transportation rate charged would not fall below the fully allocated cost of service at anytime in the future, therefore ensuring that the benefits of the contract will always accrue to the general body of ratepayers.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Chesapeake Utilities Corporation, Florida Division Transportation Agreement with Polk Power Partners, L.P.?

RECOMMENDATION: Yes. The Commission should approve the Transportation Agreement with Polk Power Partners, L.P.

STAFF ANALYSIS: Subsequent to the Commission's approval of the Transportation Agreement with Mulberry Energy Company, Inc., Chesapeake entered into a second agreement to provide additional large volume transportation service to Polk Power Partners. Under this second agreement, pending Commission approval, the customer would receive up to an additional 71.9 million therms of natural gas per year at its cogeneration facility.

In the Commission-approved first agreement, the customer paid for the use of Chesapeake's capacity on the Florida Gas Transmission (FGT) system to transport its own gas. This procedure will continue for volumes purchased pursuant to the first agreement. However, under the second agreement, the customer has its own capacity agreement with FGT, under the FGT phase three expansion program. The second agreement also provides that the customer will make all necessary arrangements with other parties for transportation of its gas prior to delivery to Chesapeake's gate station. Upon receipt, Chesapeake will deliver the customer's gas to the cogeneration facility. To provide the additional service under the second agreement, Chesapeake will incur incremental capital costs of approximately $337,000. Those expenditures will be required to upgrade the size of the pipeline from 6" to 8", and to further upgrade meter and regulator station equipment and city gate facilities.

Under the second agreement, the customer would pay Chesapeake's proposed non-fuel rate of 0.25 cents per therm for each therm of gas received and delivered under the terms and conditions of the agreement. As with the first agreement, Chesapeake performed two cost of service studies, one on an incremental basis and one on a fully allocated or rolled-in basis. The proposed rate returns the cost to serve on either incremental of fully allocated basis. The contract specifies that charges would not fall below the fully allocated cost of service at anytime in the future.

In summary, Chesapeake will have two agreements with Polk Power Partners as follows:

FIRST AGREEMENT
Commission Approved
Cost: $820,000
Annual Therms: 20,586,000
Pipeline: 6"
Miles: 4.3
Rate: 2.10 cents per therm up to 20,586,000 therms with an escalation rate of 7 1/2% per year for a twenty-year period

SECOND AGREEMENT
Chesapeake's Petition
Additional Cost: $337,000
Additional Annual Therms: 71,900,000
Pipeline: Increase to 8"
Miles: Same
Rate: 0.25 cents per therm for all over 20,586,000 therms per year

ISSUE 2: Should this docket be closed?

RECOMMENDATION: Yes. This docket should be automatically closed if no protests are timely filed.

STAFF ANALYSIS: This docket should be closed if no person whose substantial interests are affected by the action proposed by this recommendation files a petition for a formal proceeding within the allowed 21-day protest period.