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March 31, 2015

HAND DELIVERY

REDACTED

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 responses to Commission Staff's Third Data Requests to the Company (redacted). A highlighted, confidential version is being filed under separate cover along with a Request for Confidential Classification.

As always, please do not hesitate to contact me if you have any questions whatsoever regarding this filing.

Sincerely,

Beth Keating

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Cc:// John Villafrate (Staff Counsel)

1. **Paragraph 13 (page 6) of the January 16, 2015, petition states that "CFG has requested service from Peninsula to enable CFG to eliminate existing pressure problems, meet incremental volume delivery, and elevate pressure requirements on a portion of its distribution system." Paragraph 14 of the petition states that "CFG's existing lateral from Lake Mattie to Haines City is operating at its maximum allowable operating pressure and is already at full capacity" and also lists several operational and logistical considerations in support of this assertion. Please describe what the impacts to CFG would be if the proposed new 14.2 mile pipeline were not installed.**

<u>Response:</u>

There would be two principal negative impacts if the proposed pipeline were not installed. First, existing customers will continue to experience pressure and gas quantity delivery limitations. Over the past several years, as connected loads have increased in the Haines City vicinity, CFG's system has reached the point where it is unable to seasonally meet the demands of all customers. Winter demand quantities have reduced system line pressures below [redacted] psig. At those levels it is not possible to meet the load requirements of large volume customers. It also presents a challenge to provide service to smaller volume customers at the peripheries of the system. There are several industrial customers that are impacted by the pressure and flow limitations. For example, [redacted] operates a reciprocating engine CHP system that requires [redacted]. CFG is not able to meet such a demand during much of the winter season. Another example is the [redacted] at the far southern end of the distribution system that experiences frequent low pressure periods. If the full industrial requirements were met, CFG would experience delivery problems to commercial and residential customers in the area. To date, industrial deliveries have been limited to minimize impacts on smaller volume customers.

Second, the ability of CFG to serve new customers not only in the Haines City area but throughout the region would be impacted. Working with the local Economic Development Council, CFG has identified numerous customer growth opportunities in the Haines City area. As described in the company's petition, there are multiple industrial customer additions currently under review. In addition, projected residential growth exceeds 3,000 units over the next 5-7 years, along with numerous commercial properties along the US 27 corridor. For example, several new home developments are planned along CR 544, in an area of critical pressure concern. CFG will not be able to provide firm delivery service to all of the anticipated development without an upgrade to the existing pipeline system. It is highly likely that large volume customers would choose to either relocate to an area with sufficient delivery capability or switch to another fuel.

It should be noted that, due to CFG's interconnected distribution system design, these service limitations exist across a large regional distribution area, extending beyond Haines City into Davenport, Lake Alfred, Winter Haven and Auburndale. As noted in the petition, the existing lateral from Lake Mattie to the Haines City regulator stations is operating at its MAOP. The lateral provides primary service not only to the Haines City Industrial Area, but also to Lake Alfred's citrus and bottling plants and to the NE Winter Haven Industrial Park. The lateral also feeds distribution systems that support NE Winter Haven, southern Davenport and Haines City residential and commercial loads. The proposed pipeline is designed to back-feed the existing CFG distribution system by introducing high pressure gas at a number of custody transfer points along its southern route terminating in an interconnection at the intersection of US 27 and CR 544. The proposed pipeline will enable CFG to decrease flow on the Lake Mattie lateral into the Haines City McKay regulator station. This action will increase needed upstream delivery capabilities into Winter Haven, Lake Alfred and Auburndale.

2. **Please refer to CFG's response to Staff's Second Data Request, Question Number 1, part (c), on page 3 of the confidential response.**

(a) Please refer to the first paragraph (three lines) of the confidential response to Staff Question 1(c). Please confirm that the current petition (exclusive of any potential future filings) would result in the indicated reservation charges being borne by the CFG TTS Pool customers, thereby resulting in the monthly per customer charge indicated on the third line of the paragraph. If the answer is yes, please state when the monthly per customer charge of CFG TTS Pool customers would increase by the confidential $ per month amount.

(b) Please refer to the third paragraph (eight lines) of the response to Staff Question 1(c). Please confirm that the 44.6 million therms shown on the fourth line of the paragraph should instead read 49.5 million therms (4.7 MM + 0.2 MM + 44.6 MM).

