rate provisions be equitable to all parties, including flexing ratepayers, non-flexing ratepayers and shareholders, that it be limited to deal only with the refund or recovery of revenues that result from applying a rate other than the interruptible tariff rate, and that the provision not be designed to allow recovery of lost revenues that result from any changes of volume of sales or other outside influences.

The Commission's decision in Order No. 20529 set the standard for other utilities to follow, and thereafter West Florida and Chesapeake received Commission approval for modifications to their flexible rate tariffs. The tariffs were similar to Peoples Gas, but with what has become one significant difference. Peoples' flexible rate tariff recovers all revenue shortfalls from non-contract interruptible ratepayers, and refunds all revenue surpluses to them. West Florida's tariff and Chesapeake's tariff both provide, however, that the utility and the utility's firm ratepayers will share the burden of recovering the revenue shortfalls that occur when the company is forced to lower its flex rates below the usual tariffed rate. Concomitantly, the tariffs provide that both the utility and the utility's non-contract interruptible ratepayers will share the benefit of recovering the surplus when the market for alternate fuels permits the company to raise its flexible rates to contract interruptible customers above the usual tariffed rate.

Chesapeake's Industrial Interruptible Sales tariff (Attachment 3), which was effective July 9, 1990 provides;

The non-fuel charge for service hereunder shall be subject to the flexible pricing mechanism described in the Rates section of this Rate schedule. It is the intention of Company that this charge shall be determined



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based upon competition with Customer's alternative fuel. . . . The non-fuel charge to Customer shall be determined by Company based upon Company's evaluation of competitive conditions. . . . Company may from time to time increase or reduce the non-fuel charge as it deems necessary or appropriate to compete with alternate fuel, but shall have no obligation to do so. . . .

When the Commission approved Peoples' flexible rate tariff modifications, it did so because Peoples had been forced to lower its rates to retain its interruptible customers, and it had experienced significant revenue losses as a result. Unlike Peoples, Chesapeake has never flexed its contract interruptible rate downward to be competitive with its customers' alternate fuels, and it has thus never experienced any revenue losses.

In September of 1990, the company flexed its interruptible rate upward, and collected surplus revenue from all of its interruptible customers, which it intends to split with its other ratepayers. (Attachment 4) The company contends that its interruptible rate tariff permits it to raise its rates to its contract interruptible customers and its regular interruptible customers, even though it has never experienced any revenue losses. Otherwise there would be no reason or incentive to share the risks of loss on the down side. Mr. McCormick, chief of the Bureau of Gas Regulation, agrees with the company's position. Mr. Makin of the Commission's Bureau of Gas Regulation disagrees, and contends that Chesapeake Utilities should not be permitted to raise its flexible interruptible rate above the base non fuel energy charge established in its last rate case without having had to lower its flex rate first.

The company is reserving the incremental revenues pending the Commission's decision on this issue.

#### DISCUSSION OF ISSUES

ISSUE 1: Chesapeake has charged its interruptible customers at a rate within its approved flex rate range, but above the base non-fuel energy charge set in its last rate case. That base charge was developed using a cost of service study. The Company has never charged a rate less than the base non-fuel energy charge; that is, they have never flexed down. Is the Company's interpretation of its tariff consistent with the Commission's intent in approving those tariff provisions?



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**RECOMMENDATION:** The Commission's intent can not be clearly determined from the record in the Chesapeake rate case or in the record of the West Florida rate case (Docket 871255-GU). The stipulated acceptance of Chesapeake's flex rate was based on the flex rate established for West Florida in that case.

**DISCUSSION:** This flexible provision of Chesapeake's tariff was approved by stipulation of the parties and accepted by the Commission at Agenda following a hearing. Staff's Recommendation stated that the tariff essentially mirrored a similar tariff the Commission approved for West Florida in its recently completed rate case.

West Florida's was a stipulated case. Staff does not believe that the record in that case provides a clear statement of the Commission's intent in permitting upward flexible rates; that is, above the base non-fuel energy charge. The transcript of the prehearing in Docket 871255-GU shows that Commissioner Gunter, as prehearing officer, spoke at length of upward flex of rates being permissible only to bring the utility back to parity. Thus, it seems that his understanding was that a utility could not flex up, except to the extent that it recovered any previous revenue shortfall due to having to flex down to a rate below the base non-fuel energy charge.

At the hearing in Docket 871255-GU, Commissioner Gunter asked then Chairman Wilson "... if I could take a couple of minutes and tell you where I think we're at." (TR 3) He then described the process and the result of the agreement of the parties on all issues and stated;

I had some discussions and some questions at the prehearing conference regarding contracts, . . . , the rate levels, some discussion about one of the tariffs for interruptible service and the charges and what have you. I'm satisfied with the work product, and I would recommend that the stipulation be approved."  
(TR 5)

Because of his discussion after the prehearing, it appears that Commissioner Gunter's recommendation for approval was based upon the understanding that upward flex rates could only be used to recover previous shortfalls.

Later, during a very brief hearing, Mr. Bob Goldman, attorney for West Florida, discussed West Florida's proposed flex rate and clearly stated the difference between a flex methodology previously approved for Peoples Gas System and West Florida's proposal;

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The principle difference is that it (West Florida's proposal) incorporates a sharing mechanism so that any -- both at the top end and bottom end, which is to say any risks or rewards that are the result of flexing the rate to the interruptible customer will be shared with the firm ratepayers rather than keeping the Company totally whole, you know, without any risk whatsoever." (TR 13)

The vote was taken after Mr. Goldman's comment. Thus, the record indicates conflicting statements as to the basis for the panel's vote.

**ISSUE 2:** Should the Commission clarify its intent regarding whether a gas utility may flex its rate above the base non-energy fuel charge regardless of whether it has previously suffered revenue loss from flexing its rate that level?

**RECOMMENDATION:** Yes.

**DISCUSSION:** The use of flexible rates for interruptible customers has been evolving on a case by case basis since 1985. It is imperative that all parties clearly understand the Commission's present position as the process continues to evolve. Even if the Commission is unable to resolve the question of intent in Issue 1, the Commission may clarify its intent now on a prospective basis.

**ISSUE 3:** Should Chesapeake be required to have a tariff under which interruptible customers would be able to receive service under a set interruptible rate; that is, a rate that is not subject to flex?

**RECOMMENDATION:** No.

**DISCUSSION:** The first interruptible flex rates in 1985 were the result of customer pressure on utilities to lower rates to compete with alternate fuels. The very real threat was that the customer would leave the utility's system if no rate reduction was made.

Similar pressure can be expected if gas prices again become non-competitive. A customer would benefit from a set interruptible rate when alternate fuel prices were higher, suffering no upward flex in rates. Yet, should gas prices again become non-competitive, the customer could still demand a rate reduction or threaten to leave the utility system if no downward flex was provided. The utility and the Commission would then be faced with a problem scenario identical to that which created the initial need to flex downward in 1985.



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**ISSUE 4:** Should gas utilities be required to have a separate rate classification of contract interruptible customers?

**RECOMMENDATION:** No, a separate class is not necessary.

**DISCUSSION:** Prior to the Commission's actions in the West Florida rate case (Docket 871255-GU), flexible rates were governed by conditions set out in Order No. 14965, Docket No. 850203-GU, 850294-GU and 850213-GU, the initial 1985 flex rate order. That order required that a utility place any customers for whom it flexed its rates downward in a separate rate classification, the Contract Interruptible class. That was required to avoid customers within the same rate class being served at different rates.

The rate in Chesapeake's current Industrial Interruptible Sales (IIS) tariff is stated to be between 0.00 cents and 90 percent of the applicable firm rate. Thus, all customers are served within that banded rate, even though they may be served at different individual rates based upon the cost of their alternate fuels. For example, a customer who has propane as an alternate fuel will face a higher rate than a customer who has residual fuel oil as an alternate fuel. That is rate discrimination, but it is not undue discrimination. The reason for the different rate will be shown by the affidavit of alternate fuel costs that each customer must present to be eligible for downward flex rate from the Company's currently billed rate, whether that rate is above or below the base non-fuel energy charge.

**ISSUE 5:** Does Chesapeake's tariff, as approved, permit the Company to charge a rate above its base non-fuel energy charge without regard to any previous revenue shortfall due to downward flex of its interruptible rate?

**RECOMMENDATION:** Yes, it does.

**DISCUSSION:** The IIS tariff is silent with regard to previous shortfall. The tariff states in pertinent part that the;

. . . Company may from time to time increase or reduce the non-fuel charge as it deems necessary or appropriate to compete with alternative fuel, but shall have no obligation to do so.

