State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER ● 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: April 12, 2007

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Draper, Baxter, Brown, Kummer)
Office of the General Counsel (Brubaker)

RE: Docket No. 060675-GU – Petition for authority to implement phase two of experimental transitional transportation service pilot program and for approval of new tariff to reflect transportation service environment, by Florida Division of Chesapeake Utilities Corporation.

AGENDA: 04/24/07 – Regular Agenda – Tariff Filing - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 06/10/07 (8-Month Effective Date)

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\060675.RCM.DOC

Case Background

On October 10, 2006, the Florida Division of Chesapeake Utilities Corporation (Chesapeake or the company) filed a petition to implement Phase Two of the company's experimental transitional transportation service pilot program and for approval of a new tariff to reflect the company's transportation service environment. Chesapeake has not proposed to change any of its retail gas transportation service rates (base rates).

On October 10, 2006, Chesapeake filed a letter agreeing to waive the 60-day time limitation of the file and suspend statute, as set forth in section 366.06(3), Florida Statutes.

In November 2002, the Commission approved a petition by Chesapeake to convert all sales customers to transportation service, to exit the merchant function, and to implement a transitional transportation service (TTS) tariff.[1] Chesapeake proposed three phases that over several years would transition all customers to a fully competitive marketplace with each phase expanding the choices available to customers. The Commission authorized Chesapeake to implement the first phase of its TTS program Phase and required that Chesapeake's implementation of Phase Two require an affirmative act of this Commission The Commission further approved Phase One as an experimental and transitional pilot program pursuant to Section 366.075, Florida Statutes. Chesapeake reported on the results of the TTS program to the Commission in February 2004 and February 2005. In its reports, Chesapeake stated that customer acceptance of Phase One of the TTS program has been high, service has been reliable, and that TTS customers experienced reduced gas bills.

In addition to Phase Two of the company's transportation program at issue here, Chesapeake also proposed optional fixed charges, a revision to its extension of facility policy, and several changes related to retail service. Chesapeake also proposed modifications to its shipper rules and regulations. A customer meeting with the shippers was held on January 19, 2007, in Tallahassee.

By e-mail dated April 14, 2007, Chesapeake filed certain corrections and associated tariff sheet revisions to its petition. In addition, Chesapeake withdrew its proposed Delivery Point Operator and Transportation Cost Recovery Adjustment rate schedules.

The Commission has jurisdiction over the subject matter pursuant to Sections 366.03, 366.04, 366.06, 366.07, and 366.075, Florida Statutes.

[1] See Order No. PSC-02-1646-TRF-GU, issued November 25, 2002, in Docket No. 020277-GU, <u>In Re: Petition of Florida Division of Chesapeake Utilities Corporation for authority to convert all remaining sales customers to transportation service and to exit merchant function</u>.

Discussion of Issues

Issue 1: Should the Commission approve Chesapeake's proposed tariffs to implement Phase Two of the company's experimental Transitional Transportation Service (TTS) Program?

Recommendation: Yes. (Draper)

Staff Analysis: Chesapeake proposes to implement Phase Two of the company's TTS program for residential and small volume commercial customers. The TTS program is an experimental program designed to allow residential and small volume commercial customers the opportunity to purchase gas from a TTS shipper. A TTS shipper is a company-approved shipper that is authorized to deliver gas to Chesapeake's gate stations. Chesapeake subsequently transports the gas to the customers in the TTS program. Phase Two would expand the number of TTS shippers from one to two shippers and therefore increase the gas supply pricing options available to customers. Other than increasing the number of TTS shippers, the provisions the Commission approved for Phase One remain unchanged. Chesapeake will continue to act as a supplier of last resort and provide all customer account functions such as billing (to ensure the shipper's fuel charges are correct), payment tracking, non-pay disconnects, and related administrative services.

Background. In April 2000, the Commission adopted Rule 25-7.0335, Florida Administrative Code, which requires each local distribution company (LDC) to offer the transportation of natural gas to all non-residential customers.[2] The rule further provides that each LDC may offer the transportation of natural gas to residential customers when it is cost effective to do so. This rule revision gave all non-residential customers the option of purchasing gas directly from a supplier other than the utility servicing the territory where the customer is located. Prior to the rule revision, transportation service had been available for industrial customers only. In a transportation service environment, the LDC, such as Chesapeake, only transports the gas from the gate station (delivery point at which gas is transferred from the interstate pipeline company to the LDC's distribution system) to the customer's meter. The customer is responsible for purchasing the gas from other parties, such as shippers or gas marketers.