(c) Please refer to the fourth paragraph (two lines) of the response to Staff Question 1(c). Please explain and show how the estimated incremental impact to FPU customers of $1.71 per month was developed

<u>Response:</u>

(a) Yes, barring any other regulatory filing or Commission directive, the indicated reservation charges will be borne by the CFG TTS Pool of customers, which will be applied as each segment of the pipeline goes into service. There are also two other potential cost recovery options based on the current CFG tariff. The three currently available options ("Options") under the tariff are further outlined below. It should be noted, however, that the Company does not recommend any of these Options and provides more reasonable Alternatives at the end of this section. The Alternatives are associated with the previously described regulatory filings to first, allocate the cost of unreleased intrastate and LDC interconnection capacity across all PGA and TTS Pool customers and second, to develop a broader allocation methodology to expand the cost allocation to transportation service customers.

Background: The CFG tariff (Original Sheet No. 9) defines a Transporter as, "Any interstate pipeline, intrastate pipeline or local distribution company that transports Gas to Company's Delivery Point(s)." Beginning on First Revised Sheet No. 54, the tariff details a Capacity Release methodology intended to temporarily relinquish all CFG contracted interstate capacity quantities to the third party marketers (Shippers) providing retail commodity services to CFG customers.[1] The Capacity Release methodology is applicable only to interstate pipeline capacity, as evidenced by the references to FERC capacity release rules included in the "Scope of Capacity Release" section on Original Sheet No. 57. There are no corresponding capacity release provisions for intrastate or LDC capacity. Peninsula's Commission approved tariff does not include a capacity release mechanism. In addition, no Florida LDC tariff includes a capacity release provision.

As unbundled transportation service developed in Florida, LDC's allocated a portion of their upstream interstate pipeline capacity to Marketers through the FERC temporary capacity release process. The capacity release transferred the contractual cost of the interstate capacity to Marketers (Shippers) who used the capacity to deliver gas to the LDC's transportation customers. Unreleased capacity was retained by the LDC to serve its retail sales customers (those customers who were ineligible for transportation service or who elected to not participate). In CFG's case, given their total unbundling, all quantities of interstate capacity are released each month to Shippers.

Over the years a number of LDC to LDC system interconnections have been completed. As LDC territories expanded and territorial boundaries met, it occasionally was prudent for one LDC to interconnect to a neighboring LDC. These

1 In Order PSC-02-1646-TRF-GU, issued November 25, 2002, the Commission approved the company's petition to convert all customers to transportation service and exit the merchant function. The current capacity release methodology originates from this Order.

interconnections provided lower cost options for quantity and pressure increases as opposed to significant main extension investments. LDC's provide such interconnection service under a wholesale sales or transportation service Commission approved tariff or special contract rate. Over the past several years intrastate pipeline have been developed under the Florida Natural Gas Transmission Pipeline Intrastate Regulatory Act (Chapter 368, Part II, F.S.). The intrastate pipeline rates are negotiated between parties with certain transactions (affiliate transactions, for example) subject to Commission approval.

As noted above there are no intrastate pipeline or LDC tariff provisions for the release of capacity to Shippers. Therefore, the charges for LDC to LDC interconnection service and the charges for unreleased intrastate pipeline transportation service have historically been recovered by LDCs through their Purchased Gas Adjustment Cost Recovery Mechanism.

In CFG's case, the above noted Commission Order authorizing an exit of the merchant function also authorized two other provisions important to this discussion. CFG established a Transitional Transportation Service (TTS) program (Original Sheet No. 18). The TTS program included a company managed transportation program for all residential customers, those commercial customers not selecting a Shipper and any last resort accounts (primarily bad credit). CFG contracts with two third party TTS Shippers to provide service to the TTS customers. CFG bills customers for all TTS Shipper charges. The Commission Order also established an Operational Balancing Account (First Revised Sheet No.67). The intent of the OBA is to authorize the company to…"recover or refund any and all charges or credits related to the provision of Transportation Service, as have historically been recovered from or allocated through the Commission's on-going Purchased Gas Adjustment cost recovery proceedings." Sheet No. 68, section "d", includes the provision that authorizes recovery of, "Charges or credits associated with any unreleased Transporter capacity that has not otherwise been assigned or allocated."

CURRENT OPTIONS

As noted above, the options currently available under the CFG tariff are:

Option 1: Collect the cost of the proposed pipeline from the CFG TTS customers. There is no intrastate capacity release mechanism and therefore no way to directly relinquish Peninsula's capacity quantities and the associated cost of capacity to Shippers. The Commission has historically authorized the recovery of LDC interconnect and intrastate pipeline transportation service through an LDC's PGA. The CFG TTS Pool is a mechanism that operates in a manner similar to the PGA of a non-unbundled LDC. CFG would assign the Peninsula capacity costs to its TTS customers. Such an assignment would result in the [redacted] per month charge referenced in the Company's response to Staff Second Data Request.

