

Re: Docket Number 120313-GU - Petition for approval of transportation service agreement with Florida Public Utilities Company, by Peninsula Pipeline Company, Inc.

Florida Public Utilities Company's Responses to Staff's Third Data Request

- 1. Please provide any FERC filing, or any other documents that support the assertion that FGT has been attempting to sell its small diameter laterals.

Company Response:

The Company is not aware of any specific documents or FERC filings that support the assertion that FGT has been attempting to sell its small laterals in Florida; however, the Florida Division of Chesapeake Utilities Corporation (Florida Division) recently acquired two (2) laterals from FGT (see pages 7 – 11 of Mr. Randy Taylor's Direct Testimony filed in Docket 090125-GU). It is important to note that these laterals, as described by Mr. Taylor, are small diameter pipe sizes (4" and 3") that are typically found in LDC operations. The Company is also aware of other FGT laterals that have been sold to various entities, such as the Green Cove Springs lateral and the Vero Beach lateral.

- 2. (a) Please provide FPUC's benefit cost analysis of PPC owning and operating the Riviera Lateral versus FPUC owning and operating the lateral.

- (b) Please provide any documents or work papers that support your response to 2(a).

Company Response:

- (a) FPUC has known for some time that the current customer demand, and expected future demand, in the Riviera Beach area of its distribution system was causing certain constraints with respect to the amount of FGT firm capacity available to provide reliable service. FPUC has determined that it requires an additional [REDACTED] dekatherms per day in order to meet its customers' current and future requirements. During the past 12-18 months, the Company has attempted to identify the potential solutions to this situation. Basically, the Company needs to enhance its ability to transport more natural gas along the interstate pipeline system and deliver it to a point or points along the Company's distribution system so that it can provide for the consumption requirements of its current and future customers in the Riviera Beach area (see Attachment 2.0).

Upon analyzing this situation, FPUC determined that it had four (4) options with respect to the Riviera Beach lateral: 1) contract for additional FGT capacity or move existing FGT capacity to the Riviera Beach area; 2) purchase the Riviera Beach lateral; 3) construct a lateral from FGT's main line to the Riviera Beach area instead of purchasing the existing FGT lateral; and 4) allow the FGT lateral to be purchased by PPC and contract for additional requirements from PPC.

Option 1 – Contract for additional FGT capacity or move existing FGT capacity to the Riviera Beach area – FGT has recently put into service its latest expansion – known as Phase VIII Expansion. The capacity made available under the Phase VIII expansion is

COM _____
 AFD _____
 APA _____
 ECO 1 _____
 ENG _____
 GCL _____
 IDM _____
 TEL _____
 CLK _____

known as FTS-3, and the maximum rates for such service are approximately [REDACTED] per dekatherm per day. If FPUC had subscribed for [REDACTED] dekatherms per day of FTS-3 capacity with FGT, the cost would have been about [REDACTED] per year. Typical contract terms for FGT capacity are 20 years in length. Some FTS-3 capacity is still available (see Attachment 2.1), but FPUC does not believe that this alternative is a cost effective solution to the issue.

In lieu of subscribing for additional FTS-3 capacity, FPUC could have attempted to move some of its existing FGT capacity (FTS-1 or FTS-2) delivery points to the Riviera Beach area. However, FGT's system is configured such that FGT will not allow for delivery points to be moved from the north further south. FGT's south Florida system is fully subscribed and FGT cannot deliver, on a firm basis, additional capacity into the Riviera Beach area. FPUC could potentially move some of its capacity from its southern delivery points (in the West Palm Beach area) north to the Riviera Beach area; however, this capacity is needed in the West Palm Beach area, and if moved, would soon result in capacity constraints in the southern area of the system. This option (moving delivery points from further south up to Riviera Beach) is, therefore, not a viable "solution," as it would cause more problems than it solves.

Option 2 – FPUC purchases the Riviera Beach lateral – FPUC estimated the total costs to purchase the lateral at [REDACTED] and calculated the total cost of service at [REDACTED] (see Attachment 2.2). It is important to note that the FGT lateral being purchased would consist of 12" and 8" steel main. FPUC currently does not have 12" steel main in its existing distribution system, thus new equipment and employee training would be needed. These costs were not factored into the cost of service study performed by FPUC. With or without these costs factored in, this did not appear to be the most cost-effective option when compared to other options available.

Option 3 – Construct a lateral from FGT's main line to the Riviera Beach area instead of purchasing the existing FGT lateral – FPUC could construct a new lateral that would allow for [REDACTED] dekatherms per day of additional natural gas to reach the Riviera Beach area from FGT's main line. This option is projected to cost approximately [REDACTED], with an annual cost of service of over [REDACTED] (see Attachment 2.3). Thus, as with Option 2, this simply did not appear to be the most cost-effective and efficient option when compared with other options available, particularly Option 4.

