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March 2, 2015

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HAND DELIVERY

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

Re: **Docket 150031-GU -- Petition for approval of transportation service agreement with the Florida Division of Chesapeake Utilities Corporation by Peninsula Pipeline Company, Inc.**

Dear Ms. Stauffer:

Enclosed for filing, please find the original and seven copies of the Florida Division of Chesapeake Utilities Corporation's Responses to Staff's Second Data Requests. Confidential versions of certain material included herein are being provided under separate cover, along with a Request for Confidential Classification.

Please do not hesitate to contact me if you have any questions whatsoever regarding this filing.

Sincerely,

Beth Keating
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cc:// J.R. Kelly, Public Counsel
John Villafrate, Esquire

1. **Please refer to CFG's responses to Questions 15 and 16 of Staff's First Data Request and specifically to the statement "all costs are directly assigned and allocated to the shippers."**

   (a) Please explain exactly how such costs are allocated to the shippers and reference the relevant tariff provision.

   (b) Does CFG anticipate increasing the charges in Rate Schedules SABS (Shipper Administrative and Billing Service) and SAS (Shipper Administrative Service) to recover any payments to Peninsula Pipeline Company, Inc.?

   (c) Please explain and show how the estimated impact to a typical residential customer of $2.79 per month was developed.

Response:

(a) Historically, costs associated with all upstream pipeline capacity charges (interstate, intrastate and LDC to LDC interconnections) were captured in a LDC's Purchase Gas Adjustment (PGA) account. The total costs accumulated in the PGA, including the various upstream capacity costs, were recovered through the LDC's Commission-approved PGA cost recovery mechanism. As LDCs unbundled their services, the interstate pipeline capacity costs were allocated (usually through a FERC sanctioned capacity release process) to third party Shippers scheduling gas deliveries to the LDCs distribution system for transport to end-use customers. In most LDC systems, there was little or no intrastate capacity nor any LDC to LDC transportation arrangements. In the cases where such arrangements did exist, the costs were typically left in the PGA. Such is the case with CFG's sister company, FPUC, for example. The charges to FPUC for the intrastate capacity purchased from Peninsula Pipeline Company in Riviera Beach and the upstream LDC transportation charges resulting from FPUC's interconnection with Florida City Gas on SR 80 in Palm Beach County are both recovered in the FPUC PGA.

CFG unbundled its distribution system in 2002. All customers receive transportation service from a third party Shipper. The CFG residential customers and certain commercial customers purchase gas from one of two Transitional Transportation Service (TTS) program Shippers under a Commission-approved contract between

CFG and the respective TTS Shippers. Much like the LDC prior to unbundling, the TTS Shippers accumulate the various gas supply costs, including CFG-assigned pipeline capacity costs, and bill the TTS customers a monthly rate (similar to the historic PGA rate). The CFG tariff establishes an interstate pipeline capacity allocation method (Sheet No. 54-58; Capacity Release). The tariff also provides for an Operational Balancing Account (OBA) mechanism (Sheet 67 and 68). In Section Q. 1., the tariff indicates that the intent of establishing the OBA is to recover or refund those Transportation Service costs that have "historically been recovered from or allocated through the Commission's on-going PGA cost recovery proceedings."

The OBA tariff language further specifies, in Section 2, d., that "Charges or credits associated with any unreleased Transporter capacity that has not otherwise been assigned or released" would be subject to recovery. In the definitions section of the CFG tariff, "Transporter" is specifically identified as "Any interstate pipeline, intrastate pipeline, or LDC that transports gas to CFG's Delivery Points." Under its tariff CFG has directly assigned interstate capacity (and the associated costs) to Shippers. The cost of upstream LDC capacity interconnections has been assigned to the CFG TTS Shippers through the OBA and billed through to consumers as part of the Shipper's supply costs. Currently, the costs of CFGs upstream LDC interconnect with Peoples Gas System in Hernando County are assigned to the TTS Shippers based on the ratio of customers served by each Shipper. Unless another assignment provision is adopted CFG would assign the PPC Haines City Pipeline cost to the TTS Pools.

