GUNSTER
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April 7, 2015

REDACTED

HAND DELIVERY

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

Re: **Joint Petition of Florida Public Utilities Company, Florida Public Utilities Company-Indiantown Division, Florida Public Utilities Company-Fort Meade, and the Florida Division of Chesapeake Utilities Corporation for Approval of Modified Cost Allocation Methodology and Revised Purchased Gas Adjustment Calculation.**

Dear Ms. Stauffer:

Enclosed for filing, please find the original and seven copies of the (redacted) Joint Petition of Florida Public Utilities Company-Indiantown Division, Florida Public Utilities Company-Fort Meade, and the Florida Division of Chesapeake Utilities Corporation for Approval of Modified Cost Allocation Methodology and Revised Purchased Gas Adjustment Calculation. 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
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Joint Petition of Florida Public Utilities Company, Florida Public Utilities Company-Indiantown Division, Florida Public Utilities Company-Fort Meade, and the Florida Division of Chesapeake Utilities Corporation for Approval of Modified Cost Allocation Methodology and Revised Purchased Gas Adjustment Calculation.	) Docket No.))) Filed: April 7, 2015)))

JOINT PETITION FOR APPROVAL OF MODIFIED COST ALLOCATION METHODOLOGY AND REVISED PURCHASED GAS ADJUSTMENT CALCULATION

Florida Public Utilities Company, Florida Public Utilities Company – Indiantown Division, and Florida Public Utilities Company-Fort Meade (jointly, "FPUC"), as well as the Florida Division of Chesapeake Utilities Corporation ("CFG") (herein, all FPUC divisions and CHPK, jointly, "Companies"), by and through undersigned counsel, hereby jointly file this petition for approval to allow the Companies to reallocate the intrastate and local distribution company ("LDC") to LDC unreleased capacity-related components of the Purchased Gas Adjustment ("PGA") mechanism for FPUC and the Operational Balancing Account ("OBA") mechanism for CHPK. By this Petition, the Companies seek approval to take a first step, which the Companies regard as "Phase I," towards a more equitable allocation of the unreleased capacity and transportation components of the PGA, as well as transportation and unreleased capacity costs embedded in the OBA, across the broader base of Florida customers served by the Chesapeake Utilities Companies. As further explained herein, if approved, the Companies anticipate that this Phase I request will be followed in due course by a second request to take further necessary steps to more fully distribute these costs across all customers, including shippers on CFG's and FPUC's system not currently covered by this request. In support of this request, the Companies state as follows:

1) The principal business address of Florida Public Utility Company is:

Florida Public Utilities Company
1641 Worthington Road, Suite 220
West Palm Beach, FL 33409

2) The name and mailing address of the persons authorized to receive notices are:

Beth Keating Gunster, Yoakley & Stewart, P.A. 215 South Monroe St., Suite 601 Tallahassee, FL 32301 (850) 521-1706	Mike Cassel Florida Public Utilities Company 780 Amelia Island Parkway Fernandina Beach, FL 32034

3) FPUC is a natural gas distribution company subject to the regulatory jurisdiction of this Commission as prescribed in Chapter 366, Florida Statutes. It is a wholly-owned subsidiary of Chesapeake Utilities Corporation ("CHPK"), which is headquartered in Dover, Delaware.

4) CFG is also a natural gas utility subject to the Florida Public Service Commission's ("Commission") jurisdiction under Chapter 366, Florida Statutes. It is an operating division of CHPK. Its principal business address is:

Florida Division of Chesapeake Utilities Corporation
1641 Worthington Road, Suite 220
West Palm Beach, FL 33409

5) The Commission is vested with jurisdiction in this matter in accordance with Sections 366.04, 366.041, 366.05, and 366.06, Florida Statutes, pursuant to which the Commission is authorized to establish rates and charges for public utilities, including the relief requested herein.

6) The Companies' substantial rights will be directly affected by the Commission's resolution of this Petition, as the Commission's decision upon this request will direct how the

Companies allocate costs across their respective customer bases. The Companies are unaware of any material facts in dispute in this regard. This is a Petition representing an initial request to the Commission, which is the affected agency located at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399. As such, the Companies cannot state when and how they became aware of the Commission's decision.