As more customers began buying gas on the open market, Chesapeake's sales volumes decreased and it no longer was cost-effective for Chesapeake to buy gas for the remaining sales customers, which were primarily residential customers. In March 2002, Chesapeake filed a petition to convert all remaining sales customers to transportation service, to exit the merchant (or gas sales) function, and to implement a TTS tariff. In its petition, Chesapeake proposed three phases for its restructuring, with each phase expanding the choices available to customers. The Commission only approved Phase One of Chesapeake's petition and required specific Commission approval for Phase Two. Similarly, Chesapeake would need Commission approval for Phase Three. The multi-phased transition to a competitive marketplace for gas supply is designed to ensure reliable service at reasonable prices, while gradually introducing more options and choices to Chesapeake's customers.

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

During Phase One, Infinite Energy (Infinite) was selected through a competitive bid to provide the gas to the TTS customer pool. The TTS customer pool consists of all former sales customers, which were residential and small-volume commercial customers. Chesapeake's agreement with Infinite to provide gas supply services to the TTS customer pool expired in October 2005. However, Infinite agreed to an extension of the agreement to enable Chesapeake to prepare for implementation of Phase Two.

Chesapeake's proposal. Chesapeake now proposes to implement Phase Two of its transition to a fully competitive marketplace. In Phase Two, Chesapeake would retain, through competitive bid, two TTS shippers (as opposed to one TTS shipper). Chesapeake issued a Request for Proposals (RFP) in early 2007 seeking bids from gas marketers interested in serving as TTS shippers.

Initially, all customers in the TTS customer pool would be assigned to one of the two TTS shippers on an equal and random basis and receive the standard pricing option. The standard pricing option will be the same for both shippers. The intent of the assignment process is to divide the customers between shippers so that each of the respective pools initially consists of approximately equal number of customers and annual usage. No less than six months and no more than twelve months following implementation of Phase Two, Chesapeake will provide to all TTS customers an opportunity to switch TTS shippers and/or to elect an alternative gas supply pricing option. Chesapeake proposed to provide each TTS shipper the opportunity to promote their various pricing options and other factors that would influence customer choice during an open enrollment period of 30 days. Chesapeake proposes to administer the open enrollment process by mailing the TTS shipper solicitation material to all TTS customers. Customers changing their TTS shipper or selecting a new pricing option are required to respond in writing to the company. Those customers who chose not to respond, would continue to receive the standard price option from their selected shipper. Chesapeake would administer an open enrollment process on at least an annual basis.

The Commission approved Phase One of the TTS program as an experimental pilot program.[3] Chesapeake proposes to continue Phase Two on an experimental, pilot basis. Chesapeake also proposes to provide the Commission annual reports on the status of the program.

Conclusion. Staff recommends approval of Chesapeake's proposed tariffs to implement Phase Two of the company's experimental TTS program. Chesapeake's proposal expands the choices available to customers in the TTS pool while maintaining the provisions and safeguards the Commission approved for Phase One to ensure that customers in the TTS pool receive reliable service and realize gas cost savings.

[3] Order No. 02-1646-TRF-GU, at p 8.

<u>Issue 2</u>: Should the Commission approve Chesapeake's proposed revision to its extension of distribution facilities policy?

<u>Recommendation</u>: No, the Commission should deny Chesapeake's proposed revision to its extension of distribution facilities policy. The revision to the policy unduly transfers the company's financial risk onto certain types of customers without showing the current policy is causing the company substantial financial hardship meriting the change. (Baxter)

<u>Staff Analysis</u>: Chesapeake proposes a change in the methodology to determine if an extension of distribution facilities require a contribution in aid of construction (CIAC) or would be provided at no cost to the customer.

When a customer requests gas service at a location where the company has no facilities, and thus an extension of facilities is necessary, the utility must determine whether or not the customer should pay CIAC. Chesapeake calculates a maximum allowable construction cost (MACC) for each service extension and compares the MACC to the construction costs to determine whether an extension will be free to a customer or require CIAC. Under Chesapeake's current tariff, the MACC is equal to the estimated annual transportation service revenues for all customers served by an extension multiplied by six. If the construction costs are less than the MACC, the extension is provided at no cost to the customer(s). If the construction costs exceed the MACC, the customer must pay CIAC of the cost in excess of the MACC.

