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October 31, 2011

BY HAND DELIVERY

Ms. Ann Cole, Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850


Re: Docket No. 110271-GP: Petition by Peninsula Pipeline Company for Approval of Agreement with Florida Public Utilities Company

Dear Ms. Cole:

Enclosed for filing, please find the original and 7 copies of Florida Public Utilities' Responses to Staff's First Data Request, which are being submitted today. Under separate cover, FPUC is seeking Confidential Classification of portions of its responses.

Thank you for your assistance with this filing. As always, please don't hesitate to contact me if you have any questions whatsoever.

Sincerely,


Beth Keating
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706

MEK

CC: Office of Public Counsel

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FPSC-COMMISSION CLERK

FLORIDA PUBLIC UTILITIES COMPANY
RESPONSES TO
STAFF'S FIRST DATA REQUEST
DOCKET NO. 110271-GU

Staff Data Request to FPUC

1. Please provide a copy of the request for proposals issued by FPUC, referenced in paragraph 8 of the petition filed by Peninsula in Docket 110271-GU.

Company Response: The request for proposals referenced in paragraph 8 of the petition is defined below. FPUC did not issue a written RFP.

In 2008, Peninsula approached FPUC and indicated an interest in constructing an intrastate pipeline from the Southern Natural Gas Company, LLC (SONAT) interstate pipeline located in western Nassau County to Amelia Island. The intrastate pipeline was intended to serve industrial customers in Nassau County (either directly or through a distribution system to be constructed by FPUC) along with commercial and residential customers connected to the FPUC system. FPUC entered into informal discussions with SONAT and Florida Gas Transmission (FGT) to seek competitive pricing for pipeline expansion in Nassau County. Based on these discussions, it did not appear that either interstate pipeline would be a viable economic option. FPUC submitted a non-binding Firm Transportation Service Application to Peninsula, in accordance with Peninsula's approved tariff, on November 14, 2008. Subsequently, the parties began to negotiate the rates, terms and conditions for a Firm Transportation Service Agreement. However, in early 2009, the negotiations terminated, as merger discussions between Chesapeake and FPUC were re-initiated.

The Chesapeake and FPUC merger was completed in October 2009. Subsequent to the merger, FPUC renewed its interest in the Nassau County expansion. The merger created an affiliate relationship with Peninsula through Chesapeake. Due to the affiliate relationship with Peninsula, FPUC determined that alternate price quotes for transmission service in Nassau County should be obtained. In April 2010, FPUC requested that FGT and SONAT provide cost estimates for an extension of their respective interstate pipeline facilities to Amelia Island. Both FGT and SONAT operate transmission facilities in, or close to, Nassau County. FPUC received a letter from SONAT indicating that it was not interested in the project and, therefore, would not submit a bid. FGT did provide a cost estimate as shown on Attachment A.

Over the next several months (in addition to the on-going merger integration), FPUC conducted a detailed commercial and residential market assessment in Nassau County and resumed its discussions with potential industrial customers. Distribution engineers began preliminary design and cost estimates for the distribution system. In June 2011, FPUC determined that there was sufficient market opportunity in Nassau County to move forward with the project. FPUC

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contacted the intrastate pipeline companies currently authorized by the Commission to operate in Florida: Peninsula and Seacoast Pipeline (Seacoast). FPUC made each company aware of what its requirements were for service and solicited proposals from each entity. Both companies provided transmission pipeline proposals to FPUC in July 2011. It should be noted that the proposal requested from Seacoast was actually provided by TECO/Peoples Gas and included options for interconnections with a proposed "Peoples Gas or its affiliate", as well as, a wholesale transportation service option to be provided through a Peoples Gas main extension to Amelia Island. The PPC and TECO/Peoples Gas proposals are included in Attachment A.

2. Please provide any analyses FPUC has done to determine that Peninsula should receive the contract.

Company Response: FPUC evaluated the terms and pricing under each proposal and selected PPC. The PPC proposal provides i) the lowest cost option, ii) a superior proposed route in support of the Company's target market, iii) the earliest in-service date, iv) greater delivered capacity for the cost, v) a high probability of long-term supply flexibility for Shippers and, vi) an option to increase capacity during the term. See Attachment A for details of each proposal received.

