State of Florida

Public Service Commission

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

DATE: April 23, 2015

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Rome, Draper)
Office of the General Counsel (Villafrate)

RE: Docket No. 150031-GU – Petition for approval of transportation service agreement with the Florida Division of Chesapeake Utilities Corporation by Peninsula Pipeline Company, Inc.

AGENDA: 05/05/15 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On January, 16, 2015, Peninsula Pipeline Company, Inc. (Peninsula) filed a petition seeking approval of a firm transportation service agreement (Agreement) between Peninsula and the Florida Division of Chesapeake Utilities Corporation d/b/a Central Florida Gas (CFG) for construction of a gas transmission pipeline. Peninsula operates as a natural gas transmission company as defined in Section 368.103(4), Florida Statutes (F.S.).[1] CFG is a natural gas distribution company serving retail customers throughout Florida.

[1] Order No. PSC-06-0023-DS-GP, issued January 9, 2006, in Docket No. 050584-GP, In re: Petition for declaratory statement by Peninsula Pipeline Company, Inc. concerning recognition as a natural gas transmission company under Section 368.101, F.S., et seq.

In Order No. PSC-07-1012-TRF-GP Peninsula received approval of an intrastate gas pipeline tariff that allows it to construct and operate intrastate pipeline facilities and to actively pursue agreements with gas customers.[2] Peninsula provides transportation service only, and does not engage in the sale of natural gas. Pursuant to Order No. PSC-07-1012-TRF-GP, Peninsula is allowed to enter into certain gas transmission agreements without prior Commission approval. However, Peninsula is requesting Commission approval of this Agreement as it does not fit any of the criteria enumerated in the tariff for which Commission approval would not be required.[3] Peninsula is a subsidiary of Delaware-based Chesapeake Utilities Corporation and CFG is a division of Chesapeake Utilities Corporation. Agreements between affiliated companies must be approved by the Commission pursuant to Section 368.105, F.S., and Order No. PSC-07-1012-TRF-GP.

Peninsula plans to construct and operate 14.2 miles of pipeline in Polk County, Florida and is seeking Commission approval of a firm transportation service agreement with CFG. CFG will use the new pipeline to improve service to existing customers and to serve new load. The route of the proposed pipeline is shown in Attachment A. During its evaluation of the petition, staff issued a data request to both Peninsula and CFG for which responses were received on February 16, 2015. Staff issued two additional data requests to CFG for which responses were received on March 2, 2015, and March 31, 2015, respectively. The Commission has jurisdiction over this matter pursuant to Sections 366.06, and 368.105, F.S.

[2] Order No. PSC-07-1012-TRF-GP, issued December 21, 2007, in Docket No. 070570-GP, In re: Petition for approval of natural gas transmission pipeline tariff by Peninsula Pipeline Company, Inc.

[3] Peninsula Pipeline Company, Inc., Intrastate Pipeline Tariff, Original Vol. 1, Sheet No. 12, Section 4.

Discussion of Issues

Issue 1: Should the Commission approve the Transportation Service Agreement dated January 15, 2015?

Recommendation: Yes. The Commission should approve the Transportation Service Agreement dated January 15, 2015, requested by Peninsula to provide firm transportation service to CFG. (Rome, Draper)

Staff Analysis: To support the need for a new pipeline, CFG explained that its existing lateral in the Haines City area is operating at maximum allowable operating pressure and at full capacity. This results in two principal negative impacts: (1) CFG's system has reached the point where it is unable to meet the demands of all customers during the winter season and deliveries to several industrial customers have been limited to minimize impacts on residential and other smaller volume customers, and (2) CFG is unable to serve new customers in the Haines City, Davenport, Lake Alfred, Winter Haven and Auburndale areas without an upgrade to the existing pipeline system.

Pursuant to the proposed Agreement, Peninsula will construct and maintain a 14.2-mile, 6-inch steel pipeline from Gulfstream's Baseball City Gate southward through Davenport and Haines City with interconnections to CFG's facilities. Gulfstream is an interstate pipeline company that provides subaqueous transport of natural gas traversing the Gulf of Mexico to delivery points in Florida. Pending Commission approval, Peninsula anticipates to construct the pipeline in four phases. CFG stated that the Gulfstream gate station upgrade is currently under way. As the pipeline segments go into service gas will be delivered to CFG. Peninsula expects that construction of the entire pipeline will be completed late in the third quarter of 2015.

The initial term of the proposed Agreement is 20 years, with an option to extend for additional 10-year increments. Peninsula stated that it applied for all required permits for the pipeline and expects to receive them around May 2015.

CFG stated that it examined several possible alternatives and decided that the most cost effective solution would be to contract with Peninsula to provide firm transportation service. CFG stated that it solicited construction cost estimates from two outside entities and from Peninsula. In response to staff's data request, CFG showed that the confidential cost estimates provided by the outside entities were higher than Peninsula's cost estimate and therefore the transportation service costs would have been higher.

CFG also considered building the pipeline itself; however, CFG stated that due to the scope and cost of the project, it would likely need to file either a rate case or a limited proceeding petition to recover the costs of the facilities in base rates. In response to a staff data request, CFG provided a pro forma estimate of a reduced overall rate of return in support of the assertion that rate relief would be necessary and estimated that the cost of the rate proceeding would be in excess of $600,000. Finally, CFG stated that the proposed pipeline will be considered a transmission line for purposes of safety inspections and maintenance. CFG as a local distribution company typically does not engage in transmission line activities.

In addition to CFG supporting the proposed Agreement, Peninsula lists four benefits of Peninsula constructing this extension rather than CFG: (a) CFG would not incur either the upfront cost to install the new facilities or the incremental cost associated with safety compliance requirements, (b) CFG would not incur costs associated with rate case expense, (c) Peninsula's construction of the pipeline would facilitate service being available to customers in a shorter time frame than if CFG were to undertake the project on its own, and (d) Peninsula provided the least cost option of the alternatives available to CFG.

The negotiated monthly reservation charge (confidential) included in the proposed Agreement is designed to allow Peninsula to recover its investment and on-going operational and maintenance costs associated with the extension. These costs include design engineering, permitting, material and installation costs, on-going maintenance costs, property taxes, and Peninsula's return on investment. The parties assert that the rates contained in the Agreement are consistent with a market rate in that they are within the ranges of rates set forth in similar agreements as required by Section 368.105(3)(b), F.S. In response to a staff data request, Peninsula provided comparative cost information (confidential) for other similar agreements entered into by Peninsula. While specific circumstances vary for each project due to pipe size, construction conditions, permitting, etc., staff believes that the information provided by Peninsula for the proposed pipeline appears reasonable.

Cost recovery. CFG will allocate the costs associated with the proposed Agreement to the two Transitional Transportation Service (TTS) program shippers who are described below. The TTS Shippers then will have an opportunity to pass on the costs to their customer pool as the construction of the pipeline segments is completed and gas deliveries are made to CFG. CFG explained that it would activate recovery of a pro-rata portion of the reservation charge contained in the Agreement as the pipeline segments go into service.

The TTS program shippers are natural gas marketers who purchase and transport gas from the wellhead to delivery points on CFG's distribution system. The TTS program shippers purchase gas for all residential customers and for commercial customers who do not contract directly with a shipper for their gas supply. CFG contracts with two TTS Shippers to provide gas supply service to the TTS customer pools. The two TTS shippers offer various pricing options and customers can choose between the two pool managers and select the best pricing option. The Commission does not approve or review the gas prices TTS shippers offer. Customers that are not part of the TTS customer pools participate in the individual transportation services program. Those are primarily large commercial or industrial customers who contract directly with a shipper for their gas supply.

By way of background, Order No. PSC-02-1646-TRF-GU authorized CFG to exit the gas merchant function (i.e., acting as an agent purchasing gas on behalf of its customers) and to convert all customers to transportation service.[4] In a transportation service environment, CFG only transports gas from delivery points to the customer's meter and all customers are

[4] Order No. PSC-02-1646-TRF-GU, issued November 25, 2002, in Docket No. 020277-GU, In re: Petition of Florida Division of Chesapeake Utilities Corporation for authority to convert all remaining sales customers to transportation service and to exit merchant function.

responsible for purchasing gas from shippers. Thus, CFG does not participate in the annual Purchased Gas Adjustment (PGA) proceedings at the Commission.

Other investor-owned gas utilities such as Peoples Gas System (Peoples) or CFG's sister company Florida Public Utilities Company (FPUC) have not exited the gas merchant function. For Peoples or FPUC, transportation agreements with intrastate transmission pipelines such as Peninsula are recovered through the PGA mechanism. Large commercial or industrial customers who purchase their gas directly through a shipper and do not pay a PGA charge therefore are not allocated any intrastate transportation costs.

Since CFG no longer has a PGA mechanism, Order No. PSC-02-1646-TRF-GU established an Operational Balancing Account (OBA), the intent of which is to authorize the company to recover or refund charges or credits that historically would have been recovered from or allocated through the PGA. Under CFG's current OBA mechanism, CFG will assign its payments to Peninsula to the two TTS shippers. Initially, individual transportation customers therefore will not be assigned any cost of the proposed Agreement, even though they will benefit from the infrastructure upgrades.

FPUC and CFG are aware of this skewed allocation of intrastate transportation costs to the PGA customers for FPUC and the TTS pool customers for CFG, while individual transportation service customers currently do not bear any costs associated with intrastate pipelines. FPUC and CFG therefore proposed in a recent joint petition to move towards a more equitable allocation of transportation costs across a broader base of customers.[5] FPUC and CFG also met in a noticed meeting on April 7, 2015, with staff and the Office of the Public Counsel to provide an overview of the evolution of the natural gas market and the current transportation service environment. Staff intends to work with the industry to develop a plan for Commission approval that addresses a fairer allocation methodology of assigning intrastate transportation costs.

Conclusion. Based on the petition and responses from Peninsula and CFG to staff's data requests, Peninsula and CFG have demonstrated the operational limitations of the current infrastructure and supported the importance of the need for the new pipeline to meet current demand and attract new load. Staff believes the proposed Agreement is reasonable, meets the requirements of Section 368.105, F.S., and benefits CFG's customers. Staff therefore recommends approval of the proposed Agreement.

[5] Docket No. 150117-GU, 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.

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. (Villafrate)

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.

Map showing location of proposed Peninsula pipeline