The fuel rates charged by the CFG TTS Pool Shipper's have averaged approximately [redacted]. Assuming an average usage per customer of [redacted] therms per year the average increase in the rate per therm to recover [redacted] per month is approximately [redacted] per therm. The total average billing rate would be approximately [redacted] per therm. While that rate is high, it is not unreasonably higher than other PGA rates charged by Florida LDCs.

Option 2: Collect the cost of the proposed pipeline from all CFG Shippers based on an assigned allocation of costs. As noted above, the CFG tariff includes a methodology for the direct assignment and/or allocation of interstate pipeline capacity to Shippers. There is no such corresponding methodology for intrastate or LDC interconnection capacity charges. CFG would need to develop a methodology that appropriately allocates the capacity costs to Shippers.

Option 3: Collect the cost of the proposed pipeline from all CFG Shippers based on the pro-rata recovery mechanism in the OBA disposition mechanism. The Peninsula charges would be recorded as a debit in the CFG OBA account. The Disposition of OBA Balance (Second Revised Sheet No. 68) provides that, at least quarterly, CFG will dispose of any outstanding account balance. The balance is cleared through a calculation of each Shipper's refund or charge based on the proportion of scheduled gas of each Shipper to the total amount of scheduled gas by all Shippers during the applicable period.

There are several issues related to the Option 3 recovery method. It is not a method that has been historically used to recover this type of cost. As such it will impose a charge, in some case a significant charge, on Shippers and their customers with little or no expectation that it is coming. The largest CFG customers will pay a disproportionate amount of the recovery amount. Some industrial customers would see an increase of up to $200,000 per year based on their scheduled quantity ratio. There is no cost or service delivery basis for such a cost allocation. The OBA allocation method was not designed to apportion substantive upstream capacity cost amounts.

ALTERNATIVES

The following alternatives are preferable in that they would move toward a reasonable and fair recovery of upstream unreleased capacity costs.

Alternative 1: As discussed in response to Staff's Second Data Request, Question Number 1(c), a joint petition on behalf of Florida Public Utilities Company (FPU), FPU-Ft. Meade Division, FPU-Indiantown Division and CFG has been filed requesting a consolidation of the fuel cost recovery mechanisms in each tariff for the purpose of allocating the costs of intrastate and LDC interconnection capacity costs. The Commission has previously approved (Order No. PSC-13-0676-TRF-GU, issued December 20, 2013) to consolidate fuel cost recovery for FPU and the FPU-Ft. Meade Division. Both CFG and the FPU-Indiantown Division operate under unbundled tariffs. Both units have TTS Pools managed by third party Shippers. If approved, the current filing would authorize the recovery of all intrastate and LDC interconnection charges across all PGA and TTS customers. In Response No. 1. (c) to Staff's Second Data Request the company estimated the billing impact to CFG and FPU (including FPU-Ft. Meade Division) customers. FPU-Indiantown Division TTS customers would see a billing adjustment similar to the CFG TTS customers.

Alternative 2: Adopt Alternative 1 as an interim step. Work on a non-released capacity cost allocation methodology that assigns costs to all customers, except those with Special Contracts approved by the Commission. The recovery of the cost could occur through a cost allocation methodology that bills Shippers, a direct assignment of costs to customers through an approved cost recovery mechanism, or a combination of methods. Ultimately, the company believes that this is the alternative that produces fair and reasonable recovery rates that best address fundamental cost causation principles. Adopting Alternative 1 in the interim would provide time to develop the recovery methodology and give Shippers and customers an appropriate notice period (approximately 18 months) prior to implementation.

(b) The 44.6 million therms referenced in the eight lines of the third paragraph of CFG's response to Staff's Second Data Request, Question Number 1(c) should total 49.5 millions therms.

(c) The estimated incremental impact to FPU customers of $1.71 per month, as described in response to Staff's Second Data Request, Question Number 1(c), was developed as follows:

1. The current total annual intrastate and LDC interconnect costs recovered in the FPU PGA is approximately [redacted] Divide the current cost of [redacted] by the existing FPU customers of 55,069 to arrive at the current annual impact of [redacted] or $[redacted] per month.

2. The current total annual intrastate and LDC interconnection costs recovered from the CFG TTS Pool Shippers is approximately $43,200.

3. The annual CFG cost recovery related to the Peninsula Haines City Pipeline is $[redacted].

4. The aggregate of CFG and FPU annual intrastate and LDC interconnect costs is [redacted]

5. The aggregate annual therms in the FPU and Ft. Meade PGA and the CFG and Indiantown TTS Pools is approximately 49,300,000 (based on LTM). Divide the [redacted] total cost by the aggregate annual therms of 49,300,000 to get an average cost per therm of [redacted].

