

State of Florida



# Public Service Commission

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

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**DATE:** April 24, 2014

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Economics (Garl) *ESD PD J.W.D*  
Office of the General Counsel (Brownless) *JB*

**RE:** Docket No. 140034-GU – Petition for approval of special gas transportation service agreement with RockTenn CP, LLC by Peoples Gas System.

**AGENDA:** 05/09/14 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brown

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

### Case Background

On February 14, 2014, Peoples Gas System (Peoples) filed a petition requesting Commission approval of a special contract between Peoples and RockTenn CP, LLC (RockTenn), under which Peoples would transport natural gas to RockTenn’s three paper products mills located in Jacksonville, Panama City, and Fernandina Beach.

RockTenn purchases natural gas from a marketer for use at its facilities. Peoples receives the gas for RockTenn at Florida Gas Transmission (FGT) interconnection points and transports the gas to the paper products mills. Each facility has the capability to use alternate sources for its energy requirements.

Peoples began providing gas transportation service to the Fernandina Beach mill in December 2012 after connection of the mill to Peoples’ distribution system. RockTenn acquired

the mills in Jacksonville and Panama City in May 2011 from Stone Container Corporation and Smurfit-Stone Container Corporation, respectively. Peoples continued providing gas transportation service under separate agreements to these facilities as it had done for the prior owners. Those prior agreements have now expired. The proposed contract would place all three facilities under the same contract.

During its evaluation of the petition, staff issued one data request to Peoples. The majority of the questions posed by staff were intended to ensure that the proposed special contract would not impose additional costs on Peoples' general body of ratepayers. The Commission has jurisdiction in this matter pursuant to Sections 366.05(1) and 366.06, Florida Statutes.

### Discussion of Issues

**Issue 1:** Should the Commission approve the special contract between Peoples and RockTenn?

**Recommendation:** Yes, the Commission should approve the special contract because it precludes potential bypass by RockTenn, establishes rates that cover the cost of service, and provides protection for Peoples and its general body of ratepayers. (Garl)

**Staff Analysis:** Peoples' Contract Interruptible Service (CIS) tariff allows Peoples to discount the distribution charge to customers that have competitive options such as alternate fuel or bypass opportunities. Rule 25-9.034(1), Florida Administrative Code, requires that whenever a special contract is entered into by a utility for the sale of its product or services in a manner or subject to the provisions not specifically covered by its filed regulations and standard approved rate schedules, such contract must be approved by the Commission prior to its execution. In this docket, Peoples filed for Commission approval of the proposed contract for two reasons. First, in the case of the Fernandina Beach mill, the contract rate is higher than the otherwise applicable tariff rate so Peoples will recover the cost of the pipeline extension made to serve the mill. Second, under the proposed contract, Peoples will transport gas to all three RockTenn mills.

Peoples began providing gas transportation service to the Fernandina Beach mill in December 2012. Prior to that time the mill met its energy requirements by burning fuel oil at a higher cost to RockTenn than natural gas. Peoples stated that this mill has the capability of using fuel oil, bark, and coal in place of natural gas. Peoples and Peninsula Pipeline Company, an affiliate of Florida Public Utilities Company (FPUC), constructed a 6.1 mile, 12-inch pipeline, to bring natural gas to the mill. Peoples and Peninsula own the pipeline in common. Originally the pipeline was to be 8 inches in diameter to service the Fernandina Beach mill, but the pipeline was enlarged to 12 inches to accommodate anticipated capacity needs in the future. The pipeline extension brought natural gas to RockTenn and customers of FPUC in Nassau County for the first time.

The Panama City mill is located approximately 5.8 miles from an FGT pipeline. Given the large quantities of natural gas consumed at this mill coupled with the estimated cost of bypass facilities, the bypass potential from this mill could be a possibility if Peoples was not capable of providing service at a competitive rate. In response to staff's data request, Peoples estimated that the payback period for bypass construction would be 2.2 years. The Panama City mill is also capable of burning oil and coal for its energy needs.

The Jacksonville mill is located approximately 10.6 miles from an FGT pipeline. As with the Panama City mill, the large quantities of natural gas consumed at this mill coupled with the estimated cost of bypass facilities, the bypass potential from this mill could be a possibility if Peoples was not capable of providing service at a competitive rate. Peoples estimated that the payback period for bypass construction would be 4 years. The Jacksonville mill is also a steam host for the Cedar Bay Generating Station. As such, Peoples routinely competes with steam produced from coal at this RockTenn location.

#### Cost of service

Peoples provided confidential cost of service studies for all three mills to show that the revenue stream generated by the fixed monthly charges contained in the contract will cover the annual operating costs. The estimated annual cost associated with serving the RockTenn mills includes a return on investment, operations and maintenance expense, depreciation, and taxes. The fixed monthly charge for the Fernandina Beach mill also includes the cost of the new pipeline Peoples constructed to serve the mill. In addition to the fixed monthly charge, the contract provides for distribution charges for incremental increases of natural gas delivered beyond the negotiated maximum transportation quantity. Finally, RockTenn is an interruptible customer, and as such is required to allow Peoples to utilize interstate pipeline capacity assigned to RockTenn to serve Peoples' firm customers.

Peoples stated in response to staff's data request that it does not intend to use the Competitive Rate Adjustment Clause to recover any difference between the otherwise applicable tariff rates and the rates specified in the special contract from Peoples' general body of ratepayers. The contract with the Fernandina Beach mill ends on November 30, 2032. The Panama City and Jacksonville mills contract term ends on November 30, 2022, the difference being there is no investment in a new pipeline at these two locations that must be recovered.

To further protect Peoples and its ratepayers, the proposed contract requires a security guaranty by RockTenn to secure the payment to Peoples for all costs incurred by Peoples for the new pipeline. The amount of the guaranty is \$15 million the first 3 years of the contract, \$10 million for the fourth and fifth years, and \$5 million for the sixth and seventh years. The security terminates after the seventh year, at which point the entire cost of the new pipeline will have been recovered.

#### Conclusion

In support of its petition, Peoples explained that the three RockTenn mills in Florida compete with mills in Georgia, Alabama, and South Carolina. The most productive and efficient mills are awarded the capital necessary for expansion. Peoples believes the Commission's approval of the proposed contract will incentivize future growth for the Florida mills, thereby fueling the Florida economy and job growth in the state.

Staff recommends that the Commission approve the special contract because it precludes potential bypass by RockTenn, establishes rates that cover the cost of service, and provides protection for Peoples and its general body of ratepayers.

**Issue 2:** Should this docket be closed?

**Recommendation:** Yes. If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order. (Brownless)

**Staff Analysis:** If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order.