

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: June 8, 2006

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

FROM: Division of Competitive Markets & Enforcement (Broussard, Bulecza-Banks)
Office of the General Counsel (Fleming)

RE: Docket No. 060269-GU – Petition by Florida Division of Chesapeake Utilities Corporation for approval of two delivery point operator agreements (special contracts) with Peninsula Energy Services Company, Inc.

AGENDA: 06/20/06 – 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\060269.RCM.DOC

Case Background

On March 22, 2006, The Florida Division of Chesapeake Utilities Corporation (Chesapeake, or Company) filed a petition with the Commission seeking approval of special contracts to provide Delivery Point Operator (DPO) services. A DPO is responsible for balancing the amount of gas ordered versus the amount used. Under the proposed contracts, the DPO services would be provided to an affiliate company, Peninsula Energy Services Company, Inc. (PESCO).

PESCO is a natural gas marketing company, formerly a division of the Company. PESCO was spun-off as a separate subsidiary of the Company in September, 2004. PESCO provides retail natural gas commodity sales along with interstate capacity management sales.

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In January 2006, PESCO asked Chesapeake to provide DPO services to two of PESCO's industrial customers: Minute Maid Company (Minute Maid), and Cutrale Juices USA, Inc. (Cutrale). Based on a cost of service study conducted by Chesapeake, the Company is proposing annual service charges of \$500 for Minute Maid and \$5,000 for Cutrale.

The Commission has jurisdiction pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

Discussion of Issues

Issue 1: Should the special contracts for provision of Delivery Point Operator (DPO) services by Chesapeake Utilities Corporation for Peninsula Energy Services Company, Inc. (PESCO) (an affiliate of Chesapeake Utilities), and PESCO customers Minute Maid Company and Cutrale Citrus Juices USA, Inc. be approved?

Recommendation: Yes. Staff recommends the two special contracts referenced in the company's petition be approved. Furthermore, staff recommends the effective date of the approval be as the date of the Commission's vote. (Broussard/Banks)

Staff Analysis: In January 2006, PESCO approached Chesapeake about providing DPO services for two of PESCO's customers, Minute Maid and Cutrale. PESCO's interest in obtaining DPO services is to save its customers money. A DPO is responsible for ensuring that the gas being delivered into the pipeline matches as closely as possible, the amount of gas being consumed by the customer.

Florida Gas Transmission's (FGT) Federal Energy Regulatory Commission (FERC) approved Gas Tariff requires all delivery points have a DPO. A delivery point is the physical interconnection point of the FGT pipeline with a customer's gas facilities. The DPO is the entity with which FGT resolves delivery imbalances, enforces operator orders and manages other transactions having to do with gas deliveries to the delivery point.

On a monthly basis, FGT compares the gas quantities scheduled to the actual amount measured at the Delivery Point - any difference is called an "imbalance." Imbalances are resolved either by trading between customers or using a FERC-approved cash-out process. Charges and credits to resolve imbalances are billed by FGT to the DPO. A similar process is employed to resolve imbalances due to FGT Operational Orders (such as Alert Days and Operational Flow Orders). Any penalties assessed for violating Operational Orders are billed to the DPO. The local distribution company will then dispose of the penalties or credits in accordance with its Commission-approved tariff.

Chesapeake is currently the DPO for 26 different delivery points. As the DPO, Chesapeake is permitted to aggregate the imbalances at these delivery points. Such aggregation can be beneficial for Chesapeake when some points have a shortfall (customers consumed more gas than was delivered) while others have overages (more gas was delivered than they consumed). By offsetting the shortfalls and overages, pipeline penalties can be avoided.

Chesapeake states that aggregating the multiple imbalances into a single pool tends to provide broader opportunities through diverse customers for the pool to remain within imbalance tolerances. Another benefit of this pooling is that DPOs serving multiple Delivery Points have a level of experience that helps minimize imbalance and Operator Order penalties.

According to Chesapeake, there are a number of third parties acting as a DPO on the FGT pipeline. Many municipal gas distributors and small, local gas distributors have designated various third party marketers or other LDCs as their DPOs. According to Chesapeake, several FGT direct connect industrial customers designate a third party to be DPO. Chesapeake

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currently provides DPO services to Polk Power Partners, L.P., for its cogeneration facility in Polk County which was approved by the Commission in Order PSC-06-0143-PAA-GU, issued on February 27, 2006, in Docket No. 050835-GU, in re: Petition for approval of Amendment No. 2 to gas transportation agreement (special contract), master gas transportation service termination agreement, delivery point lease agreement and letter agreement: CFG Transportation Aggregation Service between Florida Division of Chesapeake Utilities Corporation and Polk Power Partners, L.P.

Chesapeake has developed an annual rate for each Delivery point with PESCO in the amount of \$500 for Minute Maid, and \$5,000 for Cutrale. Staff has reviewed Chesapeake's cost of service study and found it to be reasonable. These rates were calculated using the same methodology applied in developing the DPO service rates for Polk Power Partners, L.P. that the Commission approved in Docket No. 050583-GU. The annual rates are based on the relative delivered gas quantities and value of service at the respective points.

Based on staff's analysis of the contracts and the cost of service study, staff recommends the two special contracts referenced in the company's petition be approved. Furthermore, staff recommends the effective date be the date of the Commission's vote.

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Issue 2: Should this docket be closed?

Recommendation: Yes. If a protest is filed within 21 days of the issuance of the order, the Special Contracts should remain in effect subject to refund pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Fleming)

Staff Analysis: If a protest is filed within 21 days of the issuance of the order, the Special Contracts should remain in effect subject to refund pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.