Option 4 - Allow the FGT lateral to be purchased by PPC and contract for additional requirements from PPC – FPUC was able to negotiate an annual rate of [REDACTED] FPUC also secured an additional [REDACTED] dekatherms per day of capacity on the PPC-owned lateral and a commitment from PPC to rebuild the existing city gate station and build a new FPUC interconnect point on the lateral at no additional cost to FPUC. Thus, when cost and added benefits are considered, this seemed to be the most prudent option available to enhance FPUC's ability to serve the Riviera Beach area. Moreover, FPUC believes that PPC intends to market the remaining lateral capacity to potential customers in the area; thus, FPUC is only paying for the incremental capacity that it needs to provide service to its customers in the Riviera Beach service area.

See Attachment 2.4 for a summary of the four options described herein.

See Attachment 2.5 for an updated map of the pipeline and proposed gate stations.

(b) See Attachments 2.0 through 2.5.

- 3. (a) Please provide FPUC's benefit cost analysis of purchasing service from PPC versus the costs FPUC would incur to construct a new lateral or upgrade its existing systems.**

(b) Please provide any documents or work papers that support your response to 3(a).

Company Response:

(a) See response to Data Request 2(a) above.

(b) See Attachment 2.0 through 2.4.

- 4. Does FPUC's transportation service agreement with FGT change with PPC providing transportation service over the Riviera Lateral? If so, how. If not, why not.**

Company Response:

The only change to the transportation service agreement with FGT is the delivery point location for the existing FTS-1 (Contract 5009) and FTS-2 (Contract 3624) capacity (see Attachment 2.0) will be at the newly construction city gate station located at the interconnect of the FGT main line and the PPC-owned Riviera Beach lateral. All other aspects of the FPUC transportation service agreement with FGT remain unchanged.

- 5. (a) Please explain how pressure on the Riviera Lateral will be increased and what the benefits are of increasing the pressure on the lateral.**

(b) Please discuss the benefits to FPUC of PPC owning and maintaining the Riviera Lateral versus FGT owning and maintaining the lateral.

Company Response:

(a) The pressure on the Riviera lateral itself will not be increased at this time, although PPC has committed to increasing the pressure on the lateral in the future, if conditions allow and are warranted. The distribution system pressures will be enhanced, and reliability improved, by the addition of the second city gate station on the lateral by PPC to serve FPUC.

(b) The primary benefits are, as described in responses to Data Request 2 above, a) FPUC is increasing its firm capacity on the lateral without subscribing to expensive FTS-3 capacity or moving its more southerly firm delivery points north to Riviera Beach; and b) PPC has committed to providing, at no additional cost to

FPUC, a second city gate station on the lateral. If FGT retained ownership, FPUC would have paid for the second city gate station (about [REDACTED] PPC has also agreed to pay for the rebuilding of the existing city gate station. If FGT retained ownership, FPUC would have paid for the rebuilding costs as well.

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Attachment 2.0 Florida Public Utilities Company Riviera Beach Lateral FPUC Capacity Levels (Dekatherms per Day)

FGT Contract Number	April	May – Sept	October	Nov - March
5009	3,330	3,330	3,330	3,330
3624	842	277	277	842
Current Total	4,172	3,607	3,607	4,172
PPC				
New Total				

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Attachment 2.1 Florida Public Utilities Company Riviera Beach Lateral FGT FTS-3 Available Capacity (Dekatherms per Day) (from FGT's Web Site)

Type of Notice: General

RE: Rate Schedule FTS-3 Firm Capacity

Florida Gas Transmission Company, LLC (FGT) has unsubscribed firm transportation capacity into the Florida Market Area available. Parties interested in acquiring this capacity should submit a Request for Gas Transportation Service Form. The form is located on the FGT Information Postings website under 'Other' or 'ctrl+click' to follow this link [FGT-Request for Transportation Service Form](#).

Please contact Rachel Cady at (713) 989-2115 if you desire additional information.