BACKGROUND

7) FPUC (with the exception of the Indiantown Division),[1] fulfills the function of a traditional LDC in that it maintains its role as gas provider for many customers on its system. While it has implemented transportation service tariffs, consistent with Rule 25-7.054, Florida Administrative Code, it has not exited the gas merchant function entirely. Consequently, FPUC participates in the PGA cost recovery proceedings, pursuant to which it recovers the costs associated with gas merchant function in accordance with the methodology established by Orders Nos. 24463 and 24463-A, issued May 2, 1991 and May 17, 1991, respectively, under the true-up schedule established by Order No. PSC-98-0691-FOF-GU, issued May 19, 1998.

8) FPUC receives gas deliveries into its distribution system from three primary upstream providers: FERC regulated interstate transmission pipelines; Commission regulated intrastate transmission pipelines; and Commission regulated wholesale sales or transportation interconnections with other LDCs. A portion of FPUC's interstate capacity contract quantities (and the applicable costs) is allocated to support customers electing transportation service. FPUC allocates the interstate pipeline capacity to a customers' selected Pool Manager (third Party Marketer) based on a methodology detailed in FPUC's approved tariff. The allocation of

[1] The Commission approved Indiantown's exiting of the gas merchant function by Order No. PSC-02-1655-FOF-GU, issued November 26, 2002. Thereafter, by Order No. PSC-03-1109-PAA-GU, the Commission authorized Indiantown's proposed unbundling transitional cost recovery and refund of the Company's final Purchased Gas Adjustment ("PGA") overrecovery.

interstate capacity to FPUC's Pool Managers (third party Marketers) occurs through a temporary capacity release process consistent with the interstate pipeline's Federal Energy Regulatory Commission's ("FERC") tariff. A portion of the FPUC interstate capacity is retained to serve the FPUC retail sales customers (all residential customers and those non-residential customers who either elect to not participate or are unable to obtain a third party supply contract). The cost of the retained interstate capacity is recovered in the FPUC PGA.

9) FPUC's contracts for capacity with intrastate transmission pipelines and interconnections with other LDC's are recovered in the PGA. Unlike the mechanisms for interstate capacity, intrastate pipelines and LDCs do not have tariff provisions or other mechanisms that support the release of such capacity to Pool Managers. Therefore, FPUC has historically been allowed to recover such unreleased intrastate and LDC interconnection capacity costs through its PGA, which, to the Company's knowledge and belief, is consistent with recovery by other Florida LDCs that participate in the PGA.

10) CFG's capacity cost allocation and recovery process is similar to FPUC's, although the CFG distribution system is fully unbundled. By Order PSC-02-1646-TRF-GU, issued November 25, 2002, the Commission authorized CFG to implement the initial step of its unbundling proposal, allowing CFG to exit the gas merchant function. All CFG customers, including residential and small commercial customers, receive transportation service. As restructured consistent with its unbundling proposal, CFG only transports the gas from the gate station (delivery point at which gas is transferred from the interstate pipeline company to the LDC's distribution system) to the customer's meter. The customer is responsible for purchasing the gas from Shippers (Third Party Marketers).

11) Like FPUC and other Florida LDCs, CFG holds upstream interstate pipeline capacity, which it allocates to Shippers on its system based on a quantity allocation methodology included in its approved tariff and consistent with the FERC's temporary capacity release process. As with FPUC, this process allows CFG to transfer the contractual cost of the interstate capacity to Shippers who use the capacity to deliver gas to CFG's transportation customers. In CFG's case, all quantities of interstate capacity are released each month to Shippers.

12) While CFG's interstate capacity is allocated through the FERC temporary release process noted above, unreleased intrastate and LDC interconnection capacity cost recovery has been addressed through CFG's Operational Balancing Account tariff ("OBA")(Second Revised Sheet No. 67), a PGA-like transportation service cost recovery mechanism billed to Shippers. The OBA is primarily designed to allow CFG, as reflected in its tariff, 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 further authorizes recovery of, "Charges or credits associated with any unreleased Transporter capacity that has not otherwise been assigned or allocated."