3. Please list all other companies that submitted bids in response to its request for proposals.

Company Response: See Attachment A for a complete listing of all companies that submitted bids for the Nassau County project.

4. Please provide all the bid responses FPUC received in response to its request for proposals.

Company Response: See Attachment B.

5. How does FPUC plan to recover its payments to Peninsula pursuant to the Agreement?

Company Response: The payments to Peninsula are proposed for recovery through the Purchased Gas Adjustment (PGA) True-up consistent with other gas transmission pipeline costs incurred by FPUC. FPUC has included in the current PGA filing (Docket No. 110003-GU) all of the applicable Peninsula costs, beginning July 1, 2012 (the expected in service date), as well as costs for the related upstream interstate pipeline capacity and natural gas supply costs necessary to provide service to the Nassau County customers in 2012.

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6. Please discuss whether FPUC considered building the facilities itself (as opposed to contracting with Peninsula)?

Company Response: FPUC did consider building the facilities itself; however, FPUC determined that there were several advantages of working with a third party that, as shown herein, outweighed any benefits of a self-build option.

FPUC considered utilizing the option of the interstate pipelines (in this case FGT or SONAT) constructing small diameter lateral pipelines to serve the distribution service territory expansion. Historically, interstate pipelines have made the investments in physical extensions of transmission pipelines to LDC growth areas and the LDCs have built the local distribution systems. LDCs have contracted for long-term capacity rights on the interstate pipelines, recovered traditionally through the PGA mechanism, which covered the pipeline's investment and operating costs. As the LDCs system grows, the customers in the new service territory provide a greater contribution to the cost of service than the costs recovered in the PGA. All LDC rate payers, therefore, have benefited from this historic expansion scenario. However, as described above, the interstate pipelines have not been interested, over the past decade or more, in providing this service, primarily due to expensive pipeline integrity regulations that are difficult to perform on small diameter laterals.

Next, as described above, FPUC considered the intrastate pipeline option for constructing the lateral pipeline in Nassau County. FPUC received viable options from Peninsula and Seacoast. Their proposals are shown on Attachment A.

FPUC then reviewed its existing tariff mechanisms for expansion. The primary mechanism, the Maximum Allowable Construction Cost (MACC) provision, is designed to ensure that expansions are cost-effective. FPUC's tariff currently sets the MACC at four (4) times expected annual revenues less the cost of gas. Other methods in the FPUC tariff require advance payments from customers (CIAC) or a surcharge to the specific customers in the expansion area (the Area Expansion Program (AEP)). Under these mechanisms, FPUC would have been able to economically construct the necessary facilities for the Nassau County project.

Finally, FPUC compared the Peninsula proposal (the highest ranked proposal received) to its self-build options, and it was clear that the best overall option is the Peninsula proposal. Peninsula's rates to FPUC are lower than those required by the MACC or other similar mechanisms. In addition, FPUC has contracted for only a portion (7,500 Dekatherms per day, with a future option for additional capacity) of the pipeline's total capacity, thus the risk, and the associated price, of fully utilizing the pipeline rests with Peninsula and is therefore not unduly

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burdensome to FPUC's rate payers (as it would be under the self-build option). FPUC also believes that all FPUC rate payers will benefit by utilizing Peninsula in the same manner as they have historically done (described above) when the interstate pipelines were willing to construct similar laterals that supported service territory expansions.

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FLORIDA PUBLIC UTILITIES COMPANY'S
RESPONSES TO STAFF'S FIRST DATA REQUESTS

ATTACHMENT A
(RESPONSE TO #1, 2, AND 3)

FLORIDA PUBLIC UTILITIES COMPANY
NASSAU COUNTY EXPANSION PROJECT
EVALUATION OF PROPOSALS
August 1, 2011

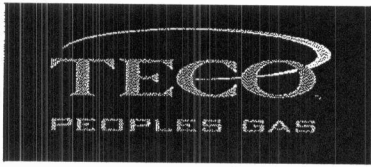
Attachment A
REDACTED

Company	Description of Project	Upstream Pipeline	Term	MDTQ	Maximum Hour (DT)	Firm	Annual Rate	Upstream Capacity (DT)	Upstream Capacity Rate	Rank
[Redacted Content]										