Chesapeake proposes to switch from using the present fixed calculation of transportation service revenues to a discounted cash flow (DCF) model in determining the MACC. The proposed DCF model would utilize a series of inputs to determine an internal rate of return over the estimated service life of a project. Inputs would include, but not be limited to: all capital investment costs associated with a particular extension, Commission-authorized depreciation rates, tax rates, forecasts of therm consumption by customer type, forecasts of transportation service revenues based on projected service classifications, forecasts of customer premise additions (for multi-unit projects) by year, Chesapeake's cost of debt and equity and proportion of debt to equity approved by the Commission in its most recent rate proceeding, forecasts of annual operating and maintenance expenses and CIAC payments if required.

Chesapeake would then compare the internal rate of return to a hurdle rate equal to the mid-point of its allowable return on equity (ROE) approved by the Commission in its most recent rate case. Currently, the midpoint of the ROE is 11.5%.[4] Service extensions that equal or exceeded the hurdle rate would be provided to customers at no cost while extensions that fall below the hurdle rate will require a CIAC payment to bring the extensions' internal rate of return up to the hurdle rate. Staff is not aware of any other gas or electric utility in Florida that uses a DCF model in determining the calculation of the CIAC.

In response to staff inquiries, Chesapeake provided two sample CIAC calculations for a hypothetical multi-use development and an industrial site. For each location, the company

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[4] See Order No. PSC-00-2263-FOF-GU, in Docket No. 000108-GU, <u>In Re: Request for rate increase by Florida Division of Chesapeake Utilities Corporation</u>.

calculated CIAC using the current estimated annual revenues methodology and the proposed DCF methodology. The hypothetical industrial site had service extension costs of $363,847. The CIAC calculated under the current methodology is $158,209 whereas the amount under the proposed DCF methodology is $98,911. The hypothetical multi-use development has service extension costs of $1,081,000. The CIAC calculated under the current methodology came to $62,379, whereas the CIAC under the proposed DCF methodology came to $311,438.

Based on discussions with the company, it appears that the large differences in the sample CIAC calculations were due to assumptions built into the proposed DCF methodology. According to Chesapeake, the DCF methodology takes into account that multi-use developments are riskier since the customers who comprise them typically move in over a period of time. Thus, the estimated annual revenues used in the current estimated annual revenues methodology may not materialize until quite some time after the costs have been incurred by the company to install the facilities. In fact, there is a risk that the revenues may never materialize from a multi-unit development which is not captured by the current methodology. Chesapeake argues the DCF methodology takes into account that some residences and buildings on a multi-use development may never connect and equitably assigns more of the cost to the multi-unit development to reflect this risk. According to the company, industrial sites represent a lesser risk under the DCF model since there will be a single customer or multiple customers ready to connect and generate revenue once the extension has been completed and gas supplied. Thus, there is not the wait for an industrial development to build out and generate revenues as there is with a multi-unit development.

Chesapeake has not provided any hard data or financial analyses showing the company is being substantially impacted financially or that large shifting of costs is occurring between classes by the amounts presently collected under the estimated annual revenues methodology used to calculate CIAC. It may be that some multi-use developments are being subsidized by the other ratepayers, but the company has not presented sufficient justification that would legitimize the potential cost impacts flowing to certain customers in the proposed DCF methodology.

Rule 25-7.054, Florida Administrative Code, establishes the guidelines to be used for an extension of facilities and in providing free extensions. Rule 25-7.054(3)(c) states, "Nothing in this subsection (3) shall be construed as prohibiting any utility from establishing extension policies more favorable to consumers so long as no discrimination is practiced between consumers." A methodology that better assigns risk among customers is laudable, but the proposed methodology has the potential for such large cost impacts to different customers as to potentially be discriminatory, based on available information. Given the absence of financial analyses showing the need for such a dramatic change, staff recommends denial of Chesapeake's proposed DCF methodology.

Issue 3: Should the Commission approve Chesapeake's revisions to its Area Extension Program?