It should be noted that over the past decade, as LDCs have expanded territories to serve new customers, the number of intrastate pipeline and LDC to LDC interconnections has grown. In the Company's view, the historic practice of assigning all intrastate and LDC to LDC non-released capacity costs to those primarily residential customers served through the PGA or TTS Program should be revisited. The capacity provided by these interconnections is providing service to virtually all customers, not just those included in the PGA or TTS Program. Within the next 30 days, Chesapeake's Florida LDCs (CFG, FPUC, Indiantown and Ft. Meade) will jointly file a petition to begin a two-phase process to consolidate the transportation service administration provisions in each of the four tariffs, a proposal that the Companies have contemplated for some time as a possible means to better, and more equitably, address non-released capacity allocation across the systems. In phase one, - the Companies will propose that the non-released capacity costs currently recovered from residential and small commercial customers through the CFG and Indiantown TTS Pools (OBA) and the FPU and Ft Meade PGA be combined and re-allocated

across all customers currently subject to the PGA and the TTS Pools. Thereafter, in phase two, which the Company anticipates will be filed by the end of the third quarter of 2015, the Companies will propose further re-allocation of non-released capacity costs, to include those commercial and industrial customers that are deriving benefit from such capacity. The Company anticipates that the transportation service administration tariff consolidation would take a similar path as the Company's recent consolidation of its conservation programs approved by the Commission in Docket No. 140004-GU.

(b) CFG does not anticipate increasing the charges in Rate Schedules SABS and SAS to recover any payments related to this specific project.

(c) If the entire $ PPC Haines City Pipeline annual charge was recovered from the current CFG TTS Pool customers, the monthly per customer charge would be approximately $ per month.

As noted above, the Company is preparing a filing to propose the consolidation of its tariff transportation service administration provisions. Under the proposal the annual intrastate and LDC to LDC transportation costs for CFG, FPUC, Indiantown and FT. Meade would be combined. The total current cost is approximately $. The addition of the $ PPC Haines City cost would result in a total of approximately $ in annual costs.

The CFG TTS Pool annual volume is approximately 4.7 million therms. The Indiantown TTS Pool annual volume is approximately 200,000 therms. The FPU (including Ft. Meade) PGA annual volume is approximately 44.6 million therms. Recovery of $ over 44.6 million therms results in a per therm rate of $ therm. Multiply the rate by the 4.7 million CFG TTS Pool annual therms and the result is approximately $ per year. Dividing $ by CFG TTS Pool customers results in an annual charge per customer of $. Divide by 12 to get $ per month for CFG customers.

The incremental cost increase for FPU customers resulting from the combined methodology would be approximately $1.71 per month.

The ultimate allocation of an appropriate portion of the intrastate and LDC to LDC transportation costs to third party Shippers would significantly reduce the PGA and TTS Pool costs.

2. **Has CFG communicated to its shippers that shippers may incur additional costs as a result of this project?**

Response:

CFG is currently updating previous communications with Shippers relative to the re-allocation of capacity costs including non-released capacity from intrastate and LDC to LDC interconnections. Shippers have been notified that Chesapeake intends to file a joint petition to consolidate transportation service administration procedures across its distribution systems. Shippers have been informed that CFG will file with the Commission in March 2015 a proposal to consolidate the PGA and TTS Pool cost recovery methodology related to intrastate and LDC capacity charges. As noted above, the proposed consolidation methodology would retain non-released intrastate and LDC to LDC capacity costs within the combined PGA and TTS Pools for 18 months from the date of the Commission order. The Shippers have also been notified that at the end of 18 months the Company would reallocate a portion of such costs to commercial and industrial customers, subject to approval by the Commission of the Company's filing. The 18 month period would provide adequate time for Shippers to notify customers and adjust terms of their commercial agreements, if needed. The Company's annual Shippers meeting is scheduled for May 2015. During this meeting the Company will provide a detailed overview of its proposed phase 2 allocation methodology and receive input from Shippers on the proposed methodology and implementation time period.

3. **Please refer to CFG's response to Question 12 of Staff's First Data Request. Please elaborate in greater detail and provide support, if any, for the statement that "CFG believes taking on this project on its own would result in the need for a rate case or limited proceeding."**

Response:

If CFG were to undertake this project on its own, the significant additional capital costs and operating costs incurred would result in a reduction to the return on its investments. Using the December 2014 surveillance report, adjusted for the proforma annual impact of this investment and related increased operating costs, would reduce CFG's expected overall rate of return to [redacted] on a mid-point allowable ROR of [redacted] As such, CFG anticipates that its board of directors would require the Company seek rate relief. In addition, a rate proceeding would cost in excess of $600,000.

Moreover, the Company believes that this type of transmission-related investment, and related contract, most appropriately belong with the intrastate transmission company. PPC, as an intrastate transmission company, is authorized by Florida law to undertake

this type of project. Thus, as these costs are passed to the Company through the contract with PPC, these costs are most appropriately recovered through the OBA as additional transmission and capacity costs.