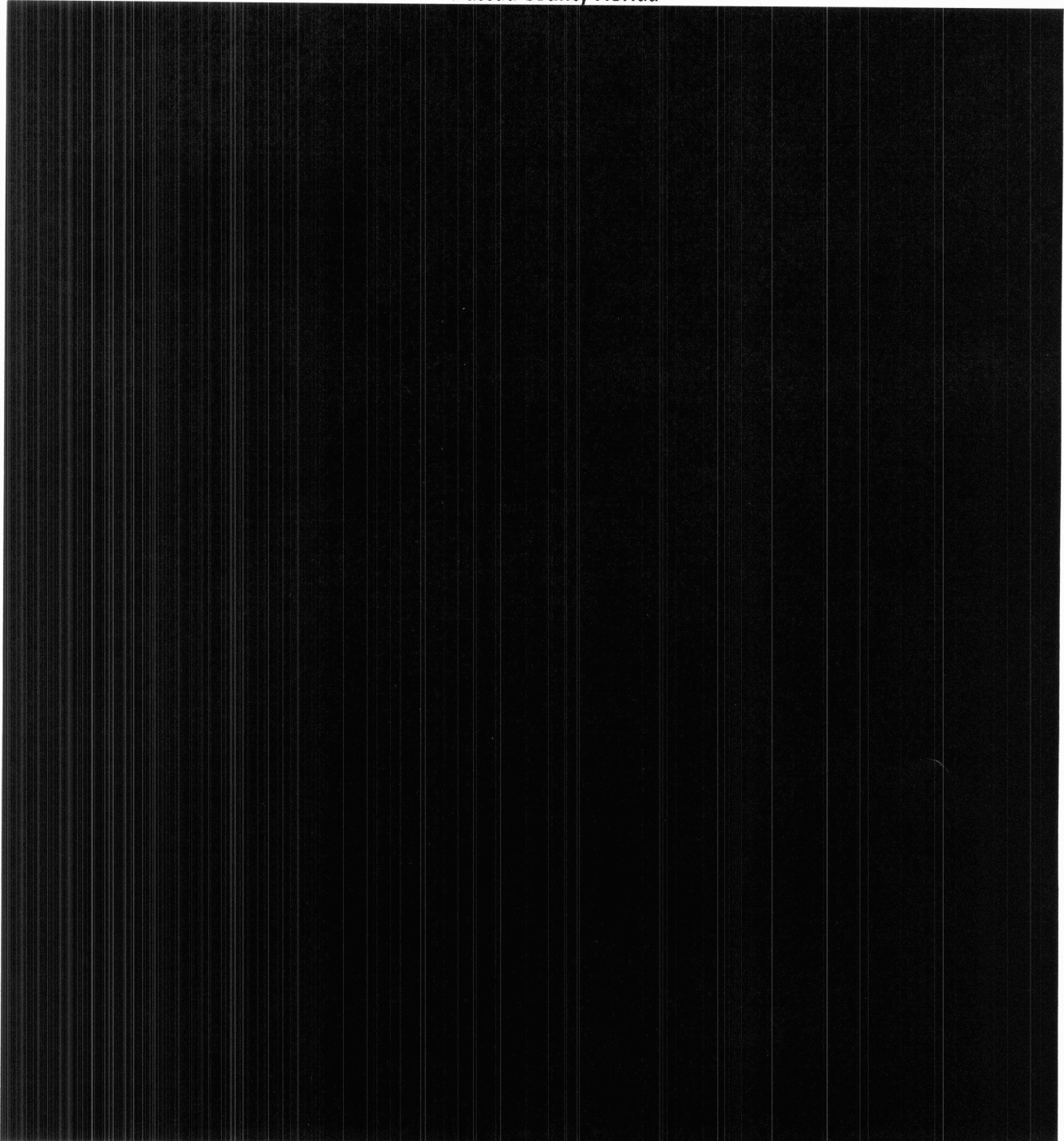
DOCKET NO. 110271-GP

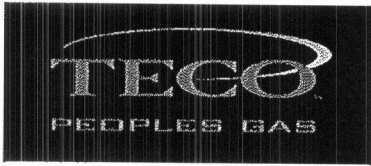
FLORIDA PUBLIC UTILITIES COMPANY'S
RESPONSES TO STAFF'S FIRST DATA REQUESTS

ATTACHMENT B
(RESPONSE TO #4)