Recommendation: Yes, the proposed Area Extension Program Rider more equitably distributes the costs to be recovered among the customers who are paying costs for extension of facilities. (Baxter)

Staff Analysis: Chesapeake's current tariff provides for an Area Extension Program (AEP) charge that applies when Chesapeake needs to extend its facilities to serve one or more delivery points in a discrete geographic area. The AEP charge takes the place of CIAC, which is usually a one time, up-front charge paid before service is extended. On Tariff Sheet 94 of its tariff, Chesapeake allows a development to participate in the AEP at the company's discretion if the cost of the project's facilities exceeds the aggregate maximum allowable construction cost (MACC) for all customers to be served, and the forecasted revenues for ten years (including the AEP and excluding the cost of gas) are sufficient to recover the cost of the project facilities. The current AEP recovers the costs of the project's facilities (the mains, meters, piping, and other equipment) as a per therm charge assessed on all gas sold to customers initiating service within the development for ten years starting from the time the mains are placed in service. Currently, a customer moving into a premise in a development paying the AEP in month one of year one would pay the AEP charge for 120 months, whereas a customer moving in the first month of year ten would pay the charge for only 12 months.

Chesapeake proposes to change the AEP from a policy in its general terms and conditions to a tariffed rider and change the AEP from a per therm charge assessed on customers' variable therm usage to a fixed monthly charge. The company proposes to change the eligibility period for payment of the AEP recovery charge from all premises starting service in a development from the first ten years to the first five years, with an alteration in the amount of time that an active premise pays the charge. Under the present policy, a customer in an active premise only pays the AEP for however long the premise is occupied within ten years from the start of service. For example, a premise occupied for eight out of ten years under the present policy would have the other two years of AEP costs spread to the other premises in the development.

Chesapeake proposes to change this so that all premises expected to receive service in the first five years will equally pay the costs for 120 months each. For example, a customer who moved into a premise in the development in 2007 would pay the AEP costs from 2007 through 2016, while a customer moving into a premise in 2010 would pay the costs from 2010 through 2019. A break in the occupation of a premise would halt the required 120 months of payment time, with the 120 months resuming when the premise is again occupied. Customers who move in after the first five years following construction would not be assessed the AEP, so any premises that were occupied and then unoccupied before the end of year five would have their remaining share of the AEP spread to the other premises.

At the end of year five from the in-service date of the extension, Chesapeake would true-up the AEP recovery amount and bill or credit the difference to customers to be collected over the remainder of each customers' 120 months of payment time. For examples of how the current and proposed AEP charges would function, please see attachment A.

The key problem with the current AEP policy is that it has uneven financial impacts on customers moving into the same development and receiving the same gas service. A customer moving into a multi-unit development that starts paying the AEP charge in month one of year one pays the charge for 120 months. Customers who subsequently move in pay the charge for potentially many months less. For instance, a customer who moves into the development in month one of year ten would pay the charge for just 12 months. In the hypothetical example illustrated in Attachment A, under the current policy, a customer moving in month one of year one would pay $465.60 ($3.88 x 120) over the ten years, whereas if he had moved in month one of year ten he would only owe $46.56. If the cost of providing the service is the same, customers receiving that service should pay the same proportion of costs.

The proposed AEP policy corrects this inequity by having all customers who move into the development within the first five years pay equally for 120 months. In response to staff inquiries, Chesapeake indicated that the five year move-in period represented the best compromise between the danger of spreading the costs over too few customers and having the payment window be available for such an extended period of time that the interest costs would raise the amount to be collected to inequitable levels compared to the ten years of payment time under the present policy. Continuing with the example illustrated in Attachment A, the payment under the proposed policy would total $526.80 per premises over the 120 months of payment time.

Conclusion

Although the proposed AEP policy will narrow the eligibility window for premises which are required to pay the AEP from ten years to five, it will eliminate the current problem of partial payments by some customers. All customers who move into premises in a development within the first five years would share equally the costs of providing gas service to that development. The proposed AEP policy's reduced true up time diminishes the potential for large monetary amounts to collected at the end of ten years under the current policy. The current policy's treatment of amounts uncollected during vacancy from premises which are first occupied and then unoccupied flowing into the total amount to be reconciled. The proposed AEP policy diminishes this problem by halting the payment clock until the premise is again occupied in the initial five years. Staff believes a slight increase in the total amount to be collected and the amount collected per customer is justified given the more equitable distribution of the costs to be collected and therefore recommends approval of the Area Extension Program rider.