Begin Date	End Date	Available Capacity (MMBtu/D)
11/1/2012	3/31/2013	167,500
4/1/2013	4/30/2013	151,500
5/1/2013	5/31/2013	122,000
6/1/2013	9/30/2013	126,500
10/1/2013	10/31/2013	156,500
11/1/2013	4/30/2014	141,500
5/1/2014	9/30/2014	91,500
10/1/2014	12/31/2014	141,500
1/1/2015	3/31/2015	154,000
4/1/2015	4/30/2015	184,000
5/1/2015	9/30/2015	134,000
10/1/2015	10/31/2021	184,000
11/1/2021	Until Further Notice	214,000

**Florida Public Utilities Company
Cost of Service Study
Riviera Beach Lateral**

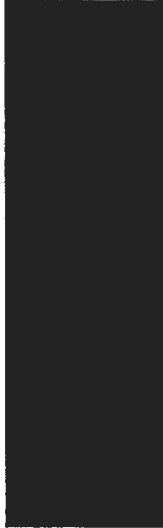
Attachment 2.2

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Rate Base Assumptions:

City Gate Station
Mains - Steel
M&R Station - General
Services

Projected
Rate Base



Rate Base and Return Requirements

Projected Investment in Plant - 13 Month Average
Accumulated Depreciation - 13 Month Average
13 Month Average Rate Base
Return on Rate Base (FPUC Dec 31, 2011 ESR)
Return Requirements
Less: Interest Expense
Net Income after Taxes and Interest
Divide by (1 - Tax Rate)
Taxable Income
Income Taxes

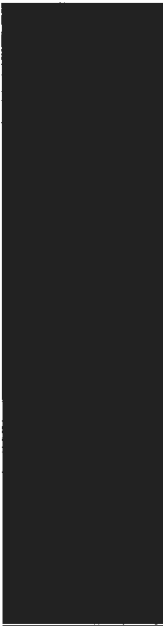
**Florida Public Utilities Company
Cost of Service Study
Riviera Beach Lateral**

Attachment 2.2

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Project Financing

Debt
Equity, Zero Cap



Interest Rate of Debt Issued
13 Month Average Rate Base

Interest Expense

Taxes Other Than Income (TOTI)

Property Taxes
Reg Assess Fee

Total TOTI

Cost of Service

Projected Operation & Maintenance

Depreciation

TOTI

Income Taxes

Return Requirements

Total Cost of Service

**Florida Public Utilities Company
Cost of Service Study
Riviera Beach Lateral**

City Gate Station	Depreciation Expense / Accumulated Depreciation												
Depr Rate	1	2	3	4	5	6	7	8	9	10	11	12	13



Mains - Steel	Depreciation Expense / Accumulated Depreciation												
Depr Rate	1	2	3	4	5	6	7	8	9	10	11	12	13



M&R Station - General	Depreciation Expense / Accumulated Depreciation												
Depr Rate	1	2	3	4	5	6	7	8	9	10	11	12	13



Services	Depreciation Expense / Accumulated Depreciation												
Depr Rate	1	2	3	4	5	6	7	8	9	10	11	12	13



Total	Depreciation Expense / Accumulated Depreciation												
	1	2	3	4	5	6	7	8	9	10	11	12	13



**Florida Public Utilities Company
Cost of Service Study
New Lateral Option**

Attachment 2.3
Page 1 of 3

Rate Base Assumptions:

City Gate Station
Mains - Steel
M&R Station - General
Services

Projected
Rate Base



Rate Base and Return Requirements

Projected Investment in Plant - 13 Month Average
Accumulated Depreciation - 13 Month Average
13 Month Average Rate Base
Return on Rate Base (FPUC Dec 31, 2011 ESR)
Return Requirements
Less: Interest Expense
Net Income after Taxes and Interest
Divide by (1 - Tax Rate)
Taxable Income
Income Taxes

**Florida Public Utilities Company
Cost of Service Study
New Lateral Option**

Attachment 2.3

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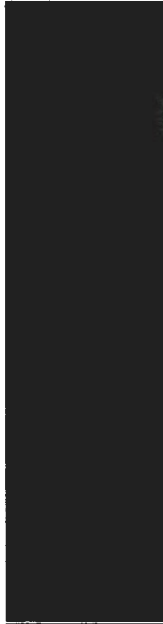
Project Financing

Debt
Equity, Zero Cap

Interest Rate of Debt Issued
13 Month Average Rate Base
Interest Expense

Taxes Other Than Income (TOTI)
Property Taxes
Reg Assess Fee
Total TOTI

Cost of Service
Projected Operation & Maintenance
Depreciation
TOTI
Income Taxes
Return Requirements
Total Cost of Service