The language used can reasonably be interpreted to mean that either an increase or a decrease may come first.



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**ISSUE 6:** Should Chesapeake be permitted to flex its interruptible rate up or down within the approved range of 0.00 cents to 90 percent of the applicable firm rate based solely upon the company's evaluation of competitive conditions as stated in Chesapeake's tariff and without regard to any previous revenue shortfall?

**PRIMARY RECOMMENDATION:** (Brown, Makin) No. The flex rate provision should only be increased to recover lost revenues associated with a prior decrease in the flex rate. The Commission should order Chesapeake to revise its interruptible tariff to reflect the Commission's decision on this issue.

**DISCUSSION:** While some may argue that an interruptible customer's willingness to pay a gas utility less than cost in times of lower alternate fuel cost is justification for the customer to continue to pay more than cost in times of higher alternate fuel cost, flexible rates were in fact designed to prevent the loss of large interruptible customers to lower priced alternate fuels. They were not designed to provide an incentive for the utility to charge market based prices for natural gas.

Under a flexible interruptible rate tariff, a utility may recover from its firm ratepayers the revenue shortfalls that result from discounted interruptible rates. The difference between the discounted rates and the actual interruptible rates established in the utility's last rate case based on the cost of service study is multiplied by the volumes billed each year ending September 30. That amount is then recovered from all other non-contract customers during the following year. The utility may, at its option, defer all or a portion of the recovery to a subsequent period. A flexible interruptible rate tariff may also provide that the utility and the firm ratepayers will share the burden of recovering the shortfall.

When the market for alternate fuels permits, a utility may adjust its interruptible rates above the actual interruptible rates established in the last rate case, and thus collect revenues from its interruptible customers that exceed the utility's cost to serve those customers up to the amount of the previous shortfall. When a utility collects a surplus, the utility reduces rates to its firm customers the following year by the amount of the surplus. If the utility and its firm customers have shared the revenue shortfall burden, both will recover a share of the surplus.

The surplus revenues are intended to be used to offset prior revenue shortfalls. They are not intended to provide either the firm ratepayers or the utility a windfall at the expense of the utility's interruptible customers.

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Rates that are based on cost of service are the means by which revenue deficiencies are allocated between rate classes based on cost causality. Those who create the cost pay the cost. This is not to say that every rate class always pays an equal rate of return or every rate class is always at parity based on the cost to serve. Consideration must be given in some cases to certain rate design constraints. Nevertheless, the cost of service principle in ratemaking strives to achieve parity between rate classes wherever possible.

If large interruptible customers continue to pay more than the cost to serve because they are required to pay rates predicated on higher priced alternate fuel, then this class of customer will make a contribution to the cost to serve that is greater than its proportional share, and a fundamental purpose of ratemaking is thus lost.

As Commissioner Gunter explained during a discussion of West Florida's competitive rate adjustment clause at the prehearing conference in West Florida's rate case:

Because once it balanced it doesn't appear that it would be proper to require ... that shifting to other classes of customers. Then it goes in the pot and you certainly would want them to be at a parity basis -- in regulatory theory you don't want anybody to make a contribution greater than their proportional share would be, interruptible or otherwise.

Transcript of Prehearing Conference in Docket No. 871255-GU, p 27  
(Attachment 5)

Value of service in this case is directed toward the company, in that by flexing rates downward the company is able to retain the large interruptible customer, that otherwise would be lost to lower alternate fuel or the potential of bypass. The remaining customers receive a value in that their rates are not going to increase as a result of the loss of these large interruptible customers.

**ALTERNATE RECOMMENDATION:** (McCormick) Yes.

**DISCUSSION:** Flex rate pricing is based upon value of service, not cost of service. Customers with alternate fuels are interested in cost of service only when it serves as a cap on gas rates and results in service at a price lower than competitive conditions



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warrant. If competing fuel prices drop, the customer has shown a willingness to abandon the cost of service philosophy and pressure the utility to lower rates to the value of service level. Cost of service is not exact, but is a mutually agreed upon regulatory fiction that we hope approximates the actual cost to serve. In Chesapeake's case, the base non-fuel energy charge developed in the cost of service study exceeds the rate the cost study showed to be the correct rate at parity.

Strict adherence to cost of service principals should not obscure the objective of regulation to serve as a surrogate for competition where no competition exists. Regulation provides protection to the customer who needs protection when faced with a natural monopoly. By definition, a customer with a readily available alternate fuel does not face a monopoly with regard to fuel choice.

If Chesapeake should bill an interruptible customer at the maximum rate and the customer then find that the rate exceeds its alternate fuel cost, Chesapeake's tariff permits that interruptible customer to control its gas cost by providing an affidavit to Chesapeake showing the delivered cost of competitive fuels. After verification of the data, Chesapeake will reduce its billed rate to that customer. Thus, at any time, an interruptible customer can control its gas cost so it will be paying less for gas than for the next cheapest alternative.

Under all pricing conditions within the 0.00 cents to 90 percent of the applicable firm rate, the customer benefits by buying gas cheaper than the next lowest priced substitute. Firm customers benefit by having their rate reduced by the competitive rate adjustment in the following period. Finally, the utility shareholders benefit by having their earnings increase.

The Commission retains control over earnings, however, because the utility's increase in earnings is all treated above the line. If the increase causes the utility to earn above its authorized rate of return, the Commission can order a refund of the excess earnings. It is hard to see who is harmed by letting competitive pricing forces prevail in markets where customers have readily available substitute fuels.

**ISSUE 7:** Should Chesapeake be required to refund the surplus revenues collected from its interruptible customers?

**RECOMMENDATION:** No. Chesapeake should not be required to refund the surplus revenues collected from its interruptible customers.

**DISCUSSION:** From September, 1990 through February, 1991,



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Chesapeake utilities has collected more than \$600,000, including interest, in surplus revenues from its interruptible customers. Staff initially believed that Chesapeake should return the surplus to its interruptible customers. On further consideration of the lack of clarity surrounding the Commission's approval of Chesapeake's tariff, however, staff now believes that the company should not be required to make a refund to its interruptible customers.

**ISSUE 2:** Should this docket be closed?

**RECOMMENDATION:** Yes. If no request for a hearing is timely filed, this docket may be closed when the protest period has run.

ATTACHMENT 1  
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GU

CITE as N: FPSC 9:137

FPSC

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Peoples Gas System, Inc. for approval of modifications to its Rate Schedule IS.	DOCKET NO. 850203-GU
In re: Petition of Gulf Natural Gas Corporation for modification of interruptible schedule and request for emergency consideration.	DOCKET NO. 850204-GU
In re: Petition of Central Florida Gas Corporation for approval of modifications to its rate schedule IIS.	DOCKET NO. 850213-GU ORDER NO. 14965 ISSUED: 9-17-85

The following Commissioners participated in the disposition of this matter:

JOHN R. HARKS, Chairman  
JOSEPH P. CRESSE  
GERALD L. GUYER

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING "CONTRACT INTERRUPTIBLE SERVICE CLASS"

BY THE COMMISSION:

Notice is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for formal proceeding pursuant to Rule 25-22.29, Florida Administrative Code.

By their separate petitions, Gulf Natural Gas Corporation (Gulf Natural) (Docket No. 850204-GU), Peoples Gas System, Inc. (Peoples) (Docket No. 850203-GU), and Central Florida Gas Corporation (Central Florida) (Docket No. 850213-GU) seek modifications to their interruptible rate schedules that would allow them to adjust the rates charged individual interruptible customers in order to compete with alternate fuels available to those customers. There are variations in the requested relief, but generally they seek the flexibility to meet the price of an alternate fuel available to an interruptible customer by lowering their rate to that customer to the energy charge plus customer charge, if any. Under each of the proposals an interruptible customer would make application for the reduced rate and submit an affidavit stating the source of the alternate fuel and its cost. Gulf Natural and Central Florida seek permission to completely eliminate their non-fuel energy charge, if necessary to compete, while Peoples asks that it be required to charge a minimum of non-fuel energy charge, plus any applicable customer charge.

We considered Gulf Natural's petition at our May 21, 1985 Agenda Conference and determined to suspend its proposed tariff modifications pending further analysis. However, because Gulf Natural alleged it might lose the largest of its two interruptible customers unless it received emergency relief, we approved the proposed tariff on an interim basis pending our final disposition of the matter. We also approved Peoples' and Central Florida's proposed tariffs on an interim basis and announced we would temporarily approve similar tariffs for the remaining natural gas utilities, if requested to.

