

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition by Florida Division of Chesapeake Utilities Corporation for approval of two delivery point operator agreements (special contracts) with Peninsula Energy Services Company, Inc.

DOCKET NO. 060269-GU
ORDER NO. PSC-06-0594-PAA-GU
ISSUED: July 7, 2006

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman
J. TERRY DEASON
ISILIO ARRIAGA
MATTHEW M. CARTER II
KATRINA J. TEW

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING SPECIAL CONTRACTS

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 a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

Background

On March 22, 2006, The Florida Division of Chesapeake Utilities Corporation (Chesapeake, or Company) filed a petition with the Commission seeking approval of special contracts to provide Delivery Point Operator (DPO) services. A DPO is responsible for balancing the amount of gas ordered versus the amount used. Under the proposed contracts, the DPO services would be provided to an affiliate company, Peninsula Energy Services Company, Inc. (PESCO).

PESCO is a natural gas marketing company, formerly a division of the Company. PESCO was spun-off as a separate subsidiary of the Company in September, 2004. PESCO provides retail natural gas commodity sales along with interstate capacity management sales.

In January 2006, PESCO asked Chesapeake to provide DPO services to two of PESCO's industrial customers: Minute Maid Company (Minute Maid), and Cutrale Juices USA, Inc. (Cutrale). Based on a cost of service study conducted by Chesapeake, the Company is proposing

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annual service charges of \$500 for Minute Maid and \$5,000 for Cutrale. We have jurisdiction pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

Special Contracts

In January 2006, PESCO approached Chesapeake about providing DPO services for two of PESCO's customers, Minute Maid and Cutrale. PESCO's interest in obtaining DPO services is to save its customers money. A DPO is responsible for ensuring that the gas being delivered into the pipeline matches as closely as possible, the amount of gas being consumed by the customer.

Florida Gas Transmission's (FGT) Federal Energy Regulatory Commission (FERC) approved Gas Tariff requires all delivery points to have a DPO. A delivery point is the physical interconnection point of the FGT pipeline with a customer's gas facilities. The DPO is the entity with which FGT resolves delivery imbalances, enforces operator orders and manages other transactions having to do with gas deliveries to the delivery point.

On a monthly basis, FGT compares the gas quantities scheduled to the actual amount measured at the Delivery Point - any difference is called an "imbalance." Imbalances are resolved either by trading between customers or using a FERC-approved cash-out process. Charges and credits to resolve imbalances are billed by FGT to the DPO. A similar process is employed to resolve imbalances due to FGT Operational Orders (such as Alert Days and Operational Flow Orders). Any penalties assessed for violating Operational Orders are billed to the DPO. The local distribution company will then dispose of the penalties or credits in accordance with its Commission-approved tariff.

Chesapeake is currently the DPO for 26 different delivery points. As the DPO, Chesapeake is permitted to aggregate the imbalances at these delivery points. Such aggregation can be beneficial for Chesapeake when some points have a shortfall (customers consumed more gas than was delivered) while others have overages (more gas was delivered than they consumed). By offsetting the shortfalls and overages, pipeline penalties can be avoided.

Chesapeake states that aggregating the multiple imbalances into a single pool tends to provide broader opportunities through diverse customers for the pool to remain within imbalance tolerances. Another benefit of this pooling is that DPOs serving multiple Delivery Points have a level of experience that helps minimize imbalance and Operator Order penalties.

According to Chesapeake, there are a number of third parties acting as a DPO on the FGT pipeline. Many municipal gas distributors and small, local gas distributors have designated various third party marketers or other LDCs as their DPOs. According to Chesapeake, several FGT direct connect industrial customers designate a third party to be DPO. Chesapeake currently provides DPO services to Polk Power Partners, L.P., for its cogeneration facility in Polk County which was approved by the Commission in Order PSC-06-0143-PAA-GU, issued on February 27, 2006, in Docket No. 050835-GU, In re: Petition for approval of Amendment No. 2 to gas transportation agreement (special contract), 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.

Chesapeake has developed an annual rate for each Delivery point with PESCO in the amount of \$500 for Minute Maid, and \$5,000 for Cutrale. We have reviewed Chesapeake's cost of service study and find it to be reasonable. These rates were calculated using the same methodology applied in developing the DPO service rates for Polk Power Partners, L.P. that we approved in Docket No. 050583-GU. The annual rates are based on the relative delivered gas quantities and value of service at the respective points.

Based on our analysis of the contracts and the cost of service study, we hereby approve the special contracts to provide DPO services to Minute Maid Co. and Cutrale Juices USA, Inc. effective June 20, 2006.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Chesapeake Utilities Corporation's special contracts to provide delivery point operator services to Minute Maid Co. and Cutrale Juices USA, Inc. are hereby approved as set forth in the body of this order. It is further

ORDERED that the special contracts shall be effective June 20, 2006. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 7th day of July, 2006.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: 

Kay Flynn, Chief
Bureau of Records

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 28, 2006.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.