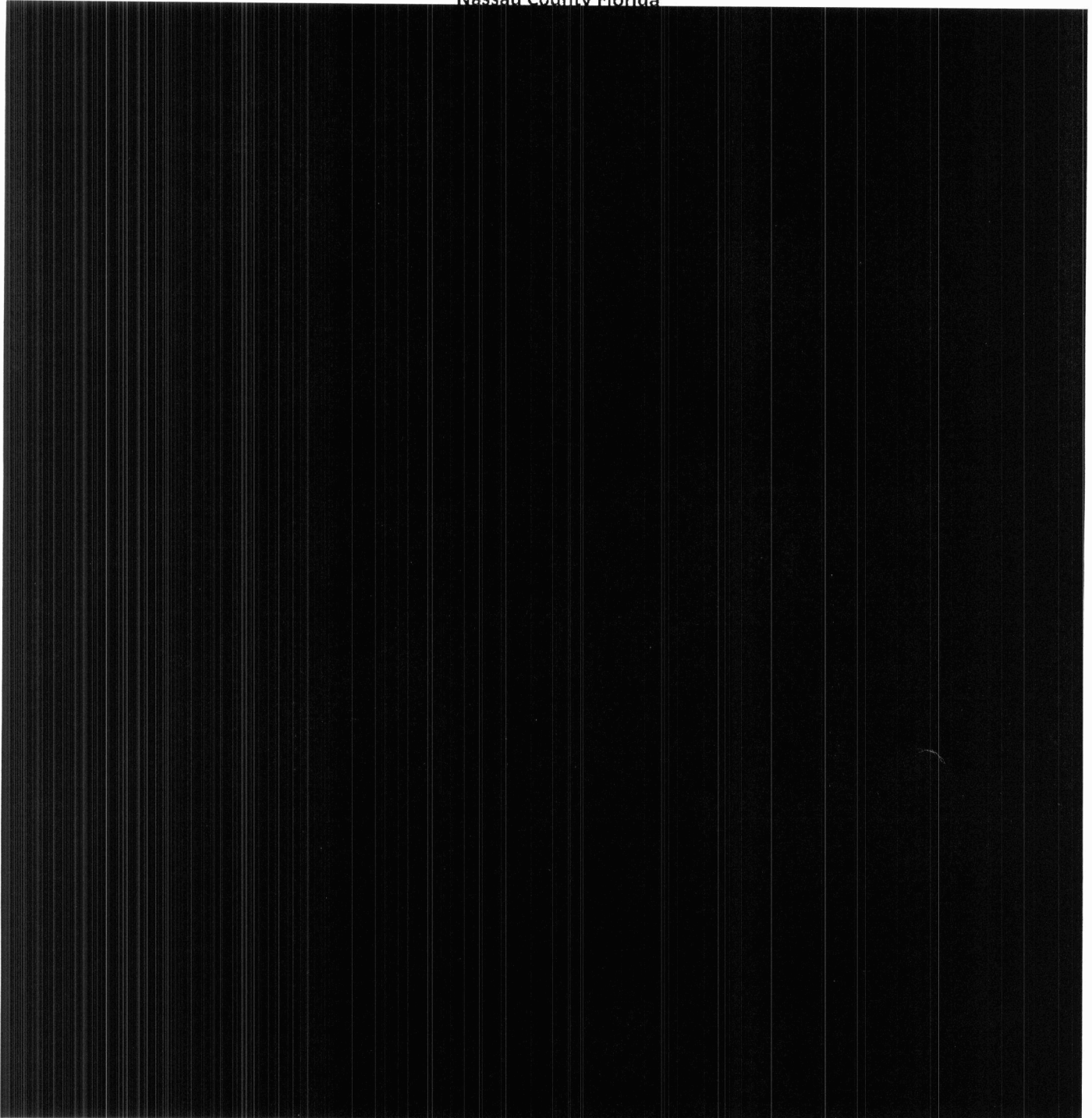


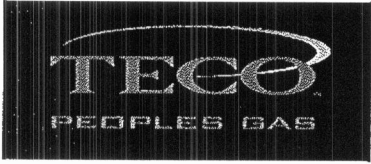
Natural Gas Transportation Service Proposal
Florida Public Utilities
Nassau County Florida