Gulf Natural's petition states its specific problem requiring relief, and generally illustrates the problem confronting

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regulated natural gas distribution utilities in Florida. It alleges:

1. Gulf Natural has operating divisions in Panama City, Florida and Ocala, Florida. It purchases natural gas from the interstate pipelines at prices regulated by the Federal Energy Regulatory Commission, and sells natural gas to retail customers pursuant to rate schedules approved by this Commission.

2. Sales to Southwest Forest Industries (Southwest), an industrial customer and the utility's largest customer, account for sales under its interruptible schedule of more than 900,000 therms per month, or approximately 30% of total company sales.

3. Southwest, like many other industrial users of gas, has the ability to convert its facilities to the use of #6 fuel oil. Gulf Natural must therefore compete with the price of #6 oil to maintain Southwest as a customer.

4. Prior to Gulf Natural's request for emergency relief, Southwest informed it that the price of available #6 oil had dropped to as low as \$22 per barrel, which is the equivalent of 35.4¢ per therm for natural gas. Gulf Natural's then-approved interruptible rate was 39.31¢ per therm, including the current purchased Gas Adjustment (PGA) and non-fuel components. Southwest informed Gulf Natural that it intended to complete converting its line fills, which is covered under the interruptible schedule, to the use of #6 oil by mid-May, 1995. Gulf Natural alleged that it had to compete immediately because the industrial customer's gas having converted to the alternate fuel, would face substantial costs in converting back to natural gas, which could deter its return to gas.

5. Gulf Natural stated that a large portion of the fixed costs of its system were being recovered through the fixed costs received from Southwest and alleged that the loss of Southwest would have a devastating effect upon Gulf Natural and, ultimately, upon its other customers. Specifically, Gulf Natural alleged that, based upon actual 1994 data, its annual NOI would drop from \$615,576 to \$49,544 and its 12-month average rate of return would erode from 9.36% to 5.79% if Southwest's bill operation was lost for 12 months. Gulf Natural stated that any resulting adjustment in rates would require other customers and other customer classes to carry the additional burden of fixed costs formerly borne by Southwest.

People and Central Florida face similar situations. People own a total of 167 industrial or interruptible customers who are required to have alternate fuel capabilities and whose consumption accounted for 459,141,472 therms or 54% of system sales for the fiscal year ended September 30, 1990. Of these, 29 have the capability of switching to #6 oil and their consumption was 167,637,546 therms or about 35% of the system's sales in fiscal 1994. Central Florida's interruptible sales equaled 84% of its total sales for the 12-month period ended April 30, 1985 and 40% of its total sales were to four customers able to switch to #5 or #6 oil. Like Gulf Natural, People and Central Florida allege that the loss of interruptible load will adversely affect both the utilities and their remaining customers.

The allegation of these utilities that falling oil prices are threatening the industrial sales of natural gas is common knowledge. As alleged by these utilities the increasing



differential between the price of delivered natural gas and that of the the equivalent \$6 oil energy places significant portions of their industrial sales in real jeopardy of being lost. As also alleged by the distribution companies, significant portions of the fixed costs of their operations are recovered through sales to industrial customers and, therefore, the economic viability of these utilities rests in large part on their ability to generate revenues from their interruptible customers. Lastly, no regulatory act is required to foresee that the loss of significant interruptible load by a utility could result in a request for relief that would seek to have the remaining investment (after reductions for that plant not used and useful) and costs borne by the remaining customers through higher rates.

An alleged by the utilities, the threatened loss of interruptible load is due to the narrowing gap between the price of natural gas and the alternate fuels. Whatever the causes of that narrowing gap, we shall not wait until significant loads have been lost to act because such losses could adversely affect both the utility and its remaining customers and be irreversible. Accordingly, we propose to provide the petitioners in this case and the remaining regulated natural gas utilities, if they desire it, with the flexibility they need to compete with the alternate fuels available to their interruptible customers.

Interruptible customers are somewhat unique among the customer classes in that the tariff of each regulated natural gas utility in Florida requires that interruptible customers have an alternate fuel to supplant the natural gas during periods of interruption. Based on its individual requirements, an interruptible customer may select propane, \$2, \$5, or \$6 oil, among others, as its alternate fuel. Thus, each interruptible customer may be unique with respect to its reasons for selecting a given alternate fuel. Some may require the flexibility offered by the higher cost propane and \$2 fuel oil alternatives, while others are able to use the lower-cost \$6 oil.

Among the factors the Commission shall consider when fixing fair, just and reasonable rates, Section 366.06(1), Florida Statutes, specifically enumerates "value of service." Although value of service is a subjective concept, we believe that each interruptible customer, by its selection of an alternative fuel, indicates the relative value it places on receiving natural gas service. Furthermore, we believe the value of service as measured by the type of alternate fuel selected and the price at which it can be obtained are sufficiently adequate indicators to warrant variations in the rates offered to interruptible customers.

While we shall authorize pricing flexibility to the interruptible customers, we disapprove the proposed modifications that would result in rate variations within the existing interruptible classes. Rather, we shall authorize the petitioners and the remaining regulated gas utilities to submit tariffs establishing a separate class for "Contract Interruptible Service Customers." Under this tariff a utility may offer an interruptible customer a contract rate that is as low as the cost of gas, plus customer charges, if any, in order to compete with alternate fuels. Each utility shall devise procedures for implementing its tariffs, which will be subject to our review for prudence and reasonableness. As agreed to by the petitioners they shall book all Contract Interruptible sales at the regularly approved interruptible rate and separately book the competitive contract discounts from the approved rate.

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We shall not require Peoples to charge a minimum non-fuel charge of 1¢/therm. Instead we shall authorize all requesting utilities to charge at a minimum their cost of gas, plus applicable customer charges, conservation cost recovery charges, franchise fees and taxes. As agreed to, all contract competitive discounts shall be borne by the utilities.

By our approval of this new interruptible class, we recognize that interruptible customers are unique in that they are not dependent upon natural gas as their sole energy source. We also recognize the actual price competition that exists between natural gas and the alternate fuels and provide the distribution companies with the means to compete. While our primary goal is to contain industrial load and, ultimately, reduce the burden on ratepayers who cannot switch fuel sources, we believe that competition among industrial fuels will result in lower prices for each, to the benefit of all fuel users. Lastly, we believe that our increased recognition of "value of service" in this new class will not only meet our detriment to a utility's monopoly ratepayers, but may also be advantageous to those customers in the long term by allowing the distribution companies the necessary flexibility to retain their interruptible customers. We believe the retention of these interruptible customers and their loads may forestall not only requests for higher retail rates but also possible increases in the interrupter pipeline transportation rates resulting from less interruptible gas being transported.

In view of the above, it is:

ORDERED by the Florida Public Service Commission that the petition of Gulf Natural Gas Corporation for modification to Interruptible Schedule, the petition of Peoples Gas System, Inc. for approval of modifications to its Rate Schedule IS, and the petition of Central Florida Gas Corporation for approval of modifications to its Rate Schedule IIS are denied. It is further

ORDERED that Gulf Natural Gas Corporation, Peoples Gas System, Inc., Central Florida Gas Corporation and other natural gas distribution utilities are authorized to file "Contract Interruptible Service Class" tariffs consistent with the language in the body of this order describing such a tariff. It is further ORDERED that each utility establishing such a tariff shall record in the appropriate revenue account, gross revenues at the applicable tariff rate for the sale of natural gas. The related contract competitive discounts shall be recorded as a debit to a separate subaccount entitled "Revenue Discounts," within account 495, Other Gas Revenues. It is further

ORDERED that each utility adopting the tariff approved by this Order shall file a quarterly report reflecting the discount activity. The report shall be in the form prescribed by the Commission's Electric and Gas Department. It is further

ORDERED that each utility adopting the tariff approved by this Order shall notify all of its interruptible customers of the approval of the tariff by a billing insert, which includes a summary of the provisions not later than sixty (60) days after the utility has received approval of the new rate schedule. It is further

ORDERED that this Order shall become effective by October 9, 1991 unless a petition for formal reconsideration is received by October 9, 1991.

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By ORDER of the Florida Public Service Commission, this 17th  
day of September, 1985.