13) As part of the CFG unbundling filing, the Commission approved CFG's Transitional Transportation Service (TTS) tariff (Original Tariff Sheet No. 18). Subsequently, by Order No. PSC-07-0427-TRF-GU, issued May 15, 2007, in Docket No. 060675-GU, the Commission allowed CFG to make certain changes to its TTS tariff to implement the second step of its unbundling process. CFG's TTS program is a managed transportation program for all residential customers and those non-residential customers who either elect to not select a Shipper or are unable to obtain a Shipper supply contract - primarily for reasons of poor credit. CFG contracts

with two third party TTS Shippers to provide service to the TTS customers and bills the customers for all TTS Shipper charges. The customers served under the TTS program are akin to the residential and small commercial classes of customers on FPUC's system that are subject to the PGA, with the noted absence of the actual retail sale of the gas commodity. Therefore, consistent with the reference in the OBA tariff to the historic PGA allocation practice note in paragraph 12 above, CFG has directly assigned intrastate capacity (and the associated costs) to the Shippers for TTS class of customers. This currently includes the costs of unreleased capacity through upstream LDC interconnections. The LDC interconnection costs are directly assigned to the TTS Shippers consistent with the OBA adherence to the historic PGA allocation practice. For example, the costs of CFG's 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 otherwise revised, this existing methodology would also assign the intrastate PPC Haines City Pipeline costs to the TTS Pools (Docket No. 150031-GU), as well as any unreleased intrastate pipeline capacity.

14) The primary intent of the OBA is to capture transportation related costs that cannot be otherwise directly assigned or allocated to Shippers, or that are appropriately allocated based on the OBA balance disposition methodology. Typical charges or credits such as interstate pipeline imbalance resolution costs, operational order penalties and out-of-period interstate billing true-up amounts flow through the OBA balance disposition mechanism. The mechanism allocates charges or credits based on a pro-rata assessment of scheduled gas quantities over a given period. While that method works well for allocating penalty and other such amounts, it was not designed to appropriately apportion substantive upstream LDC interconnection or intrastate capacity cost amounts. Instead, application of this mechanism would result in a profoundly disproportionate

amount of costs for large unreleased capacity commitments, such as the Haines City/Peninsula project, being assigned to the largest customers to the degree that would likely cause such customers to revisit their fuel options.

15) Over the years, the evolution of the natural gas market has skewed the allocation of unreleased capacity costs recovered through both the PGA mechanism for FPUC and the OBA for CFG. More significant market opportunities have translated into system expansions and more LDC-to-LDC interconnections, as well interconnections with intrastate pipelines, resulting in increased costs associated with unreleased capacity. In fact, none of the cost allocation mechanisms employed heretofore contemplated the substantial costs associated with unreleased capacity. Because of the limitations of the PGA mechanism and the OBA mechanisms as they currently stand, this has resulted in certain segments of customers bearing an otherwise unreasonable proportion of the costs associated with various projects. For instance, on FPUC's system, unreleased intrastate capacity costs are recovered only from PGA retail sales service customers, not transportation service customers. On CFG's system, unreleased capacity costs are recovered only from the TTS Pool customers through the cost assignment to their respective TTS Shippers, as opposed to larger customers.

16) As these inequities have increased over recent years, the Companies have begun to explore options to reduce or eliminate these inequities across the CHPK Florida platform. As a result, the Companies now propose this Phase I, of an anticipated two Phase process, that would change the way the Companies assign the unreleased intrastate capacity costs of the Companies. A subsequent filing for Phase II will then propose to expand the classes of customers from whom costs are recovered through these vehicles.

<u>PROPOSAL</u>

17) At the outset, the Companies emphasize that this proposal is more in the manner of an accounting change, not unlike that approved by the Commission in Order No. PSC-14-0655-FOF-GU, issued in Docket No. 140004-GU, wherein the Commission allowed FPUC and CFG to centralize the accounting and administrative functions associated with the conservation programs and distribute the associated costs across all the Chesapeake Companies and operating divisions in Florida.