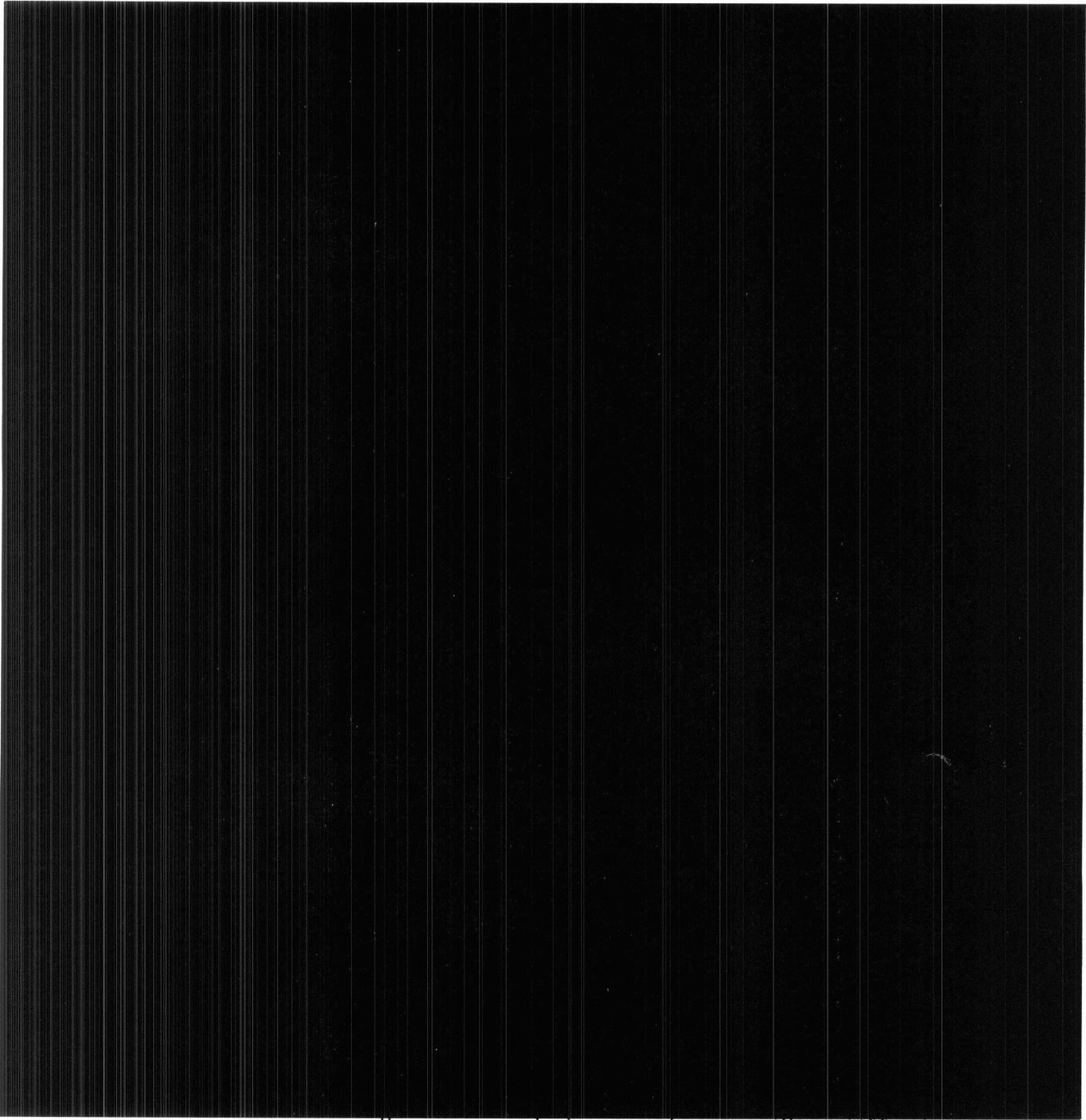


Natural Gas Transportation Service Proposal
Florida Public Utilities
Nassau County Florida





Natural Gas Transportation Service Proposal
