

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of the Florida Division of
Chesapeake Utilities Corporation for approval
of special contract with Suwannee American
Cement LLC.

DOCKET NO. 120229-GU
ORDER NO. PSC-12-0669-PAA-GU
ISSUED: December 31, 2012

The following Commissioners participated in the disposition of this matter:

RONALD A. BRISÉ, Chairman
LISA POLAK EDGAR
ART GRAHAM
EDUARDO E. BALBIS
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING SPECIAL CONTRACT

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 (F.A.C.).

BACKGROUND

In 2002, we approved a 10-year special contract between the Florida Division of Chesapeake Utilities Corporation (Chesapeake) and Suwannee American Limited Partnership (now Suwannee American Cement, LLC (Suwannee)) for transportation of natural gas to the Suwannee plant in Suwannee County near the City of Branford.¹ The initial contract specified that after a 10-year term the 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 three years with provisions for extension unless either party gives notice of termination to the other party.

¹ 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.

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FPSC-COMMISSION CLERK

As explained below, we approve the new special contract. We have jurisdiction over this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

DECISION

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 above, we approved the original special contract in 2002, pursuant to Rule 25-9.034, F.A.C. 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. Chesapeake indicated it has negotiated with Suwannee and developed a new 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. 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 Chesapeake 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 Chesapeake, 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 the project. In addition to generating revenues in excess of the cost to serve Suwannee, the new contract avoids a bypass by Suwannee,² thereby providing benefits to its 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 its 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 our review. Chesapeake has indicated that the ratepayers are not at risk without an irrevocable letter of credit or surety bond under the new special contract because Suwannee has paid over \$2,000,000 on an investment of \$343,241 over the life of the initial special contract.

² 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.

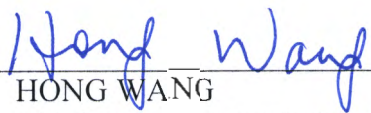
Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Petition of the Florida Division of Chesapeake Utilities Corporation for approval of a special contract with Suwannee American Cement LLC is approved, effective December 11, 2012. 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 Commission Clerk, 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 31st day of December, 2012.



HONG WANG
Chief Deputy Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

MCB

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 Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on January 21, 2013.

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.