  
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STEVE TRIBBLE  
Commission Clerk

( S E A L )

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.39(4), Florida Statutes (Supp. 1984), to notify parties of any administrative hearing or judicial review of Commission orders that may be available, as well as the procedures and time limits that apply to such further proceedings. This notice should not be construed as an endorsement by the Florida Public Service Commission of any request nor should it be construed as an indication that such request will be granted.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.29, Florida Administrative Code. Any person adversely affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.29(4), Florida Administrative Code, in the form provided by Rule 25-22.36(7)(a) and (f), Florida Administrative Code. This petition must be received by the Commission Clerk at his office at 101 East Gaines Street, Tallahassee, Florida 32301, by the close of business on October 8, 1985. In the absence of such a petition, this order shall become effective October 9, 1985 as provided by Rule 25-22.29(6), Florida Administrative Code, and as reflected in a subsequent order.

If this order becomes final and effective on October 9, 1985, any party adversely affected may request judicial review by the Florida Supreme Court by the filing of a notice of appeal with the Commission Clerk and the filing of a copy of the notice and filing fee with the Supreme Court. This filing must be completed within 30 days of the effective date of this order, 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.





CITE as **8 FPSC 12:490**

We later approved the utility's flexible contract rate for transportation of customer-owned gas. However, PSC currently performs no transportation of customer-owned gas.

In Order No. 17711 and 17820, we approved a modification to the utility's rate schedules CIS and CIS (Contract Transportation Service) in order to further address the issue of the potential for bypass of the utility by its large-volume customers, starting:

...the special condition sought to be added to rate schedules CIS and CIS is necessary to enable it flexibility to retain customers accounting for substantial therm sales on the utility's distribution system, and to in the long-term best interest of both PSC and its ratepayers.

We approved the present rate schedules CIS and CIS to provide PSC with the flexibility needed to compete with alternate fuels available to its interceptable industrial customers as well as to address potential bypass of the utility by such customers. However, although we recognized the benefits to both the utility and its non-interceptable category of retailing interceptable load, we required PSC to absorb all losses of revenue resulting from the rate reductions permitted under such rate schedules.

From May, 1985 through September 1988, the utility's revenue losses resulting from these rate reductions totaled approximately \$4.9 million. At times during this period, losses have been partially offset by higher sales volume, lower pension expense, and a reduction of depreciation expense, such that the utility absorbed \$2.8 million in order to retain sales of \$9.3 million thereon to contract customers. However, we recognize that, because of the continued demand trend in alternate fuel prices, it is doubtful that the utility will be able to continue to offset these losses.

The Competitive Rate Adjustment Clause proposed by the utility would provide a mechanism to recover from, or extend to, its non-contract customers (those for which PSC does not file) any shortfall or surplus in the utility's CIS /CIS revenue. The difference between the actual rates billed under the CIS and CIS rate schedule and the rates established in the utility's last rate case, multiplied by the volume billed under those schedules each year ending September 30, would be recovered from or refunded to all other non-contract customers during the following year. Alternatively, PSC may, at its option, defer all or a portion of the recovery to a subsequent period.

Whenever a surplus occurs, the utility would, in the following year, reduce rates to its non-contract customers to credit them with surplus revenue. In the event of a shortfall, PSC would increase rates to its non-contract customers to recover the amount of the shortfall. The reduction or recovery would be determined by dividing the amount of the surplus or shortfall by the projected

CITE as ~~88~~ FPSC 12:491

FPSC

non-contract therm sales during the adjustment period. Any variation between the actual refund or recovery would be traced-up during the succeeding period.

The formula for calculating the flexible rate is as follows:

$$\frac{(CISFR \pm ACIU) - (CISFR \pm ACIU)}{PTSMF} - \text{Costs Per Therm}$$

where

- CISFR = Contract Interruptible Service Tariff Rate
- ACIU = Actual Contract Interruptible Usage
- CISFR = Contract Interruptible Service Flex Rate
- PTSMF = Projected Therm Sales Excluding Flexed Sales

The approved flexible rate provision of the CIS and CTS rate schedules are as follows:

<u>Present CIS/CTS Rate</u>		<u>Proposed CIS/CTS Rate</u>
\$225.00	Customer Charge	\$225.00
3.30¢/Therm (1)	Energy Charge	14.641¢/Therm (2)
(Shortfall) Flex Down To 1.0¢/Therm		(Surplus) Flex Up To 3.30¢/Therm
		(Shortfall) Flex Down To 1.0¢/Therm

- (1) Approved Tariff Rate
- (2) Equals 90% of the CSLV Rate of 16.369¢/Therm

This modification to the utility's CIS and CTS rate schedules, together with the proposed Competitive Rate Adjustment Clause, will permit PGS to recover revenues lost due to rate reductions to contract customers. The utility's proposal also presents the opportunity for non-contract customers to realize a reduction in rates through refunding of surpluses if natural gas again achieves a competitive advantage over alternate fuels used by the utility's contract customers. On a prospective basis, this modification will eliminate our requirement that revenue losses resulting from flexing rates down be completely absorbed by PGS.

If we do not permit some mechanism of recovering revenues, gas utilities may face no alternative but to discontinue flexible rate provisions because losses of the magnitude currently being absorbed may be too great. Price competition from alternate fuels seems to be a long-term problem. Requiring the utility to permanently absorb losses caused by providing service at a rate below its allowed rate of return



FPSC

CITE as in FPSC 12:492

may not allow the utility to earn a reasonable return on its investment, as set in its last rate case. Loss of interruptible sales is not in the long-term best interest of the general body of ratepayers.

We feel that the utility's proposal sets out concerns regarding flexible rates; that any change to flexible rate provisions be applicable to all parties, including flexible ratepayers, non-flexible ratepayers and shareholders; that it be limited to deal only with the refund or recovery of revenues that result from applying a rate other than the interruptible tariff rate, and that the provision not be designed to allow recovery of lost revenues that result from any changes of volume of sales or other outside influences.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Competitive Rate Adjustment Clause and Rate Schedule C18 and C19, as modified, (attached hereto) are approved.

BY: COMMISSIONER of the Florida Public Service Commission,  
this 7th day of NOVEMBER, 1991.

  
STEVE TRUESDELL, Director  
Division of Records and Reporting

(S E A L )

MS

ATTACHMENT 3  
DOCKET NO. 910701-GU  
SEPTEMBER 12, 1991

FLORIDA DIVISION  
NATURAL GAS TARIFF  
ORIGINAL VOLUME NO. 1

First Revised Sheet No. 46-A  
Cancels Original Sheet No. 46-A

Rate Schedule IIS  
INDUSTRIAL INTERRUPTIBLE SERVICE  
(Continued)

Rates:

Customer Charge: \$350.00 per month

Non-Fuel:

An amount not less than 0.00 cents per therm nor greater than 90 percent of the currently applicable firm rate. Unless changed by Company pursuant to this Rate Schedule, the base non-fuel charge shall be 4.032 cents per therm.

The "currently applicable firm rate" as used herein means the non-fuel charge prescribed in a rate schedule for which Customer qualifies, adjusted pursuant to the Firm Rate Adjustment Clause set forth on Sheet Nos. 56 to 60.

The non-fuel charge to Customer shall be determined by Company based upon Company's evaluation of competitive conditions. Such conditions may include, but are not necessarily limited to: the cost of gas which is available to serve Customer; the delivered price of Customer's designated alternate fuel; the availability of such fuel; and the nature of Customer's operations. Company may from time to time increase or reduce the non-fuel charge as it deems necessary or appropriate to compete with alternate fuel, but shall have no obligation to do so; provided, however, that the non-fuel charge shall at all times remain within the limits set forth above.

Customer may at any time request a reduction in its non-fuel charge by completing the form which appears on Sheet No. 51 and submitting the same to Company. During any period in which the non-fuel charge is less than 90 percent of the currently applicable firm rate, Customer shall complete and submit the same form with then current information on the first day of each month and whenever information on the form most recently submitted has changed.

Company will notify Customer at least 48 hours in advance of any change in the non-fuel charge under this Rate Schedule.

Issued by: Ralph J. Adkins, President  
CHESAPEAKE UTILITIES CORPORATION  
Issued on: June 24, 1991

Effective:  
July 9, 1991

FLORIDA DIVISION  
NATURAL GAS TARIFF  
ORIGINAL VOLUME NO. 1

Second Revised Sheet No. 46  
Cancels First Revised Sheet No. 46

**Rate Schedule IIS  
INDUSTRIAL INTERRUPTIBLE SERVICE**

**Availability:**

In all of the Company's service area.