Florida Public Utilities
Nassau County Florida

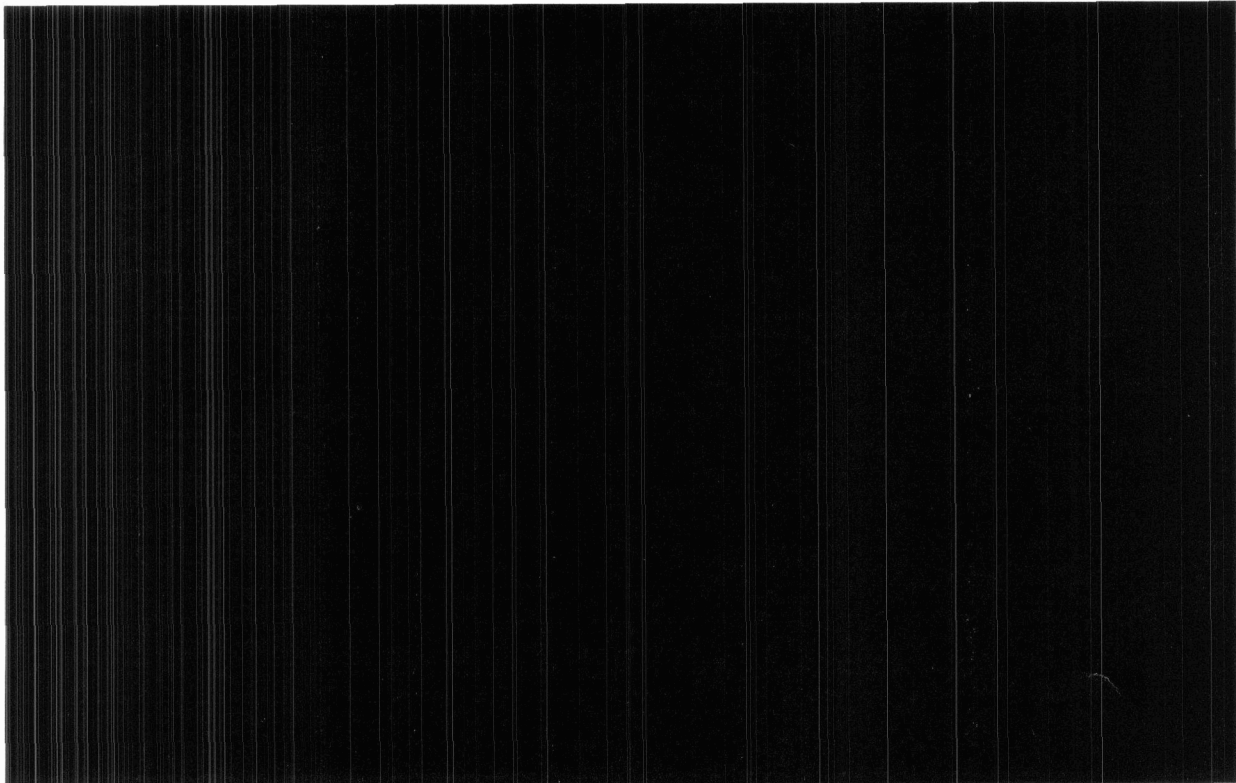


April 28, 2010

John McLelland
Peninsula Pipeline Company, Inc.
1015 Sixth Street, NW
Winter Haven, Florida 33881