Issue 4: Should the Commission approve Chesapeake's proposed new Shipper of Last Resort Adjustment rate schedule?

Recommendation: Yes. (Draper)

Staff Analysis: Chesapeake currently has procedures to ensure that the company could act as the shipper of last resort in the event that the TTS pool manager was unable to reliably deliver gas, until a replacement shipper could be secured. Chesapeake has proposed to continue acting as the shipper of last resort upon default of both TTS pool managers. If either of the two TTS poll mangers default, the non-defaulting pool manger would assume gas delivery responsibilities for all customers until arrangements to qualify a replacement pool manger can be made. In the event both TTS pool managers default, Chesapeake would recall the interstate pipeline capacity, arrange for gas supply, and perform all other necessary functions to ensure delivery of gas to affected customers. Chesapeake would only act as a shipper of last resort until another shipper can be found to deliver gas. Chesapeake states that it did not have to act as a supplier of last resort during Phase One, and does not expect to do so in the future.

While procedures for Chesapeake to act as a shipper of last resort are already in place, the current tariff does not clearly address such a situation. Chesapeake has therefore proposed a new Shipper of Last Resort (SOLR) Adjustment rate schedule that would only apply when Chesapeake, upon default of all TTS pool managers, is providing shipper of last resort service. The proposed SOLR rate schedule would allow Chesapeake to bill TTS customers its cost of providing gas supply until a new TTS shipper is selected. Chesapeake states that it expects the Commission to exercise audit oversight of the SOLR related costs and revenues in a manner similar to that provided with the Purchased Gas Adjustment (PGA).

Staff recommends that Chesapeake's proposed SOLR rate schedule be approved. The rate schedule allows Chesapeake to recover its cost of supplying gas upon default of all TTS pool managers.

Issue 5: Should the Commission approve Chesapeake's proposed optional fixed charge base rates, Energy Conservation Cost Recovery, Competitive Rate Adjustment (renamed Competitive Firm Transportation Service Adjustment), and any other future cost recovery surcharges for TTS program consumers using less than 10,000 therms annually?

Recommendation: Yes. The proposed experimental program would allow customers that use less than 10,000 therms annually the opportunity to enroll in an experimental fixed Firm Transportation Service (FTS) rate schedule for a one year period. The experimental fixed rate program will provide consumers the opportunity to take service under a known fixed price for all of their regulated monthly charges. Since customers will choose the rate most advantageous to them, revenues may decline from customers whose usage exceeds the average. In order to track any intra-class cross subsidization, Chesapeake should file annual reports stating the cumulative number of customers by class who have elected to take service under the fixed charge option, and a comparison by rate schedule of the revenues received under the fixed charge option and what the revenues would have been had the customers taken service under the current standard rate. (Baxter, Brown)

Staff Analysis: Chesapeake has proposed, on an experimental basis, a fixed charge rate design alternative to the existing FTS-A, FTS-B, FTS-1, FTS-2, and FTS-3 firm transportation service rate schedules. These rate schedules are applicable to TTS customers using 10,000 therms or less annually. Customers in those rate schedules currently pay a fixed monthly transportation charge and a variable per-therm usage charge. The proposed optional fixed charge rates would eliminate the variable per-therm usage charge and recover all costs through the fixed transportation charge. The proposed fixed rates are designed to recover the same approximate revenue as the current fixed plus variable charges for an average use customer in each respective rate class. The fixed rate is derived using the revenue requirements for each class approved by the Commission in Order No. PSC-05-0208-PAA-GU.[5] The revenue requirement for each class was divided by the annual number of bills in each class to arrive at the proposed monthly fixed charge for each class.

Customers choosing to take service under the optional fixed base rates would also pay fixed charges for any Commission-approved surcharges applicable to them. Chesapeake's current tariff includes the Competitive Rate Adjustment charge (to be renamed Competitive Firm Transportation Service Adjustment) and Energy Conservation Cost Recovery (ECCR) factor. Any proposed future cost recovery surcharges would also include a fixed charge applicable to customers choosing to take service under the fixed base rates. Chesapeake states that a change from the variable ECCR factor to the experimental fixed dollar per customer charge would not affect how conservation is calculated. The ECCR true-up calculation would not change with the addition of the experimental fixed charge program. Chesapeake would add the proposed experimental fixed ECCR charge revenues to the existing variable ECCR charge revenues to determine its annual true-up.

