

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: July 7, 2005

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Competitive Markets & Enforcement (Broussard, Bulecza-Banks, Makin)
Division of Economic Regulation (Slemkewicz)
Office of the General Counsel (Brown)

RE: Docket No. 050327-GU – Petition by Florida Division of Chesapeake Utilities Corporation for approval of special contract with Department of Management Services, Agency of the State of Florida.

AGENDA: 07/19/05 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\CMP\WP\050327.RCM.DOC

Case Background

On May 16, 2005, Chesapeake filed its petition for approval of a 15-year special contract for natural gas transportation with the State's Department of Management Services, under Rule 25-9.034(1), Florida Administrative Code. Because The Department of Management Services' (DMS) proposed usage, location, and operating characteristics are different than what is currently provided for in Chesapeake's approved tariff, Chesapeake and the DMS have entered into this special contract.

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On June 20, 2005, Chesapeake filed an amended petition to correct an error in its original petition. In the original petition the Company erroneously used 7.35 percent as the mid-point rate of return from its December 2004 surveillance report as filed with the Commission. The correct mid-point rate of return for the Company is 8.38 percent as approved in the Company's last rate case.

Jurisdiction over this matter is vested in the Commission by several provisions of Chapter 366, Florida Statutes, including Sections 366.04, 366.05, and 366.06. Rule 25-9.034(1) Florida Administrative Code is attached.

Discussion of Issues

Issue 1: Should the Commission approve the special contract between the Florida Division of Chesapeake Utilities Corporation (Chesapeake or the Company) and the Department of Management Services (DMS), an agency of the State of Florida?

Recommendation: Yes. The Commission should approve the special contract between Chesapeake and the Department of Management Services (DMS), an agency of the State of Florida effective July 17, 2005, the date of the Commission vote in this matter. (**Broussard, Makin, Bulecza-Banks**).

Staff Analysis: Chesapeake Utilities currently provides gas transportation to various agencies of the State of Florida by means of a "Master Contract." Under the special contract (Exhibit B of the Master Contract), Chesapeake will receive certain quantities of natural gas at the Company's Washington Gate Station for DMS's account and render the natural gas to the Washington County Correctional Institution.

The Florida Department of Corrections is currently operating a State correctional institution in Washington County, Florida and is expanding the facility. Natural gas will be used to provide heat, hot water, cooking and laundry services to the facility. The annual transportation revenues derived from the contract would enable Chesapeake to more than recover the fully allocated cost of serving the facility. As indicated in the amended cost of service study prepared by the Company, the estimated \$78,190 in total annual operating costs will be fully recovered and will provide a return on the Company's net investment through the annual revenues of \$89,040 for the fifteen-year service agreement.

The Company will deliver 1,000 MMBTU/day during each month of the contract at a rate of \$7,420 per month for 15 years. The Company expects to earn a 8.38 percent overall rate of return which, as explained in the case background, is the Company's authorized mid-point rate of return from its December 2004 surveillance report as filed with the Commission and an authorized return on equity of 11.50 percent. The contract generates revenues in excess of the cost to serve, thereby providing benefits to the general body of ratepayers. Staff recommends the special contract between Chesapeake and DMS be approved effective July 17, 2005, the date of the Commission vote in this matter.

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Issue 2: Should this docket be closed?

Recommendation: Yes. If no person whose substantial interests are affected timely files a protest to the Commission's Proposed Agency Action Order the docket may be closed upon the issuance of a consummating order. (**M. Brown**)

Staff Analysis: If no person whose substantial interests are affected timely files a protest to the Commission's Proposed Agency Action Order the docket may be closed upon the issuance of a consummating order.