

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Purchased Gas Adjustment)
(PGA) True-Up)
_____)

Docket No. 110003-GU

REDACTED

Filed: October 10, 2011

**FLORIDA PUBLIC UTILITIES COMPANY'S
RESPONSES [redacted] TO STAFF'S FIRST SET OF INTERROGATORIES (NOS. 1-5)
AND FIRST REQUEST FOR PRODUCTION OF DOCUMENTS**

Florida Public Utilities Company ("FPUC" or "Company"), hereby submits its Responses to the First Set of Interrogatories (Nos. 1 – 5) and First Request for Production of Documents (No. 1) served on the Company on September 20, 2011, by Commission Staff. The individual responses follow this cover sheet. Redacted copies have been provided in accordance with the certificate of service attached hereto.

Respectfully submitted,



Beth Keating
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 618
Tallahassee, FL 32301
(850) 521-1706

*Attorneys for Florida Public Utilities
Company*

INTERROGATORY RESPONSES

- 1. Please describe FPUC's accounting treatment of unbilled revenues and whether FPUC changed its accounting treatment of unbilled revenues in its 2011 true-up calculations.**

Company Response: The Company records unbilled base and fuel revenues each month for accounting purposes. The Company records the amount of revenue at the end of the month that remains unbilled due to the timing difference between cycle billed consumption and month-end estimated usage for each rate classification. The Company did not change the accounting treatment in 2011 and has not requested a change in the natural gas 2011 true-up filing for recognition of the unbilled gas revenue. Consistent with prior periods, unbilled revenues are excluded from the true up calculations in the PGA filing.

(Cheryl Martin)

For Interrogatories 2 through 5, please refer to witness Martin's direct testimony regarding the expected new agreement with Peninsula Pipeline Company (PPC) to serve the Nassau County customers.

2. Please provide FPUC's projection of the customer growth in Nassau County and capacity needed.

Company Response: Nassau County, located north of Jacksonville in extreme Northeast Florida, has experienced significant growth over the past two decades. The current county population is approximately 73,000 residents. Nassau County's proximity to interstate highways, a deep water seaport, the Jacksonville International Airport and various railways, make it an ideal location for businesses to grow and expand. The high quality of life in Nassau County contributes to an active tourism economy and promotes permanent residential growth.

The Company evaluated the market potential of Nassau County, utilizing several information sources including City-Data.com, Fishkind and Associates Econocast forecast data, local planning and zoning data and surveys of potential customers. The current economic recession has slowed development in Nassau County over the past five years. However, the County's economy is based on a unique mix of tourism, industry, baby boomer retirement and commuting proximity to Jacksonville. These factors contribute to a favorable long-term growth outlook.

The County's population is expected to increase; growing approximately 6% by 2016, and continuing to grow over the next twenty years. Over 1,500 new housing starts are projected through 2014. New commercial square footage for retail, hotel, and other

other similar applications is expected to double from current construction levels. As an example, the Omni Hotel Corporation purchased the Amelia Island Plantation resort in August 2010. Omni is currently investing millions of dollars to add 125 rooms to the hotel, expand the conference center and retail facilities, and generally refurbish the resort. Gas use is expected to double from the current 240,000 gallons per year of propane to well over 500,000 annual therms of natural gas. Natural gas service will provide a competitive and desirable energy option to home owners and businesses in the area.

The Company plans to serve two (2) existing industrial zoned parks that the Nassau County Economic Development Council has been aggressively promoting. Both of the industrial parks are along the route of the Peninsula Pipeline Company transmission pipeline onto Amelia Island and are easily served by the Company's distribution system. The East Nassau/Golden Triangle area was specifically identified during the 2011 Nassau County Economic Development Board Strategic Planning Retreat as an area that would benefit from the availability of natural gas. Several recent potential industrial projects have not selected Nassau County; one reason cited was the lack of natural gas availability. According to the Economic Development Board, these projects cost the County hundreds of potential jobs. Availability of natural gas is viewed as being very positive in helping the county attract new businesses and encourage further growth. The Company believes that once natural gas is activated in Nassau County that it will spur industrial growth and provide growth opportunities for the area and the Company.

The Company expects that conversions of propane and electric appliances and equipment to natural gas will provide the principal initial load growth opportunity. City-Data.com reports that approximately 14% of single family homes or condos and 19% of apartments use propane for heating. The propane use for residential cooking and water heating would be expected to be higher. While residential conversions will occur, the majority of short-term customer growth will be in the commercial and industrial markets. Over the past two years, the Company's operations personnel have worked to design and initiate permitting on local distribution facilities throughout the County. These distribution facilities provide direct connect service to customers generally along the route of the Peninsula Pipeline Company transmission main onto Amelia Island. Over the past year, the Company sent representatives to personally visit potential commercial and industrial customers in Nassau County. The Company identified over 215 existing commercial and industrial establishments that could be feasibly served through the Company's initial distribution system; most of these customers currently use propane. Each of the above commercial customers has signed with the Company to convert to natural gas service.

The Company is also working with an existing large industrial facility on Amelia Island to install natural gas equipment for electric power generation. The facility currently utilizes bio-fuel to internally generate a portion of its electric requirements. The addition of a gas boiler would produce steam that could be used both in the production facility and to generate additional electricity. FPUC's NE Electric Division could, within the constraints of its Purchase Power Agreement, purchase excess power produced by the

industrial facility. The purchase of such locally generated power would benefit FPUC's electric rate payers through lower overall purchased power costs.