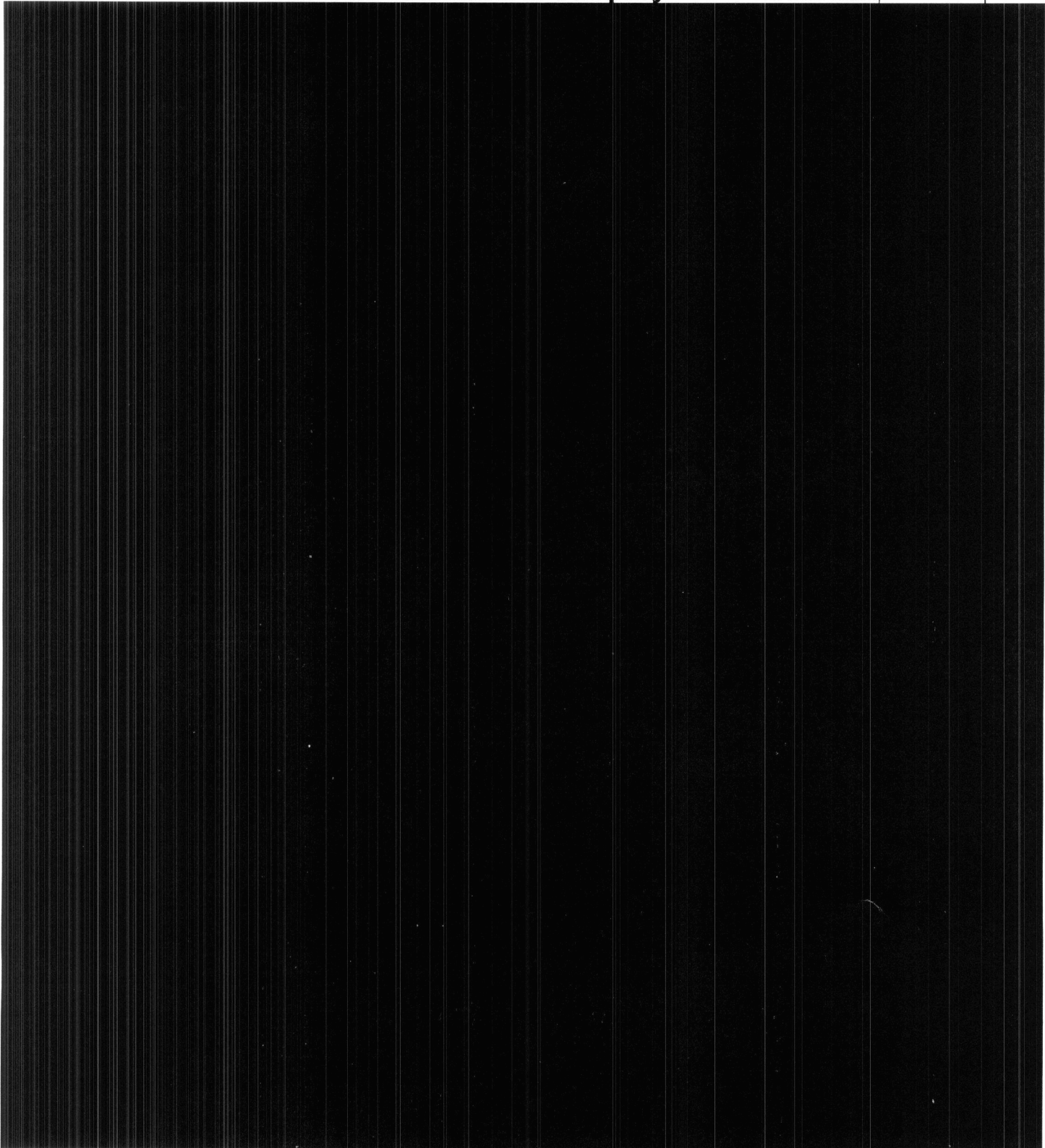
Re: Proposed interconnect and pipeline project, Nassau County, Florida

Dear John:



Florida Gas Transmission Company

Origination Date:	5/11/2010
Revision Date:	





Peninsula Pipeline Company, Inc.