6. Apply the average cost per therm [redacted] to the FPU annual therms of 44,600,000 to get an annual cost of [redacted]. This cost is divided by the FPU PGA customer total of approximately 55,500 to arrive at an approximate annual cost per customer of $87.00 or $7.21 per month.

7. Subtract the existing FPU PGA cost per customer of $5.51 (Step 1) from the new cost per customer of $7.22 (Step 6) to arrive at the incremental cost of $1.71 per customer per month.

3. **Please refer to CFG's response to Staff's Second Data Request, Question Number 2, on page 4 of the confidential response. If the current petition were to be approved and the new 14.2 mile pipeline were completed at the end of the third quarter 2015, would CFG begin to recover the incremental reservation charges from shippers at that time?**

Response:

If the Commission does not approve the Company's proposed consolidation of the non-released capacity recovery costs, or order some other recovery method, the Company will recover the costs from the two CFG TTS Pool Shippers (Option 1 in response to question 2 (a) above) in phases as segments of the pipeline are placed in service.

Due to the physical operational issues that the proposed pipeline is designed to mitigate, CFG plans to incrementally activate service as the Peninsula pipeline segments go into service. The Gulfstream Pipeline gate station upgrade to support increased pressure and quantity deliveries is currently underway. Peninsula plans to construct its pipeline in four segments with associated custody transfer facilities along the permitted route. At least two of these segments are anticipated to become active with deliveries to CFG before the third quarter. The entire pipeline is scheduled to go into service at the end of the third quarter 2015. CFG would activate recovery of a pro-rata portion of the Peninsula reservation charge as the pipeline segments go into service and deliveries are made to the CFG system.

If the joint petition referenced in Alternative 1 described above is approved the reservation charge would be allocated across the company's respective PGA and TTS Pool customers. CFG would directly bill the CFG TTS Pool Shippers for their allocated amount of the total. FPU would remit to CFG the allocated portion of the total collected from the FPU and Ft. Meade PGA and the Indiantown TTS Pool Shipper.

4. **Please refer to CFG's response to Staff's Second Data Request, question 1(a):**

(a) **Please state for the past 12 months, the annual therms purchased by customers in the TTS program and by customers served by CI shippers.**

(b) **Please explain whether customers that receive service from a CI shipper will benefit from the PPC Haines City Pipeline by receiving gas through the pipeline once constructed. If the answer is yes, please explain why CI shippers should not be assigned a portion of the PPC Haines City Pipeline cost as soon as the pipeline is operational (and prior to the filing of a new petition to consolidate the transportation service program).**

Response:

(a) For the past 12 months the annual therms purchased by customers in the TTS Pools was 4.8 million therms and the annual therms purchased by customers served by CI Shippers was 104 million therms.

(b) Yes. Customers served by CI shippers will certainly benefit from the PPC Haines City Pipeline. As noted above however, an allocation of unreleased capacity charges has not been historically assigned to non-TTS Pool Shippers. CFG agrees that costs related to intrastate and LDC interconnection charges benefit virtually all customers.

As such the cost recovery should be allocated over a larger customer group than that represented by the PGA and TTS Pools. Chesapeake has engaged a consulting firm to develop a cost allocation methodology for unreleased capacity costs. The methodology should be available for Commission review later this summer as part of a filing to restructure the transportation programs for all of Chesapeake's Florida LDC's. In Chesapeake's view, changing the Commission authorized historic cost recovery for unreleased capacity to include non-TTS Pool Shippers with little advance notice would have an adverse impact on both the shippers, and their customers. The Company's proposed solution (Alternative 2, above) will allow for an interim cost recovery process based on long-standing approved practice, provide an opportunity for appropriate notice to Shippers and customers and enable the Shippers to address potential issues with respect to their existing commercial sales agreements with customers.

5. **Please refer to the definition of transporter in Chesapeake's current tariff and the paragraph titled "Allocation of capacity from multiple transporters" on Tariff Sheet No. 55 and state whether Peninsula Pipeline Company after the construction of the pipeline would be considered an additional transporter.**

Response:

Yes, Peninsula Pipeline Company will be considered a Transporter under the CFG tariff as defined. Tariff Sheet No. 55, Section 4 titled "Allocation of Capacity from Multiple Transporters", however, is included in CFG's tariff Section E entitled "Capacity Release". As noted above, capacity from interstate pipelines and LDC interconnections is not released. Peninsula is considered a Transporter under the tariff definition on Original Sheet No. 9, but Section E is not applicable since Peninsula has no FERC approved capacity release mechanism.