

MEMORANDUM

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TO: ANN COLE, OFFICE OF COMMISSION CLERK
FROM: MARTHA F. BARRERA, ATTORNEY
RE: DOCKET NO. 110277-GU and 110271 *MFB*

Please file the attached Summary prepared by Peoples Gas System in the above-numbered dockets. Thank you.

MFB
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**SUMMARY OF 3/7/2012 INFORMAL
MEETING IN DOCKET NOS. 110271 AND 110277**

The petitions in these two dockets seek the Commission's approval of a territorial agreement between Florida Public Utilities Company ("FPUC") and Peoples Gas System ("PGS") that would determine the areas of Nassau and Duval Counties, Florida, within which each company would be authorized to provide natural gas ("gas") service. The petitions in these dockets also seek the Commission's approval of transportation agreements required to move gas from PGS's interconnections with the interstate pipeline system of Florida Gas Transmission Company ("FGT"), through the PGS distribution system, and into a new pipeline (the "Fernandina Beach Line") to be owned in common by Peninsula Pipeline Company, Inc. ("Peninsula") and PGS.

Docket No. 110271-GU was opened in mid-September 2011 by Peninsula's filing of a petition for approval of a Firm Transportation Service Agreement (the "FPUC Transport Agreement") between Peninsula and FPUC. The agreement provided for Peninsula's transportation of gas for FPUC through an approximately 40-mile intrastate pipeline Peninsula proposed to build from an interconnection with the Cypress Lateral of Southern Natural Gas Company's interstate gas pipeline to various delivery points in Nassau County. FPUC had conducted market surveys and had signed agreements with potential Nassau County customers who would convert from other energy sources to gas service provided by FPUC. The rates paid by FPUC to Peninsula pursuant to the agreement would have been recovered by FPUC through its purchased gas adjustment ("PGA") clause, just as are payments to interstate pipelines to which FPUC's distribution systems are connected.

Docket No. 110277-GU was opened later in September 2011 by FPUC's filing of a petition for approval of tariff modifications to reflect FPUC's extension of gas service into unserved areas in Nassau and Okeechobee Counties.

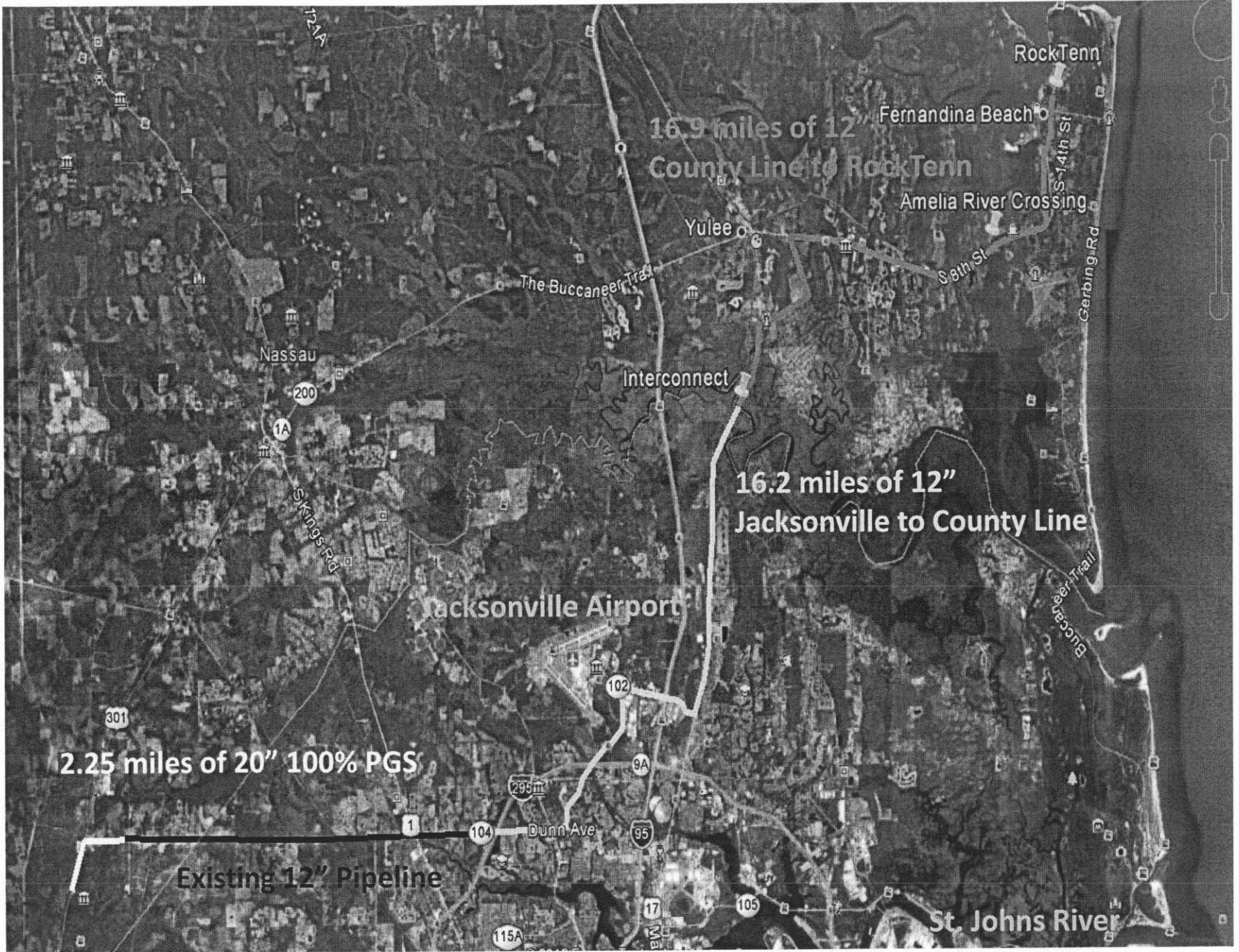
As will become apparent, because both FPUC and PGS were planning expansions of gas service to Nassau County, the nature of the items for which the Commission's approval is sought in both dockets has changed substantially. The changes result from the parties' recognition that a territorial dispute was imminent, and would have to be resolved by the Commission. Any such resolution would have, at best, delayed implementation of the expansion plans of both FPUC and PGS, as well as the availability of gas service to all customers and potential customers in Nassau County.