[5] Issued February 22, 2005, in Docket No. 040956-GU, In Re: Petition for authorization to establish new customer classifications and restructure rates, and for approval of proposed revised tariff sheets by Florida Division of Chesapeake Utilities Corporation.

A customer is required to affirmatively choose to receive service under the fixed charge rate and would continue service until Chesapeake's next open enrollment period (which the company has proposed to hold on an annual basis). At the subsequent enrollment period, a customer would again have to affirmatively consent to continue receiving the fixed charge rate by notifying the utility prior to the expiration of the current enrollment period. A customer that did not respond to the utility would be placed back into the current rate class that he or she had taken service under before choosing the monthly fixed charge option.

Chesapeake states that if a customer's usage in the experimental fixed rate program changes from its standard rate class usage levels, the customer could be reassigned to another rate class. If this occurs, Chesapeake states that it will separately notify any customer of the circumstance and offer the customer the option of either the fixed rate or the variable rate applicable to the new rate class.

Chesapeake states that it would provide annual mailings to customers containing specific cost comparisons between the proposed monthly fixed charge and the traditional customer charge plus variable per-therm fuel charge. All fixed and variable charge options provided by the third party transportation shippers would be illustrated to the customer.

The monthly fixed rate option with associated charges provides a new alternative for residential and small use customers to pay their bills. Chesapeake indicated that it has received customer requests for a flat rate option. The yearly mailings with rate and cost alternatives and the annual requirement that customers must affirmatively consent to continue receiving the fixed charge rate are safeguards for customers. Staff recommends approval of the optional fixed rate charge, fixed Energy Conservation Recovery Charge and fixed Competitive Firm Transportation Service Adjustment with the annual reporting requirements.

Reporting Requirement

Staff is concerned that the new monthly fixed charge rate option has the potential to negatively impact other customers by causing cost and revenue shifts from migrating customers. Since the fixed charge rate is derived from the total revenue requirement for a class divided by the total class number of bills, the rate implicitly contains an assumption of average class therm usage. There exists the potential that high therm use customers will migrate to the fixed charge rate, minimizing their bills, while low therm use customers, whose fixed bills would be higher than the current bills based on usage, would stay on the current base plus variable therm billing option. The migration of high therm use customers has the potential to negatively impact revenues since the higher therm use customers revenues are no longer coupled to usage.

Since the fixed charge rate option is being offered on an experimental basis, staff believes that additional information is necessary to monitor any potential cross subsidization. Staff recommends the company file annual reports stating the cumulative number of customers by class who have elected to take service under the fixed charge option, and a comparison by rate schedule of the revenues received under the fixed charge option and what the revenues would have been had the customers taken service under the current fixed and variable rate.

Issue 6: Should the Commission approve Chesapeake's proposed modifications to its shipper rules and regulations, including the proposed new Off-System Delivery Point Operator Service rate schedule?

Recommendation: Yes. (Draper)

Staff Analysis: Chesapeake has proposed to modify, update, and reorganize its shipper rules and regulations. In addition, Chesapeake proposed a new Off-System Delivery Point Operator Service rate schedule. Shippers are legal entities that enter into a contract with Chesapeake to deliver gas on a firm basis to the company's distribution system. Chesapeake in turn delivers the gas to the customers. There are two categories of shippers: Commercial/Industrial (CI) shippers who serve commercial/industrial customers, and TTS shippers who serve the TTS customer pool. A shipper may serve both the TTS and CI pools.

A customer meeting with the shippers was held on January 19, 2007, in Tallahassee. Peoples Gas, Infinite, Peninsular Energy Services, BP Energy, and Sequent Energy attended the meeting and had the opportunity to ask Chesapeake questions regarding the proposed revisions. Peoples Gas raised a concern regarding the disposition of the operational balance, and Chesapeake agreed to revise its tariff to address Peoples Gas' concern. Staff provided the shippers an opportunity to provide written comments after the meeting. None were received.