**Applicability:**

To any industrial customer pursuant to a service agreement with a minimum annual requirement of two hundred thousand (200,000) therms per year who contracts for service under this Rate Schedule for a minimum period of one year, has readily available standby facilities acceptable to the Company, and maintains a sufficient supply of fuel, provided that the Company has delivery capacity in excess of the then existing requirements of other customers receiving gas service and provided the Company has available from its supplier a quantity of interruptible gas to meet such customer's requirements.

**Character of Service:**

Natural gas or its equivalent having a nominal heat content of one thousand (1,000) btu per cubic foot.

Gas service rendered under this Rate Schedule may be curtailed or fully interrupted at the sole discretion of the Company. The Company assumes no liability for any loss or damage that may be sustained by customer by reason of any curtailment or interruption of gas service rendered under this Rate Schedule.

The non-fuel energy charge for service hereunder shall be subject to the flexible pricing mechanism described in the Rates section of this Rate Schedule. It is the intention of Company that this charge shall be determined based upon competition with Customer's alternate fuel.

Notwithstanding the other provisions of this Rate Schedule, the Company may enter into a contract with an interruptible customer to provide service under terms other than those set forth herein; provided that the charges prescribed in any such contract shall be established with the objective of enabling the Company to recover at a minimum the fully allocated cost of serving that customer. Any such contract shall be subject to approval by the Florida Public Service Commission, and the Commission shall have continuing jurisdiction over the rates charged therein.

(Continued on Sheet No. 46-A)

Issued by: Ralph J. Adkins, President  
CHESAPEAKE UTILITIES CORPORATION  
Issued on: June 24, 1991

Effective:  
July 9, 1991



DOCKET NO. 910701-GU  
SEPTEMBER 12, 1991

FLORIDA DIVISION  
NATURAL GAS TARIFF  
ORIGINAL VOLUME NO. 1

First Revised Sheet No. 47  
Cancels Original Sheet No. 47

(Continued from Sheet No. 46-A)

Rate Schedule IIS  
INDUSTRIAL INTERRUPTIBLE SERVICE  
(Continued)

**Billing Adjustments:**

See BILLING ADJUSTMENTS, Original Sheet No's. 56 to 60.

**Curtailment Notice:**

Whenever curtailment of gas delivered hereunder is required, Company shall issue a curtailment order to customer specifying the delivery point, the quantity of gas to be curtailed and the time at which such curtailment is to be made. When restoration of service is permissible, Company shall similarly issue a restoration order specifying the delivery point, the quantity of gas to be restored and the time at which such restoration is to be made.

A curtailment order with respect to customers purchasing gas under this Rate Schedule shall be issued at least two (2) hours in advance of its effective time; provided, however, that if curtailment of interruption is occasioned by an event of Force Majeure affecting the Company's system the Company shall be obligated to give only such notice as is practicable under the circumstances.

**Terms and Conditions of Service:**

Service under this Rate Schedule is subject to the General Rules and Regulations of the Company applicable to gas service.

Issued by: John W. Jardine, Jr., Chairman  
CHESAPEAKE UTILITIES CORPORATION  
Issued on: August 28, 1990

Effective:  
September 1, 1990

ATTACHMENT 4  
DOCKET NO. 910701-GU  
SEPTEMBER 12, 1991

FLORIDA DIVISION  
NATURAL GAS TARIFF  
ORIGINAL VOLUME NO. 1

First Revised Sheet No. 46  
Cancels Original Sheet No. 46

Rate Schedule IIS  
INDUSTRIAL INTERRUPTIBLE SERVICE

Availability:

Original Central Florida Gas Company service territory. (Refer to Central Florida Gas Company, Natural Gas Tariff, Original Volume No. 2, Original Sheet No. 4).

Applicability:

To any industrial customer pursuant to a service agreement with a minimum annual requirement of two hundred thousand (200,000) therms per year who contracts for service under this Rate Schedule for a minimum period of one year, has readily available standby facilities acceptable to the Company, and maintains a sufficient supply of fuel, provided that the Company has delivery capacity in excess of the then existing requirements of other customers receiving gas service and provided the Company has available from its supplier a quantity of interruptible gas to meet such customer's requirements.

Character of Service:

Natural gas or its equivalent having a nominal heat content of one thousand (1,000) btu per cubic foot.

Gas service rendered under this Rate Schedule may be curtailed or fully interrupted at the sole discretion of the Company. The Company assumes no liability for any loss or damage that may be sustained by customer by reason of any curtailment or interruption of gas service rendered under this Rate Schedule.

The non-fuel energy charge for service hereunder shall be subject to the flexible pricing mechanism described in the Rates section of this Rate Schedule. It is the intention of Company that this charge shall be determined based upon competition with Customer's alternate fuel.

Notwithstanding the other provisions of this Rate Schedule, the Company may enter into a contract with an interruptible customer to provide service under terms other than those set forth herein; provided that the charges prescribed in any such contract shall be established with the objective of enabling the Company to recover at a minimum the fully allocated cost of serving that customer. Any such contract shall be subject to approval by the Florida Public Service Commission, and the Commission shall have continuing jurisdiction over the rates charged therein.

(Continued on Sheet No. 46-A)

Issued by: John W. Jardine, Jr., Chairman  
CHESAPEAKE UTILITIES CORPORATION  
Issued on: August 28, 1990

Effective:  
September 1, 1990

DOCKET NO. 910701-GU  
SEPTEMBER 12, 1991

FLORIDA DIVISION  
NATURAL GAS TARIFF  
ORIGINAL VOLUME NO. 1

Original Sheet No. 46-A

**Rate Schedule IIS  
INDUSTRIAL INTERRUPTIBLE SERVICE  
(Continued)**

**Rates:**

**Customer Charge:** \$350.00 per month

**Non-Fuel:**

An amount not less than 0.00 cents per therm nor greater than 90 percent of the currently applicable firm rate. Unless changed by Company pursuant to this Rate Schedule, the base non-fuel charge shall be 3.747 cents per therm.

The "currently applicable firm rate" as used herein means the non-fuel charge prescribed in a rate schedule for which Customer qualifies, adjusted pursuant to the Firm Rate Adjustment Clause set forth on Sheet Nos. 56 to 60.

The non-fuel charge to Customer shall be determined by Company based upon Company's evaluation of competitive conditions. Such conditions may include, but are not necessarily limited to: the cost of gas which is available to serve Customer; the delivered price of Customer's designated alternate fuel; the availability of such fuel; and the nature of Customer's operations. Company may from time to time increase or reduce the non-fuel charge as it deems necessary or appropriate to compete with alternate fuel, but shall have no obligation to do so; provided, however, that the non-fuel charge shall at all times remain within the limits set forth above.

Customer may at any time request a reduction in its non-fuel charge by completing the form which appears on Sheet No. 51 and submitting the same to Company. During any period in which the non-fuel charge is less than 90 percent of the currently applicable firm rate, Customer shall complete and submit the same form with then current information on the first day of each month and whenever information on the form most recently submitted has changed.

Company will notify Customer at least 48 hours in advance of any change in the non-fuel charge under this Rate Schedule.

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Issued by: John W. Jardine, Jr., Chairman  
CHESAPEAKE UTILITIES CORPORATION  
Issued on: August 28, 1990

Effective:  
September 1, 1990



ATTACHMENT 5  
DOCKET NO. 910701-GU  
SEPTEMBER 12, 1991

FLORIDA DIVISION  
NATURAL GAS TARIFF  
ORIGINAL VOLUME NO. 1

Original Sheet No. 46

Rate Schedule IIS  
INDUSTRIAL INTERRUPTIBLE SERVICE

Availability:

Original Central Florida Gas Company service territory. (Refer to Central Florida Gas Company, Natural Gas Tariff, Original Volume No. 2, Original Sheet No. 4).

Applicability:

To any industrial customer pursuant to a service agreement with a minimum annual requirement of two hundred thousand (200,000) therms per year who contracts for service under this Rate Schedule for a minimum period of one year, has readily available standby facilities acceptable to the Company, and maintains a sufficient supply of fuel, provided that the Company has delivery capacity in excess of the then existing requirements of other customers receiving gas service and provided the Company has available from its supplier a quantity of interruptible gas to meet such customer's requirements.

Character of Service:

Natural gas or its equivalent having a nominal heat content of one thousand (1,000) btu per cubic foot.

