

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-**

RECEIVED FPSC  
12 NOV 29 AM 9:24  
COMMISSION  
CLERK

**DATE:** November 29, 2012

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Economics (Garl, Hudson) *SAH*  
Division of Engineering (Ellis) *POE*  
Office of the General Counsel (M. Brown) *MCB JSC* *ADD J.W.D.*

**RE:** Docket No. 120229-GU – Petition of the Florida Division of Chesapeake Utilities Corporation for approval of special contract with Suwannee American Cement LLC.

**AGENDA:** 12/10/12 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Graham

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECO\WP\120229.RCM.DOC

### Case Background

In 2002, the Commission approved a 10-year special contract between the Florida Division of Chesapeake Utilities Corporation (Chesapeake or Utility) and Suwannee American Limited Partnership (now Suwannee American Cement, LLC (Suwannee)) for transportation of

DOCUMENT NUMBER: DATE  
07889 NOV 29 2012  
FPSC-COMMISSION CLERK

Docket No. 120229-GU  
Date: November 29, 2012

natural gas to the Suwannee plant in Suwannee County near the City of Branford.<sup>1</sup> The initial contract specified that, after the initial 10-year term, both parties would negotiate a new contract.

On August 28, 2012, Chesapeake filed its petition for approval of a negotiated new special contract with Suwannee to provide transportation of natural gas. The initial term for the new special contract is for three years with provisions for extension unless either party gives notice of termination to the other party. The Commission has jurisdiction over this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

---

<sup>1</sup> See Order No. PSC-02-0162-PAA-GU, issued February 4, 2002, in Docket No. 011620-GU, In re: Petition by Florida Division of Chesapeake Utilities Corporation for approval of special contract with Suwannee American Limited Partnership.

### Discussion of Issues

**Issue 1:** Should the Commission approve the special contract between the Florida Division of Chesapeake Utilities Corporation and Suwannee American Cement, LLC?

**Recommendation:** Yes. The Commission should approve the special contract between Chesapeake and Suwannee, effective the date of the Commission vote in this matter. (Hudson, Garl, Ellis)

**Staff Analysis:** Suwannee purchases natural gas for use in its cement plant from a marketer, and Chesapeake receives the gas for Suwannee at a Florida Gas Transmission (FGT) interconnection point. Chesapeake then transports the gas to Suwannee's facilities using its distribution system. Suwannee is located 100 feet from the FGT interstate pipeline, and thus has the ability to bypass Chesapeake by constructing its own connection to FGT. As discussed in the case background, the Commission approved in 2002, pursuant to Rule 25-9.034, Florida Administrative Code, a special contract between Chesapeake and Suwannee where the Utility provided transportation service to Suwannee. The original contract expired in October 2012. According to the original contract, Chesapeake and Suwannee were to negotiate in good faith all contract terms, including, but not limited to, the rate to be charged, and length of secondary term. The Utility indicated it has negotiated with Suwannee and developed a new special contract that better reflects Suwannee's position as an established customer of Chesapeake.

During the term of the original contract, Suwannee paid a monthly reservation/delivery fee of \$20,075 to Chesapeake, which was then subject to reduction on a monthly basis depending upon the number of days each month that Chesapeake recalled from Suwannee any relinquished FGT pipeline capacity. In addition, Suwannee was required to provide an irrevocable letter of credit or surety bond. The proposed new special contract reduces the monthly rate to \$4,563.28, and eliminates the requirement for an irrevocable letter of credit or surety bond by Suwannee. The term of the new special contract is three years with provisions for extension unless either party gives notice of termination to the other party.

In its petition, the Utility indicated that the new rate better reflects current use of capacity in comparison to a monthly reservation fee. According to the cost of service analysis prepared by the Utility, the monthly rate of \$4,563.28 would generate annual transportation revenues of \$54,759, which would cover the annual operating costs of \$37,801 and provide a return on the Utility's net investment for this project. In addition to generating revenues in excess of the cost to serve Suwannee, the new contract avoids a bypass by Suwannee,<sup>2</sup> thereby providing benefits to the general body of ratepayers.

Chesapeake asserted that it will not seek to recover the difference between the standard tariffed rate and the special contract rate from the general body of ratepayers between rate cases. In the next rate case, Chesapeake's cost of service and allocation of costs to the rate classes, including special contracts, will be subject to Commission review. Further, in a response to a staff data request, Chesapeake indicated that the general body of ratepayers are not at any risk

---

<sup>2</sup> The new contract specifies that Suwannee's monthly bypass cost would be \$5,475, based on total construction cost to interconnect to FGT of \$328,500.

Docket No. 120229-GU  
Date: November 29, 2012

with the absence of Suwannee providing an irrevocable letter of credit or surety bond under the new special contract because Suwannee has paid, over the life of the initial special contract over \$2,000,000 on an investment of \$343,241.

Based on the above, staff recommends the special contract between Chesapeake and Suwannee be approved effective the date of the Commission vote in this matter.

Docket No. 120229-GU  
Date: November 29, 2012

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

**Recommendation:** Yes. If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order. (M. Brown)

**Staff Analysis:** If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order.