Billing and administrative shipper services. Chesapeake provides numerous billing and administrative services to the shippers. In Chesapeake's last rate case, the Commission approved two new shipper rate schedules and associated charges: TPM-1 and TMP-2. Chesapeake has proposed to rename the TPM-1 rate schedule Shipper Administrative and Billing Service (SABS), and the TPM-2 rate schedule Shipper Administrative Service (SAS). Chesapeake has not proposed to change the charges contained in those rate schedules. The SABS rate is applicable to shippers who do not directly bill customers for gas purchased, but rather contract with Chesapeake to provide all customer billing services. Shippers serving the TTS pool are required to take service under that rate. Customer served by the TTS shipper therefore receive one monthly bill from Chesapeake that contains both the shipper's and Chesapeake's charges. The SAS rate is applicable to the C/I shippers who do not utilize Chesapeake for billing the cost of gas to customers but bill their customers directly.

Chesapeake also proposed to require all shippers to establish creditworthiness prior to the commencement of gas deliveries to Chesapeake's distribution system. The proposed credit amount is $50 times the daily capacity quantity (in dekatherms). Chesapeake further proposed a provision allowing the company to establish a Maximum Daily Transportation Quantity (MDTQ) for any shipper where daily gas deliveries above the MDTQ could have an adverse effect on the integrity of the distribution system.

Off-System Delivery Point Operator (DPO) Service rate schedule. A delivery point is the physical interconnection point of an interstate transmission pipeline like Florida Gas Transmission (FGT) with an LDC's gas system. Chesapeake currently serves as DPO for three delivery points on the FGT pipeline that are owned by other parties and not interconnected to Chesapeake's distribution system. The off-system DPO market is competitive with other Florida

LDC's or shippers being able to perform that function. The Commission approved the current off-system delivery point agreements through special contracts.[6] Chesapeake has now proposed an off-system DPO service rate schedule, applicable to all customers choosing to contract with Chesapeake to operate as their off-system DPO. The proposed rates are based on volume of gas scheduled and are the same as the ones the Commission approved in the special contracts. The off-system DPO rate schedule and associated standard form agreement will allow Chesapeake to operate as an off-system DPO without having to seek commission approval for each contract.

Monthly Balancing. On a monthly basis, Chesapeake compares the gas quantities scheduled by a shipper to the actual amount of gas consumed by customers in the shipper's pool. Any difference is called an imbalance. If the monthly imbalance is positive (amount of gas scheduled is greater than usage by customers), Chesapeake purchases from the shipper the imbalance. If the monthly imbalance is negative (amount of gas scheduled is less than usage by customers), Chesapeake sells gas to the shipper. Net imbalance amounts are billed or credited to customers. Chesapeake's current tariff provides that the company and shipper resolve all imbalance quantities on a monthly average of gas prices at certain FGT receipt points. FGT publishes each month the price to resolve imbalances, which is called the FGT cash-out price.

Chesapeake states two concerns with the current methodology. First, FGT publishes the cash-out price by the 10th of the following month when the imbalance occurred and therefore Chesapeake can not resolve imbalances with the shippers until the following month. Second, in addition to being interconnected with FGT, Chesapeake is also interconnected with the Gulfstream pipeline. Chesapeake therefore proposed to resolve imbalances by using Florida gas prices reported in *Platts Gas Daily*, a publication offering continuous coverage of gas prices. The new methodology would allow Chesapeake to resolve imbalances on a timely basis.

Conclusion. Staff has reviewed Chesapeake's proposed modifications to its shipper's rules and regulations. The modifications appear to be reasonable and in the public interest; therefore, staff recommends approval.

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[6] See Order No. PSC-06-0594-PAA-GU, issued July 7, 2006, in Docket No. 060269-GU, In Re: Petition by Florida Division of Chesapeake Utilities Corporation for approval of two delivery point operator agreements with Peninsula Energy Services Company, Inc.; and Order No. PSC-06-0143-PAA-GU, issued February 27, 2006, in Docket No. 050835-GU, In Re: Petition for approval of Amendment No. 2 to gas transportation agreement, master gas transportation service termination agreement, delivery point lease agreement and letter agreement: CFG Transportation Aggregation Service between Florida Division of Chesapeake Utilities Corporation and Polk Power Partners, L.P.

