State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: August 1, 2013

TO: Office of Commission Clerk (Cole)

FROM: Division of Economics (Garl) EJD PD J.W.D.
Office of the General Counsel (Tan) TLT AT

RE: Docket No. 130135-GU – Joint petition of Florida Public Utilities Company, Florida Public Utilities-Indiantown Division and the Florida Division of Chesapeake Utilities Corporation for approval of Commercial Natural Gas Service Programs.

AGENDA: 08/13/13 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 8-Month Effective Date: January 3, 2014

SPECIAL INSTRUCTIONS: Please place this item immediately before Docket No. 130147-GU

FILE NAME AND LOCATION: S:\PSC\ECO\WP\130135.RCM.DOC

Case Background

On May 3, 2013, Florida Public Utilities Company (FPUC), Florida Public Utilities Company - Indiantown Division (Indiantown), and the Florida Division of Chesapeake Utilities Corporation (Chesapeake) jointly filed a petition requesting approval of proposed commercial natural gas vehicle service (NGV) programs and associated tariffs. The programs apply to non-residential customers buying natural gas for the purpose of compression and delivery into motor vehicle fuel tanks. FPUC, Indiantown, and Chesapeake are owned by Chesapeake Utilities Corporation.

In Order No. 25626, the Commission approved a Peoples Gas System, Inc. (Peoples) program for the use of compressed natural gas (CNG) in motor vehicles.[1] The program was designed to assist fleet and filling station operators in obtaining compressor units so that a natural gas infrastructure was created. Two years later, the Commission approved an NGV tariff proposed by City Gas of Florida (now Florida City Gas).[2]

In the intervening years, print and broadcast media have reported the dramatic expansion of access to natural gas reserves in the U.S., due largely to new drilling technology. The increased supply of natural gas resulted in equally dramatic reduction in natural gas prices. The U.S. Energy Information Agency reported that over 95 percent of the natural gas used in March 2013 was from domestic sources. Prices have also dropped over the past 10 years from a high of $13.422 per mmBTU in October 2005, to the April 2013 price of $4.166 per mmBTU at the Henry Hub distribution center.[3]

The Florida Legislature has taken action in recent years to encourage the use of natural gas as a motor fuel. During the 2012 Florida Legislative Session, changes to Section 334.044, Florida Statutes (F.S.), were passed which encourage the use of natural gas motor fuels to reduce transportation costs for businesses and residents within the state.[4] The passage of the Natural Gas Motor Fuel bill in the 2013 Session provides significant tax benefits and incentives for use of natural gas as a motor fuel.[5]

Staff notes that in Docket No. 130147-GU Florida City Gas filed for approval of modifications to its Natural Gas Vehicle Service tariff. The Commission has jurisdiction in this matter pursuant to Chapter 366, Florida Statutes, (F.S.).

---

[1] Order No. 25626, issued January 22, 1992, in Docket No. 910942-EG, In re: Petition for approval of its natural gas vehicle program of People's Gas System, Inc.

[2] Order No. PSC-94-1570-FOF-GU, issued December 19, 1994, in Docket No. 940276-GU, In re: Application for a rate increase by City Gas Company of Florida.

[3] http://www.eia.gov/oil_gas/natural_gas/data_publications/natural_gas_monthly/ngm.html, Table 1, May 2013

[4] Section 334.044(33)(a)(4), F.S.

[5] Chapter 2013-198, Laws of Florida

Discussion of Issues

Issue 1: Should the Commission approve the commercial natural gas vehicle service programs and associated tariffs proposed by FPUC, Indiantown, and Chesapeake?

Recommendation: Yes, the Commission should approve the proposed programs and associated tariffs. (Garl)

Staff Analysis: Research by FPUC, Indiantown, and Chesapeake led the companies to focus on an increasing interest in natural gas as a commercial vehicle fuel. They have determined that revisions to their tariffs will better facilitate service for commercial customers that wish to obtain natural gas as a vehicle fuel. The companies, therefore, developed tariff provisions with the expectation that the proposed rate schedules will facilitate acceptance of natural gas as a viable alternative motor fuel within their respective service areas and be competitive with traditional motor fuels.

The companies developed an NGV Transportation Service tariff with the same charges applicable to the three companies. Under the proposed tariff, the customer will purchase and own the compression and fueling equipment. The companies will install the necessary mains, meters, and associated equipment necessary to deliver natural gas to the customer's compression and fueling equipment. FPUC is the only one of the three companies providing distribution service in addition to transportation service, and therefore also developed a tariff for retail distribution for natural gas vehicles. Under the optional transportation service, customers purchase natural gas through a pool manager and the utility only transports the customer-purchased natural gas from the utility's interface with a major interstate pipeline (citygate) to the customer's meter on its distribution system. Under distribution service, the customer buys natural gas from the utility.

In conjunction with their petition, the companies submitted supporting cost information for a commercial refueling station. The investment for a refueling station is $246,800 and includes mains, service lines, a rotary meter (capable of handling higher volumes of gas than a regular meter), and a meter transmission unit. The estimated annual cost associated with that investment is $43,977 and includes a return on investment based on FPUC's weighted average cost of capital, operations and maintenance expense, Commission-approved depreciation rates, and taxes. To recover the $43,977 annual investment, the companies proposed a $100 monthly customer charge and $0.17111 per therm energy charge based upon the projected annual usage of 250,000 therms for a commercial refueling station.

The companies noted that they intend to fully consolidate the NGV tariffs simultaneous with the future consolidation of the companies' tariffs and rates. Staff recommends that the Commission approve the proposed programs and associated tariffs.

Issue 2: Should this docket be closed?

Recommendation: Yes. If Issue 1 is approved, the tariffs should become effective on August 13, 2013. If a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Tan)

Staff Analysis: If Issue 1 is approved, the tariffs should become effective on August 13, 2013. If a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.