18) With this Petition, the Companies propose that any unreleased intrastate capacity and LDC interconnection related costs heretofore recovered by CFG through the OBA from its TTS Shippers be allocated across the entire CHPK Florida platform to allow recovery of an appropriate portion of these costs through the PGA mechanism applicable to FPUC customers (including Indiantown Division[2] and Ft. Meade Division). At the same time, the Companies propose that any unreleased intrastate capacity and LDC interconnection related costs on FPUC's system (including Indiantown Division[3] and Ft. Meade Division), which have traditionally only been allocated to PGA retail sales service customers, be reallocated to allow a portion of those costs to be recovered through the OBA mechanism applicable to CFG's TTS customers. To be clear, these are the same types of costs on each system – the only difference is the mechanism through which they are currently being recovered.

19) Along with this cost allocation request, the Companies are not proposing tariff amendments to reflect this change at this time. The tariff components, as well as the way the recovery mechanisms are billed to customers, will not change. Upon approval, the change in

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[2] As noted, Indiantown does not participate in the PGA, therefore, the allocation would be made through Indiantown's OBA.

[3] *Supra*, footnote 2 above.

allocation would simply be an accounting change reflected in the allocations across the Companies' respective books.

20) The benefits of this revised approach are many for both Companies and will be further enhanced if Phase II is ultimately approved. For instance, the intrastate capacity costs associated with the recent proposed Haines City project on CFG's system (Docket No. 150031-GU) will be allocated across a larger body of customers, thereby reducing the impact on CFG's TTS Pool Shippers and customers. Likewise, capacity costs associated with recent large projects on FPUC's system, such as the Nassau County expansion (Docket No. 140189-GU) and the project in Palm Beach County (Docket No. 140190-GU) will also be allocated across a broader base of customers.

21) The end result will be a more equitable allocation of costs and the ability to better balance the costs of individual projects across the entire CHPK Florida system, instead of on a system-by-system basis. For example, the impact to aggregate the unreleased capacity and LDC interconnection related costs across the entire CHPK Florida system would be $[redacted] per therm, or an approximate increase of $[redacted] per therm to the PGA.

22) In Phase II, the Companies contemplate that the allocation of these costs would be expanded to include transportation service customers on FPUC's system, as well as Shippers on CFG's system that are not part of the TTS Pool. While the Companies believe that equity demands that these customers ultimately bear their fair portion of these intrastate capacity costs, the Companies also recognize that Shippers for these larger classes of customers provide service under contracts which will likely need to be amended to adjust for revised cost allocations. Subsequent implementation of Phase II will, therefore, allow the Companies time to conduct

Shipper meetings for Shippers in these classes, as well as time for these Shippers to pursue contract amendments with their customers, as may be necessary.

23) In an effort to ensure that the first step towards a more equitable allocation of costs takes effect as soon as possible, the Companies are proposing a July 1, 2015, effective date for the initial cost reallocation. Again, as noted above, the change would not require FPUC to exceed its currently established PGA Cap. As such, no further action would be required to facilitate implementation of this proposal. Thereafter, if approved prior to the Actual/Estimated filing date in Docket No. 150003-GU, FPUC would intend to use the revised allocation methodology in the calculation of its proposed PGA factor for 2016.

WHEREFORE, FPUC and CFG respectfully request that the Commission approve the Companies' proposed modified cost allocation methodology and resulting revisions to the PGA factor calculation.

RESPECTFULLY SUBMITTED this 7th day of April, 2015.

Beth Keating

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Attorneys for Florida Public Utilities Company, Florida Public Utilities Company – Indiantown Division, Florida Public Utilities Company-Fort Meade, and the Florida Division of Chesapeake Utilities Corporation

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been served upon the following by Hand Delivery or Electronic Mail this 7th day of April, 2015.

Jennifer Crawford Florida Public Service Commission 2540 Shumard Oak Boulevard Tallahassee, FL 32399-0850 jcrawfor@psc.state.fl.us	J.R. Kelly Office of Public Counsel c/o The Florida Legislature 111 W. Madison Street, Room 812 Tallahassee, FL 32399-1400 Christensen.patty@leg.state.fl.us
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