A territorial dispute between PGS and FPUC was inevitable because PGS had entered into a transportation agreement with RockTenn Company ("RockTenn"), the owner of a large paper mill on the northern tip of Amelia Island in Nassau County, in October 2011. To serve RockTenn's facility, PGS would have built an approximately 35-mile 8-inch steel pipeline from its existing 12-inch transmission line in northern Duval County to RockTenn's paper mill. Capacity on the 8-inch line would have been adequate to meet the present and future demand of the RockTenn facility (which currently uses No. 2 oil, coal and wood chips to meet its energy requirements).

Even earlier, FPUC had surveyed the potential for expanding gas service to Nassau County, which has no gas service except to a single customer of PGS located in the southwest corner of the county. FPUC had received commitments from over 200 potential customers to take gas service from proposed FPUC distribution system expansions, and had solicited proposals for the delivery of gas to the new systems. The provider selected was Peninsula, and the Peninsula petition for approval of the FPUC Transport Agreement was filed in Docket No. 110271-GU for approval.

Recognizing that a territorial dispute, with its attendant delays, risks and costs, was not in the best interests of any of the parties, they began discussions and negotiations that resulted in mutually beneficial arrangements pursuant to which the Nassau County expansions of both PGS (to serve the RockTenn paper mill) and FPUC (to serve all other areas in Nassau County) could be implemented without dispute, in-service delays, and unnecessary duplication of facilities -- all at a reduced total cost to ratepayers.

The Nassau County expansions of the parties consist of three distinct pipeline construction segments, all of which are shown on the map on the following page.



Referring to the map on the previous page, the pipeline construction segments are:

1. A PGS replacement (shown in white on the map) of 2.25 miles of PGS's existing 12-inch transmission line in Nassau County with 2.25 miles of 20-inch pipeline. This replacement line will be a part of the PGS distribution system, and costs associated with it (\$3,650,000) will be recovered by PGS through the transportation charge under the Gas Transportation Agreement between PGS and Peninsula (the "PGS Transport Agreement") for which Commission approval as a special contract is sought in Docket No. 110277-GU.

2. A PGS extension (shown in yellow on the map) consisting of 16.2 miles of 12-inch steel pipe from PGS's existing 12-inch line in northern Duval County to the Duval-Nassau County line near US Highway 17. PGS will build, own and operate this line, construction of which will involve a handful of water and railroad crossings, and several wetland horizontal directional bores. At the line's termination point (at the Duval-Nassau County line), an interconnection will be built to measure the gas being delivered to the commonly owned Fernandina Beach Line.

Costs associated with construction of the initially proposed 8-inch line will be recovered by PGS from RockTenn through the transportation charge in the PGS Transport Agreement, consistent with PGS's tariff. The additional costs (\$8,943,380) between the construction of the original 8-inch line and construction of the 12-inch line up to the Duval-Nassau County line (which include the cost of the 2.25 mile replacement) will be recovered by PGS through the transportation rate in the PGS Transport Agreement between PGS and Peninsula for which Commission approval as a special contract is sought in Docket No. 110277-GU. These costs will, in turn, be recovered by Peninsula through the transportation rate under the FPUC Transport Agreement with FPUC for which approval is sought in Docket No. 110271-GU, and ultimately recovered by FPUC through its PGA clause.

3. The third segment of the project is the Fernandina Beach Line (shown in orange on the map), an approximately 16.9-mile 12-inch pipeline extending from the Duval-Nassau County line to RockTenn's paper mill on the north end of Amelia Island. Most of this segment of the project, which will involve one major water crossing, a railroad crossing, and several wetland horizontal directional bores, will be built and ultimately operated by PGS. Interconnections with FPUC's new distribution systems and two (2) wholly-owned Peninsula laterals (not shown on the map) will be constructed along the route of the Fernandina Beach Line.