Gas service rendered under this Rate Schedule may be curtailed or fully interrupted at the sole discretion of the Company. The Company assumes no liability for any loss or damage that may be sustained by customer by reason of any curtailment or interruption of gas service rendered under this Rate Schedule.

Rates:

Customer Charge:	\$350.00 per month
Non-Fuel:	\$.03747 per therm

Issued by: John W. Jardine, Jr., Chairman  
CHESAPEAKE UTILITIES CORPORATION  
Issued on: July 3, 1990

Effective:  
July 7, 1990

JUL 9 1990

DOCKET NO. 910701-GU  
SEPTEMBER 12, 1991

FLORIDA DIVISION  
NATURAL GAS TARIFF  
ORIGINAL VOLUME NO. 1

Original Sheet No. 47

(Continued from Sheet No. 46)

Rate Schedule IIS  
INDUSTRIAL INTERRUPTIBLE SERVICE  
(Continued)

**Billing Adjustments:**

See BILLING ADJUSTMENTS, Original Sheet No's. 56 to 60.

**Curtailment Notice:**

Whenever curtailment of gas delivered hereunder is required, Company shall issue a curtailment order to customer specifying the delivery point, the quantity of gas to be curtailed and the time at which such curtailment is to be made. When restoration of service is permissible, Company shall similarly issue a restoration order specifying the delivery point, the quantity of gas to be restored and the time at which such restoration is to be made.

A curtailment order with respect to customers purchasing gas under this Rate Schedule shall be issued at least two (2) hours in advance of its effective time; provided, however, that if curtailment of interruption is occasioned by an event of Force Majeure affecting the Company's system the Company shall be obligated to give only such notice as is practicable under the circumstances.

**Terms and Conditions of Service:**

Service under this Rate Schedule is subject to the General Rules and Regulations of the Company applicable to gas service.

Issued by: John W. Jardine, Jr., Chairman  
CHESAPEAKE UTILITIES CORPORATION  
Issued on: July 3, 1990

Effective:  
~~July 7, 1990~~

JUL 9 1990

CENTRAL FLORIDA GAS COMPANY  
NATURAL GAS TARIFF  
ORIGINAL VOLUME NO. 2

First Revised Sheet No.50  
Cancels Original Sheet No. 50

Rate Schedule CIIS  
CONTRACT INDUSTRIAL INTERRUPTIBLE SERVICE

Availability:

In all of the Company's service area.

Applicability:

To any industrial customer pursuant to a service agreement with a minimum annual requirement of thirty-six thousand five hundred (36,500) therms per year who contracts for service under this Rate Schedule for a minimum period of one year, has readily available facilities acceptable to the Company, and maintains a sufficient supply of fuel, provided that the Company has delivery capacity in excess of the then existing requirements of other customers receiving gas service and provided the Company has available from its supplier a quantity of interruptible gas to meet such customer's requirements.

Character of Service:

Natural gas or its equivalent having a nominal heat content of one thousand (1,000) btu per cubic foot.

Gas service rendered under this Rate Schedule may be curtailed or fully interrupted at the sole discretion of the Company. The Company assumes no liability for any loss or damage that may be sustained by customer by reason of any curtailment or interruption of gas service rendered under this Rate Schedule.

Rates:

Customer Charge: \$300.00 per month

Energy Charge: The lesser of either \$.03705  
Non-Fuel per therm or the equivalent current cost (in cents per therm) to Customer of the alternate fuel used by Customer but not less than the Company's cost of gas.

"Equivalent current cost (in cents per therm) to Customer of the alternate fuel used by Customer" means the price at which Customer is able to purchase the alternate fuel, including applicable taxes and transportation costs, converted to cents per therm, MINUS those amounts (in cents per therm) payable by customer under Company's Purchased Gas Adjustment, Tax and Fee Adjustment

(Continued to Sheet No. 51)

Issued by: John W. Jardine, Jr., Chairman  
CHESAPEAKE UTILITIES CORPORATION  
Issued on: January 10, 1990

Effective:  
February 1, 1990



CENTRAL FLORIDA GAS COMPANY  
NATURAL GAS TARIFF  
ORIGINAL VOLUME NO. 2

First Revised Sheet No. 51  
Cancels Original Sheet No. 51

(Continued from Sheet No. 50)

Rate Schedule CII  
CONTRACT INDUSTRIAL INTERRUPTIBLE SERVICE

and Energy Conservation Cost Recovery Adjustment Clauses,  
calculated as follows:

	Alternate Fuel Price
+	Transportation
+	Taxes
=	<hr/> Total Landed Cost
÷	Conversion Factor
=	Total Landed Cost (in ¢/therm)
-	Purchased Gas Adjustment
-	Conservation Cost Recovery
-	<hr/> Taxes and Fees
=	Equivalent Current Cost

Determination of Customer's equivalent current cost of alternate fuel shall be based on information set forth in Company's Form FS-1 (set forth on Sheet No. 49). Once a Customer has submitted such form, and the same has been accepted by the Company, the Customer shall resubmit such form, with then current information, on the first day of each month thereafter, and at any time there is any change in any information contained in a form previously submitted. The monthly rate for a Customer who submits no Form FS-1 to Company, or who fails to submit such form (properly completed) as required hereunder, or whose completed form if not accepted by Company, shall be \$.03705 per therm.

Billing Adjustments:

See BILLING ADJUSTMENTS, Second Revised Sheet No. 47 and Ninth Revised Sheet No. 48.

(Continued to Sheet No. 52)

Issued by: John W. Jardine, Jr., Chairman  
CHESAPEAKE UTILITIES CORPORATION  
Issued on: January 10, 1990

Effective:  
February 1, 1990

CENTRAL FLORIDA GAS COMPANY  
NATURAL GAS TARIFF

Original Sheet No. 50

Rate Schedule CIIS  
CONTRACT INDUSTRIAL INTERRUPTIBLE SERVICE

AVAILABILITY:

In all of the Company's service area.

APPLICABILITY:

To any industrial customer pursuant to a service agreement with a minimum annual requirement of thirty-six thousand five hundred (36,500) therms per year who contracts for service under this Rate Schedule for a minimum period of one year, has readily available facilities acceptable to the Company, and maintains a sufficient supply of fuel, provided that the Company has delivery capacity in excess of the then existing requirements of other customers receiving gas service and provided the Company has available from its supplier a quantity of interruptible gas to meet such customer's requirements.

CHARACTER OF SERVICE:

Natural gas or its equivalent having a nominal heat content of one thousand (1,000) BTU per cubic foot.

Gas service rendered under this Rate Schedule may be curtailed or fully interrupted at the sole discretion of the Company. The Company assumes no liability for any loss or damage that may be sustained by customer by reason of any curtailment or interruption of gas service rendered under this Rate Schedule.

RATES:

Customer Charge: \$300.00 per month

Energy Charge: The lesser of either \$.0343 per therm or the  
Non-Fuel equivalent current cost (in cents per therm)  
to Customer of the alternate fuel used by  
Customer but not less than the Company's cost  
of gas.

"Equivalent current cost (in cents per therm) to Customer of the alternate fuel used by Customer" means the price at which Customer is able to purchase the alternate fuel, including applicable taxes and transportation costs, converted to cents per therm, MINUS those amounts (in cents per therm) payable by Customer under Company's Purchased Gas Adjustment, Tax and Fee Adjustment  
(Continued to Sheet No. 51)

Issued By: John W. Jardine, Jr., President  
CHESAPEAKE UTILITIES CORPORATION

Effective: January 22, 1988

Issued On: January , 1988

CENTRAL FLORIDA GAS COMPANY  
NATURAL GAS TARIFF

Original Sheet No. 51

(Continued from Sheet No. 50)

Rate Schedule CII  
CONTRACT INDUSTRIAL INTERRUPTIBLE SERVICE

and Energy Conservation Cost Recovery Adjustment Clauses, calculated as follows:

Alternate Fuel Price
+ Transportation
+ Taxes
<hr/>
= Total Landed Cost
+ Conversion Factor
<hr/>
= Total Landed Cost (in c/therm)
- Purchased Gas Adjustment
- Conservation Cost Recovery
- Taxes and Fees
<hr/>
= Equivalent Current Cost

Determination of Customer's equivalent current cost of alternate fuel shall be based on information set forth in Company's Form FS-1 (set forth on Sheet No. 49). Once a Customer has submitted such form, and the same has been accepted by the Company, the Customer shall resubmit such form, with then current information, on the first day of each month thereafter, and at any time there is any change in any information contained in a form previously submitted. The monthly rate for a Customer who submits no Form FS-1 to Company, or who fails to submit such form (properly completed) as required hereunder, or whose completed form if not accepted by Company, shall be \$.0343 per therm.