Issue 7: Should the Commission approve Chesapeake's other proposed changes related to retail service contained in its proposed tariff Volume No. 4?

Recommendation: Yes. (Draper)

Staff Analysis: Chesapeake has proposed to replace its current tariff Volume No. 3 with proposed Volume No. 4. The majority of Chesapeake's proposed changes are designed to reformat its tariff; however, some of the changes are discussed below. Chesapeake has not proposed to change any of its retail gas transportation service rates (base rates).

Classification of Customers. Chesapeake proposed to reorganize and reformat its Rules and Regulations into three distinct sections: general rules, consumer rules, and shipper rules.

Initial Deposit. Chesapeake proposed fixed initial deposit amounts for customers in all rate classes. The proposed fixed amounts are based on two-months' consumption at the mid-point annual therm consumption. The current initial deposit amounts are based on an estimate of two months average consumption multiplied by the applicable charges. Rule 25-7.083(1), Florida Administrative Code, requires that each company's tariff contains specific criteria for determining the amount of initial deposit. Rule 25-7.083(3), Florida Administrative Code, which states that the amount of the deposit shall not exceed an amount equal to the average charges for gas service for two months, applies to new deposits where previously waived or returned, or additional deposits.

Miscellaneous Charges. Chesapeake proposed two minor revisions to its miscellaneous charges. First, Chesapeake proposed a provision that would allow the company to multiply its Miscellaneous Charge amounts by 1.5 for service provided at a customer's request on the same day of the request or outside of normal business hours. Second, Chesapeake proposed to charge customers that require an extension of service an amount based on the actual cost of installation. The current charge is $4.50 per foot. Chesapeake has not proposed to change any of its other tariffed miscellaneous charges, such as the connection or re-connection charge.

Conclusion. Staff has reviewed Chesapeake's proposed changes related to retail service contained in its proposed tariff Volume No. 4. The modifications appear to be reasonable and in the public interest; therefore, staff recommends approval.

Issue 8: Should this docket be closed?

Recommendation: Yes. If Issues 1-7 are approved, this tariff should become effective on July 1, 2007. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Brubaker)

Staff Analysis: If Issues 1-7 are approved, this tariff should become effective on July 1, 2007. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.

Illustration of the Current and Proposed Area Extension Program Impacts

As noted in Issue 3, the proposed AEP policy more equitably collects the total CIAC from all residents benefiting from the expansion. Below is an example of the amounts collected under the current and proposed AEP policies over the life of the amortization. The example is based on a hypothetical 150 lot subdivision with 10 customers moving in per year for ten years after the subdivision opened. The total amount of principal and interest to be recovered under the current policy was $25,605 versus $26,339 under the proposed policy, The $734 of extra interest to be collected under the proposed policy reflects the longer period of time over which the funds are received (up to 15 years versus a maximum of 10 years under the current policy). The current AEP calculation represents the average per customer monthly amount paid on a variable per therm charge of $0.22169 while the proposed AEP would be collected as a flat charge. A start year of 2006 is assumed.

The amounts paid by an individual customer moving into the subdivision in different years are shown below. This example clearly shows that under current policy, although the annual amount is the same, customers activating service first pay proportionally more in total for the same facilities than customers who arrive later. The proposed policy collects the same total amount from all premises which activate service within the first five years following the in-service date of the facilities.

Current policy recovery amounts

Occupancy Year	Average Charge Per Customer Per Year	Total Amount Paid over the Amortization Period By a Customer Who Starts Paying in a Given Year	Last Payment Year of the Charge For Customers Who Start Paying in a Given Year
Year 1	$46.56	$465.60	2015
Year 2	$46.56	$419.04	2015
Year 5	$46.56	$279.36	2015
Year 10	$46.56	$46.56	2015

Proposed policy recovery amounts

Occupancy Year	Average Charge Per Customer Per Year	Total Amount Paid over the Amortization Period By a Customer Who Starts Paying in a Given Year	Last Payment Year of the Charge For Customers Who Start Paying in a Given Year
Year 1	$52.68	$526.80	2015
Year 2	$52.68	$526.80	2016
Year 5	$52.68	$526.80	2020
Year 10[7]	$0	$0	NA

[7] Customers activating service subsequent to five years after the in-service date of the extension would not pay the AEP.