Costs associated with construction of the initially proposed 8-inch line will be recovered by PGS from RockTenn through the transportation charge in the PGS Transport Agreement. The incremental cost difference (\$5,745,726) between the construction of the original 8-inch line and construction of the 12-

inch line (from the Duval/Nassau County line to RockTenn) will be borne by Peninsula and, along with the cost of the two wholly-owned Peninsula laterals (\$3,004,274), recovered by Peninsula from FPUC through the transportation rate under the FPUC Transport Agreement for which approval is sought in Docket No. 110271-GU. Likewise, FPUC will recover those charges through its PGA clause.

Upon its completion, PGS will have a 54.54% ownership interest and Peninsula a 46.46% ownership interest in the Fernandina Beach Line. These interests are based on PGS's overall capacity requirements to serve RockTenn at its maximum demand with the balance of the capacity being allocated to Peninsula.

The construction time line for the entire Nassau County expansion is extremely time sensitive. The steel pipe has been ordered and is on schedule to be milled in March 2012, and scheduled to be coated and delivered in April 2012. The bulk of the construction is scheduled to commence in early May 2012. Peninsula has already begun construction on the Amelia River crossing which is expected to be completed by the end of April 2012.

RockTenn is expecting gas service beginning no later than November 2012, and has committed to millions of dollars in capital costs for conversion of its mill to burn gas. Given the cost differential between fuel oil and natural gas, RockTenn's energy costs will be impacted significantly if the project is delayed even by 30 days.

As a result of the various agreements between the parties, Docket No. 110277-GU now encompasses – in addition to FPUC's tariff filing to reflect its offering of gas service in Nassau and Okeechobee Counties – the joint petition of PGS and FPUC for approval of a territorial agreement, and the joint petition of PGS and Peninsula for approval of the PGS Transport Agreement via which gas delivered to PGS for the accounts of FPUC and its Nassau County customers would move through the PGS system to its interconnection with the Fernandina Beach Line. The rate to be paid by Peninsula to PGS under the agreement is based on PGS's recovery of the incremental costs it will incur to build a 12-inch, as opposed to the initially contemplated 8-inch, line to serve the RockTenn paper mill. The 12-inch line (as opposed to the 8-inch line PGS initially would have built to serve only RockTenn) will meet the requirements of both RockTenn and Peninsula/FPUC.

Docket No. 110271-GU now involves the amended petition of Peninsula for approval of an amended FPUC Transport Agreement via which Peninsula would transport gas through the Fernandina Beach Line and its wholly-owned laterals to FPUC delivery points, from which FPUC would deliver gas to its customers in Nassau County. The payments by Peninsula to PGS pursuant to the PGS Transport Agreement (for transportation of gas through the PGS system) are embedded in the rate set forth in the FPUC Transport Agreement with Peninsula, and would (as was initially proposed) be recovered by FPUC through its PGA clause. In order to obtain delivery of the gas

through an interstate pipeline, the initially proposed Peninsula interconnection with Southern Natural Gas Company's Cypress Lateral has been replaced by a PGS release to FPUC of capacity on FGT via which gas can move into the PGS system for further transportation as described above. The capacity release agreement is "flexible," in that FPUC will pay FGT only for the capacity it needs initially, and can "grow into" increased quantities of up to 7,500 MMBtu per day as its customer demands increase. The total cost, for the gas commodity, interstate pipeline capacity and Peninsula charges, provides significant benefits at lower costs to ratepayers over the life of the FPUC Transport Agreement with Peninsula than the original agreement filed in Docket No. 110271-GU.

On the following page is a diagram showing how gas would flow from the interstate pipeline (FGT), then through the PGS system to its interconnection with the Fernandina Beach Line, and through the Fernandina Beach Line to FPUC delivery points and the RockTenn paper mill.

FGT Interstate Pipeline	
Parties:	FPUC / PGS
Agreement:	Capacity Release Agreement (non-jurisdictional)
Description:	Release of firm interstate capacity to FPUC.
Costs:	Interstate capacity costs flow to FPUC's PGA.
Approval Sought:	No

PGS Distribution System	
Parties:	PPC / PGS
Agreement:	Gas Transportation Agreement (Special Contract)
Description:	Allows for transportation of gas across PGS system by PPC (white, black and yellow lines on map).
Costs:	Costs are based on PGS' incremental construction costs to build a 12-inch line instead of an 8-inch line from PGS' existing distribution system to Duval/Nassau County line plus PGS' cost to replace 2.25 miles of 12-inch with 2.25 miles of 20-inch. PGS transport charges paid by PPC are embedded in the PPC - FPUC transport agreement rate for which approval is sought in Docket No. 110271.
Approval Sought:	Yes - Docket No. 110277