BILLING ADJUSTMENTS:

See BILLING ADJUSTMENTS, Second Revised Sheet No. 47 and Original Sheet No. 48.

(Continued to Sheet No. 52)



ATTACHMENT 7 U  
DOCKET NO. 910701-GU  
SEPTEMBER 12, 1991

CENTRAL FLORIDA



GAS COMPANY

DIVISION OF CHESAPEAKE UTILITIES CORPORATION  
P O BOX 960  
WINTER HAVEN, FLORIDA 33882-960 • (813) 293-2125

September 17, 1990

To All Interruptible Customers of Central Florida Gas Company:

In confirmation of our phone notification to you today,  
Central Florida Gas Company will be increasing your non-fuel  
rate in the amount of \$.02385 per therm, effective 8:00 a.m.,  
Wednesday, September 19, 1990.

RECEIVED  
FLORIDA PUBLIC SERVICE COMMISSION  
SEP 21 1990  
ELECTRIC SERVICE

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

In The Matter of : DOCKET NO. 871255-GU  
: :  
In Re: Application of West :  
Florida Natural Gas Company :  
for a Rate Increase : PREHEARING CONFERENCE

RECEIVED  
Division of Records & Reporting  
FEB 2 1989  
Florida Public Service Commission

FPSC Hearing Room 122  
Fletcher Building  
101 E. Gaines Street  
Tallahassee, Florida 32399  
Thursday, January 19, 1989

Met pursuant to notice at 9:30 a.m.

BEFORE: COMMISSIONER GERALD L. GUNTER  
Prehearing Officer

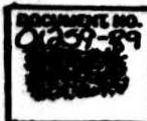
RECEIVED  
FLORIDA PUBLIC SERVICE COMM.  
FFR 3 1989

APPEARANCES:

ELECTRIC AND GAS

ROBERT GOLDMAN, of the firm, Messer, Vickers,  
Caparello, French and Madsen, P.O. Box 1876, Tallahassee, Florida  
32301, (904) 222-0720, on behalf of West Florida Natural Gas  
Company.

JOHN. W. McWHIRTER, of the firm, Lawson, McWhirter,  
Grandoff and Reeves, 201 East Kennedy Blvd., Suite 800, P.O. Box  
3350, Tampa, Florida 33601-3350, (813) 224-0866, on behalf of  
Arizona Chemical Company.



1 APPEARANCES CONTINUED:

2

- 2
- 3                   MARSHA RULE, FPSC Division of Legal Services, 101 East  
4                   Gaines Street, Tallahassee, Florida 32399-0863, (904) 488-2740,  
5                   on behalf of the Staff of the Florida Public Service Commission.  
6                   PRENTICE P. PRUITT, FPSC Office of General Counsel,  
7                   Florida Public Service Commission, 101 East Gaines Street,  
8                   Tallahassee, Florida 32399-0861, Counsel to the Commissioners.  
9

10

11 ALSO PRESENT:

12

13                   WAYNE MARTIN, FPSC Division of Electric & Gas  
14                   CREDIT SUTELCZA-DANKS, FPSC Division of Electric & Gas  
15                   ED HILLS, FPSC Division of Electric & Gas  
16

17

18 REPORTED BY:

19                   JOY KELLY, CSR, RPR  
20                   Official Commission Reporter  
21

22

23

24

25



1 some money from you in the future."  
2 ~~Now, the problem West Florida Natural Gas had with that~~  
3 ~~was that the shareholders were eating that cost. So what they~~  
4 ~~want to do in this case is say, "Okay, rather than at~~  
5 ~~shareholders eating that cost, let us pass it on to the firm~~  
6 ~~customers, and then when the price of oil goes back up again, as~~  
7 ~~it undoubtedly will at some future time, we will charge the~~  
8 ~~interruptible customers more than it cost to serve them to~~  
9 ~~recover, for these customers, what we charge them during the time~~  
10 ~~we were suffering together, and we'll give that money to those~~  
11 ~~customers. We won't keep it.~~

12 This opportunity was offered to West Florida and we  
13 thought it was a rationale one -- I mean to Arizona Chemical, but  
14 we said, "Look, why don't we just cover your cost of service in  
15 our contract and take away the uncertainty. We would rather pay  
16 more than we would pay under the flex rate, and not require other  
17 customer classes to subsidize us during the off period time, in  
18 return for which we don't have to suffer the risk of the price of  
19 gas going through the ceiling and the period of time, maybe a  
20 very extended period of time when we may pay more than the cost  
21 of service." And we felt like it was a rationale compromise and  
22 protected the gas company, protected the customers and protected  
23 Arizona Chemical.

24 While we negotiated the contract, based on the original  
25 cost of service studies and the original revenues that the

1 course, as you know -- we're all painfully aware about what  
2 happened with Stone Container.

3           So, the I guess the objective is to develop a system of  
4 rates for the interruptible customer that recognizes the  
5 realities of the way they buy fuel, and they -- you know,  
6 they're looking at the price of their alternate fuels all the  
7 time, and as you know, you're one of the people that was involved  
8 in establishing the flexible rate that was in existence up until  
9 just recently, the one-way flex rate. We came up with a system,  
10 back before I was involved with this issue, the Commission came  
11 up with a system; West Florida Natural gas was a party; Peoples  
12 Gas was a party and I believe Central Florida Gas was involved to  
13 allow utilities to flex their rates down to reduce the price in  
14 order to keep an interruptible customer on the system. And I  
15 think everybody recognized at that point that when you flex your  
16 rates down you're not necessarily recovering all the costs that  
17 you would recover had you not done that. You know, you're taking  
18 a beating. A number of utilities that went into that  
19 proposition, I think it was in 1985 or thereabouts, and I think  
20 the Commission had the impression that the low oil price scenario  
21 that was then in existence would not be a permanent or long term  
22 situation, and that companies that would be flexing down would be  
23 absorbing the losses under the Commission's Order, would do so  
24 but that this would not be a fixture or institution in Florida,  
25 in the local distribution industry in Florida. Well, it didn't

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1 turn out that way.

2 The way it turned out was that we had a continuing  
3 fairly uninterpreted problem with low oil prices, and this  
4 company has lost, you know, into the six figures now in having to  
5 absorb losses due to interruptible customers' capability of  
6 buying alternate fuel and the risk that they would leave the  
7 system.

8 It's still in the best interest of the ratepayers,  
9 however, under most scenarios to keep the interruptible customer  
10 on the system because of the fixed costs that the customer charge  
11 contributes, and that you might be able to get a contribution to  
12 at whatever energy charge you're able to impose.

13 A number of other states, as well as some of the  
14 utilities within this state, have worked with each other and with  
15 staff over a period of a couple of years now to try and develop  
16 some longer term solutions to that problem.

17 One solution that the Commission recently approved was  
18 proposed by Peoples Gas Company. Peoples Gas Company's proposal  
19 allows the utility to flex its rate down, at times when  
20 competitive fuels are priced low, and to -- in the next, I guess  
21 it would be the next year, to recover the shortfall that is  
22 caused by the necessity to flex from the rest of the ratepayers.  
23 And similarly, because the interruptible customers have the  
24 benefit of lower prices for gas when their alternate fuel is  
25 priced low, it seemed only fair that they also be in a situation



1 where when alternate fuel prices climb and gas can be competitive  
2 at a higher price, that they also, you know, would be responsible  
3 for paying the market rate or something close to it at that time,  
4 so that when alternate fuel prices climb, Peoples Gas can price  
5 their gas to their customers at higher than -- they can flex up,  
6 up to I believe it's 90% of the firm rate for Peoples just as it  
7 is for us, and the surplus that they receive over what they would  
8 have received just at a standard tariff rate, that flows through  
9 to the general body of ratepayers just as the shortfall would in  
10 the event of a shortfall.

11 The principle difference between what Peoples' proposed  
12 and what we have proposed is simply this: Their proposal leaves  
13 the Company entirely without risk because if there is a  
14 shortfall, 100% of that shortfall goes to the general body of  
15 ratepayers. And we have proposed -- and similarly on the surplus  
16 side, because there is no risk at the bottom end, they have no  
17 benefit at the top end, 100% of any surplus goes to the general  
18 body of ratepayers. Our proposal differs in that we have a  
19 sharing mechanism in there, so that we share the risk at the low  
20 end; we share the reward at the upper end; and the other  
21 condition that we have agreed to on this is that our share of any  
22 losses and our receipt of any surplus as are going to be  
23 considered above the line for regulatory purposes so that this  
24 flex rate is not going to be a vehicle for getting us outside our  
25 authorized range on rate of return.