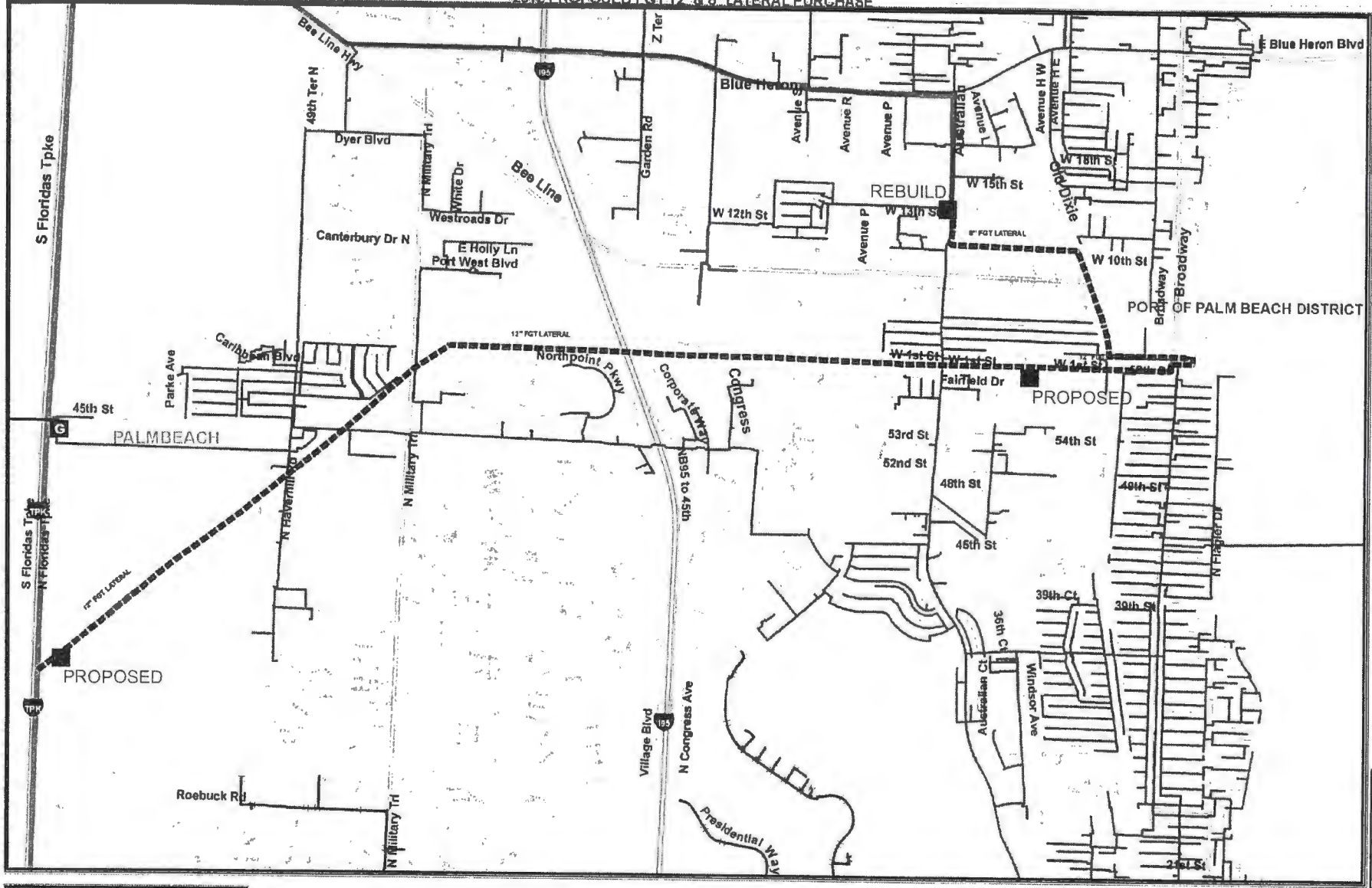
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**Attachment 2.4
Florida Public Utilities Company
Riviera Beach Lateral
Summary of Options**

FPUC Options	New Lateral Capacity (Dt/Day)	Capital Costs	Annual Cost of Service
Option 1 – New FGT Capacity	████	█	████████
Option 2 – FPUC Purchased Lateral	All (Over 10,000)	████████	████████
Option 3 – FPUC Builds New Lateral	All (Over 10,000)	████████	████████
Option 4 – FPUC contracts with PPC	████	█	████████

2012 PROPOSED FGT 12" & 8" LATERAL PURCHASE



■ PROPOSED FGT PURCHASE
 ■ EXISTING FGT TRANSDUSSION LINES
 ■ EXISTING PRIVATE STATION
 ■ 12" FGT LATERAL PURCHASE
 ■ 8" FGT LATERAL PURCHASE
 ■ EXISTING PRESS. SE

Prepared by:
 Date:
 Scale:
 Project No.:
 Drawing No.:
 Revision:

