

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: October 1, 2015

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Ollila) *A.O. PD E.M. CS*
Office of the General Counsel (Villafrate) *JFC*

RE: Docket No. 150175-GU – Petition for approval of amendment to special contract with Orange Cogeneration Limited Partnership, by Florida Division of Chesapeake Utilities.

AGENDA: 10/13/15 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

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Case Background

On July 31, 2015, the Florida Division of Chesapeake Utilities Corporation (Chesapeake or Company) filed a petition for approval of an amendment to its Gas Transportation Service Special Contract (contract) with Orange Cogeneration Limited Partnership (Orange). Chesapeake and Orange entered into the original contract in July 1994 and it expires at the end of 2015.¹ Chesapeake has served Orange's Polk County 104 megawatt facility for over twenty years. According to Chesapeake, Orange could bypass Chesapeake entirely in favor of a direct connect with the Florida Gas Transmission (FGT) interstate pipeline.

¹ Order No. PSC-94-1169-FOF-GU, issued September 26, 1994, in Docket No. 940830-GU, *In re: Petition for approval of a gas transportation agreement with Orange Cogeneration Limited Partnership by Florida Division of Chesapeake Utilities Corporation.*

Docket No. 150175-GU

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Staff issued two data requests. In its response to Staff's First Data Request, Chesapeake included a correction to its operations and maintenance expense.

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. The Commission has jurisdiction over this matter pursuant to Section 366.05, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission approve the amendment to the contract between Chesapeake and Orange?

Recommendation: Yes, the Commission should approve the amendment because it allows Chesapeake to continue its relationship with Orange through December 2025, prevent bypass, and establish a rate that covers the incremental cost of service, thereby benefiting Chesapeake's general body of ratepayers. (Ollila)

Staff Analysis: Chesapeake seeks approval of an amendment to its contract with Orange. The proposed amendment extends the contract term to December 2025 and provides for what Chesapeake describes as a modest reduction in the negotiated transportation rate.

Chesapeake explains that the Orange facility is within 1,000 feet of FGT, and that Orange could construct an extension to interconnect with FGT for approximately \$450,000, recoverable in three years. Chesapeake avers that although Chesapeake and Orange have had a lengthy business relationship, the economic incentive for Orange to remain with Chesapeake is marginal. In recent years Orange's usage has decreased, resulting in a reduced incentive to remain on Chesapeake's system; at the same time the initial installation costs associated with the facilities that Chesapeake installed to serve Orange have largely been recovered.

The proposed negotiated (confidential) rate is subject to a three percent annual increase over the term of the contract and fully covers the incremental cost of service after the second year of the proposed 10-year extension to the contract. The incremental cost of service study includes operations and maintenance expense, depreciation, taxes, and return on investment, resulting in an annual cost of \$120,873, which is estimated to decrease after the first year of the contract. According to Chesapeake, the proposed rate properly recognizes the value of Orange as a Chesapeake customer, as well as the risk of harm to Chesapeake and its ratepayers if Orange were to bypass Chesapeake.

Conclusion

In its petition, Chesapeake states that the Commission has recognized:

Having industrial customers on the system greatly benefits all users, particularly the residential customers. Customers benefit because large load users are able to absorb a greater portion of the fixed cost necessary to provide the service; as a result, rates are lower, especially for small load users. Conversely, losing industrial customers who have alternative fuel sources or viable bypass options would pose a greater burden on all ratepayers, and could result in higher rates.²

Staff recommends that the Commission approve the amendment because it allows Chesapeake to continue its relationship with Orange through December 2025, prevent bypass, and establish a

² Order No. PSC-10-0029-PAA-GU, issued January 14, 2010, in Docket No. 090125-GU, *In re: Petition for increase in rates by Florida Division of Chesapeake Utilities Corporation.*

rate that covers the incremental cost of service, thereby benefiting Chesapeake's general body of ratepayers.

Issue 2: Should this docket be closed?

Recommendation: 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.