1 COMMISSIONER GUNTER: Let me ask you a question, Mr.  
2 Goldman, and one I wasn't going to ask because it's one I  
3 explored in Peoples, right now you don't have any customers under  
4 this rate because you only had two, and one of them you cut a  
5 deal with, Stone Container, is gone for the time period, so it's  
6 kind of an arm waiving question. It's not really practical at  
7 this time.

8 But where is the mechanism — for instance, say the  
9 price of oil all of a sudden went to \$30 a barrel, price of gas  
10 is going to track it up pretty good, and you had — I'll bet  
11 Stone Container would be back over to see Mr. McIntyre in a  
12 heartbeat. Assume they had been rocking along, and they had been  
13 charged zero they had a customer charge and they had been rocking  
14 along for a year, and you — is there a tracking mechanism;  
15 available that let's you be able to track on a periodic basis,  
16 monthly basis or whatever;— because I'm talking about now there  
17 is going to be some hard looks at Staff, how are you going to  
18 implement and how are you going to know on the front-end what  
19 sort of mechanism that tells you how much did you sell and how  
20 much did you lose, so at some point in time you get along and you  
21 say, "Now, if we raise it," how can you make a determination of  
22 just how much you won, and then what's the mechanism of the flow  
23 to make sure that the other ratepayers that absorbed the loss,  
24 what's the mechanism to make sure that you got the pot right?  
25 Because if it went on indefinitely, you know, the pot never does

1 truly balance out, and that's what you're trying to get at: is a  
2 balance. So would it be inappropriate if, in fact, this was ever  
3 started? You know, that Stone came back on at a time period that  
4 they were on a minus side, would it be inappropriate to have a  
5 trigger at that time to have a periodic reporting, as long as it  
6 was on the minus and up until the time it balanced. Because once  
7 it balanced it doesn't appear that it would be proper to require,  
8 you know, that shifting to other classes of customers, then it  
9 goes in the pot and you certainly would want them to be at a  
10 parity basis -- in regulatory theory you don't want anybody to  
11 make a contribution greater than their proportional share would  
12 be, interruptible or otherwise. It would be inappropriate to get  
13 a mechanism established and require staff that they come up with  
14 a procedure to handle this so that there is visibility and there  
15 is not any guessing as to where the downside and upside is?

MR. GOLDMAN: Yeah. I think that's fine, Commissioner.

16  
17 COMMISSIONER GUNTER: I'm just trying to -- one of the  
18 things I had in Peoples, which would not be as nearly a concern  
19 with you all, where they have a number of interruptible customers  
20 is what is -- what's the incentive to an interruptible customer  
21 to keep him from enjoying all the downside, and when is got on  
22 the upside he did some other things, and you say, "Well, you  
23 know, they are limited because of the fuels they can use," and  
24 I'm reminded of Long Star, you know, which was the first one to  
25 really bounce out and move away from a gas utility, and hell,



1 they went to coal. Now, you have to think about the  
2 possibilities that exist for very large industrial customers.  
3 And it was my recollection that City Gas, and your colleague  
4 remembers probably better than I do, the perturbations that  
5 created at City Gas at a time period when the price of gas was  
6 very high, the price of oil was very high. Folks might say,  
7 "I'll stay with you on the downside," and developing some sort of  
8 corporate strategy on the side to start slipping in coal barges  
9 because that historically on a Btu basis has been less as long as  
10 the capital investment has not been too high. That's one of the  
11 devil's that sits out there and lives in the horizons of my mind.  
12 Whatever.

13 But I appreciate the -- were you through, excuse me, I  
14 apologize I didn't mean to interrupt.

15 MR. GOLDMAN: If your questions about the interruptible  
16 flex rate are adequately answered, then I'm through. But I just  
17 wanted to make sure you saw from our perspective why we put this  
18 thing together.

19 The old way of having just a fixed rate or having a  
20 company absorb the losses didn't work from the company's  
21 standpoint, and having a flexible rate that only benefits the  
22 interruptible customer, or which benefits just the interruptible  
23 customer and the Company, in our opinion is not as good on a  
24 going-forward basis as one which benefits the general body of  
25 ratepayers and, you know, what we have -- we have proposed to you

1 will provide a benefit to the general body of ratepayers in times  
2 of high alternate fuel prices even if we haven't suffered a lot  
3 of losses in the past? you know, even in the event that we  
4 haven't suffered any losses in the past, it's not just a matter  
5 of trying to recover past losses. It's a matter of trying to  
6 maximize the price that we can charge to customers who are trying  
7 -- who are able to minimize the price that they can demand in the  
8 marketplace, and you know we're very pleased with the result.  
9 We worked on it for a long time. Had a lot of input from very  
10 good people, and we think it's going to work. For some reason,  
11 after a period of time it looks like it needs to be fixed in some  
12 way, then of course, we'll always want to come back to you, or  
13 you'll want us to come back to you, and refine it in some way.

14 COMMISSIONER QUARTER: Let me ask Mr. Makin a question:  
15 Would it be inappropriate to ask the Company to provide  
16 assistance in developing a reporting -- just a boiler-plate kind  
17 of --

18 MR. MAKIN: We have that in place right now.

19 COMMISSIONER QUARTER: You do.

20 MR. MAKIN: Yes, sir.

21 COMMISSIONER QUARTER: Now about explaining it to me.

22 MR. MAKIN: Every month the Company files a report  
23 indicating the amount of gas sold, the amount of revenues they  
24 would have had had they billed it at the tariff rate, and the  
25 amount of revenues they have collected under the Flex rate, and

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1 fuel prices and they might wind up paying more under the flex  
2 rate than they would if they could get a fair contract with us.

3 COMMISSIONER GUNTER: I understand that. You know, one  
4 of the things, I'm just kind of simple minded. See that line  
5 right there? (Indicating) If you charge zero, your revenue is  
6 on the downside of that line, is that right? I want to know how  
7 much that is so that when you start — when the Btu situation  
8 changes, and you can go above, how much do I go above to get that  
9 balance, so this is being zero?

10 And what you've got today is just kind of well, guess  
11 it, wing it. And one of the criteria goes is the difference —  
12 and I'm just trying to understand — is the difference 2.551 that  
13 goes to zero? Is that the difference on the downside, the  
14 difference on the upside and does that cover all the costs?

15 MR. MAKIN: It covers the cost —

16 COMMISSIONER GUNTER: Is that a "yes" or a "no"?

17 MR. MAKIN: It covers the cost —

18 COMMISSIONER GUNTER: Is that 2.551?

19 MR. MAKIN: It covers the cost — let me clarify.

20 COMMISSIONER GUNTER: Well, no. If it's a tariff, you  
21 know, what you're doing, that's a specific item you've put on  
22 this sheet, Wayne. This is your sheet. Does that cover the  
23 cost, 2.551?

24 MR. MAKIN: It covers cost.

25 COMMISSIONER GUNTER: All right. Fine. So that's what



1 I'm looking for.

2 MR. MAKIN: That's what you're looking for.

3 COMMISSIONER GUNTER: All right, fine. You could have  
4 told me that. If it's 2.551 down to zero below that rate — if  
5 they can charge down and that happens to be 2.551, and if you  
6 sold one there and you flipped around and you could — it went to  
7 five cents, the thing you'd be interested in is recovering that  
8 2.551 plus the 2.551 that you did without when you went to zero  
9 in order to get to zero. Is that right? The only thing I want  
10 you to do is tell me how you are going to make sure that that's  
11 done. That it just doesn't disappear.

12 MR. MAKIN: You want to recover that 2.551.

13 COMMISSIONER GUNTER: Folks, they're fixing to give you  
14 some help.

15 MS. BULECZA-BANKS: All we're going to be able to do  
16 that in the way the accounting is set up on that, we're going to  
17 be able to tell right from the books because I have them booking  
18 it in a separate account.

19 COMMISSIONER GUNTER: Okay, will you come show me how  
20 that's going to be done?

21 MS. BULECZA-BANKS: Right now?

22 COMMISSIONER GUNTER: No. We don't need to tie up  
23 these folks. I've got no problem with the process. I just want  
24 to know how you're going to know.

25 MS. BULECZA-BANKS: Yeah. I can come tell you that.