The Company has produced customer growth forecasts for its initial customer connections and five (5) and (20) year time periods. The Company projects that approximately 400 residential customers and 240 commercial and industrial customers will be served by the end of five year. Over the initial twenty (20) year horizon, the Company expects to serve a minimum of 2,500 residential customers and 450 commercial and industrial customers, including the industrial electric generator described above. At the end of year five, the Company forecasts a requirement of [REDACTED] to [REDACTED] Dt/day in upstream pipeline capacity. The forecast requirements beyond that period are principally dependent upon industrial growth that is difficult to project.

(Cheryl Martin)

3. **Please describe FPUC's current facilities and arrangements used by FPUC to serve the Nassau County customers, including FPUC's transportation and commodity providers.**

Company Response: The Company provides electric distribution service on Amelia Island and propane distribution services in Nassau and surrounding counties. The Company maintains administrative, operations and bulk propane storage facilities on Amelia Island. The administrative functions include operational management oversight and a full local customer service presence. The Company's propane operation includes several qualified gas technicians, who are currently undergoing natural gas Operator Qualification training. As pipeline construction begins, the Company will relocate or hire additional natural gas personnel for its NE Division. The use of existing facilities and personnel will significantly reduce the Company's costs to establish service in a new territory.

At present, there are no end-use natural gas distribution customers in Nassau County. The Company does not currently have distribution facilities in place. The final permits for the initial distribution system expansion for the City's of Callahan and Fernandina Beach, unincorporated Yulee and other areas in the County are expected by the end of this month.

Natural gas service to Nassau County requires that the distribution system facilities interconnect to an upstream transportation provider (to transport natural gas from the production areas to Nassau County). In Florida, there are three ways an LDC can receive upstream transportation service. The LDC can directly interconnect to an

interstate pipeline transmission system. The LDC can interconnect to an intrastate pipeline transmission system that is in turn interconnected to an interstate pipeline. Or, the LDC can receive wholesale service from another LDC. Two interstate pipeline systems, Florida Gas Transmission (FGT) and Southern Natural Gas Company, LLC (SONAT), operate transmission facilities in, or close to, Nassau County. SONAT operates two distinct transmission systems: South Georgia Natural Gas and an extension of the primary SONAT system referred to as the Cypress system. TECO Peoples Gas also connects to the end of the SGNG system in southwest Nassau County and feeds their Jacksonville distribution system and Jacksonville Electric Authority power plants. All of the above facilities are at least 35 miles from Amelia Island and Fernandina Beach, the predominant market areas.

The Company initially requested FGT and SONAT to provide cost estimates for an extension of their respective interstate pipeline facilities to Amelia Island. Historically, LDC's seeking to expand into a new territory have either waited on an interstate pipeline expansion close to the targeted territory or requested the interstate pipeline to construct a transmission lateral to the new area. These interstate laterals served to minimize the transmission related capital investments (and risks) of the LDC. The LDC subscribes for incremental interstate pipeline capacity to serve its initial and forecast growth in the new service area, usually for a standard term of 20 years. The LDC pays the interstate pipeline a rate that enables the pipeline to recover its investment and earn a reasonable return. The interstate pipeline capacity costs are included in the LDC's Purchase Gas Adjustment

(PGA) filings for recovery. The Commission has traditionally approved the recovery of these transmission costs.

The above described interstate pipeline extension model has been used by virtually all Florida (regulated and non-regulated) LDC's to expand service to new areas. However, over the past decade, interstate pipelines have been reluctant to construct small diameter laterals off their primary pipelines. The Federal pipeline integrity standards require expensive maintenance actions on interstate pipelines that are onerous to perform. In addition, an interstate pipeline company's construction costs (including the Federal tax gross up) for small diameter pipe are typically much higher than a LDC's. In the case of Nassau County, FGT eventually provided a cost estimate that was in excess of [REDACTED], which would have resulted in an unreasonable capacity commitment. SONAT submitted a letter to the Company indicating that it would not construct the lateral. FGT's proposal is included in Attachment A (Confidential) to the Company's response.

The Company next turned to intrastate pipeline companies for the construction of the transmission pipeline. As the interstate pipelines discontinued the construction of small diameter laterals, two intrastate pipeline companies were formed under Chapter 368, F.S., the Natural Gas Pipeline Intrastate Regulatory Act. These companies are Seacoast Pipeline (an affiliate of TECO Energy) and Peninsula Pipeline Company (PPC, an affiliate of the Company). Both intrastate pipelines have approved tariffs on file with the Commission. The Company solicited proposals from both Seacoast and PPC to provide transmission service in Nassau County. Both companies provided transmission pipeline proposals to the Company. It should be noted that the proposal received from

TECO included options for interconnections with a proposed Seacoast Pipeline, as well as a wholesale transportation service option to be provided through a Peoples Gas main extension to Amelia Island. The PPC, Seacoast and Peoples Gas proposals are included in Attachment A to the Company's response.

The Company evaluated the terms and pricing under each proposal and selected PPC. The PPC proposal provides i) the lowest cost option, ii) a superior proposed route in support of the Company's target market, iii) the earliest in-service date, iv) greater delivered capacity for the cost, v) a high probability of long-term supply flexibility for Shippers and, vi) an option to increase capacity during the term. PPC proposed to construct a 6" transmission pipeline from the SONAT Cypress pipeline in southwest Nassau County approximately 35 miles onto Amelia Island and extending north and south on the island for approximately 4 miles in each direction. PPC would provide six (6) interconnection points along the route to serve the Company's distribution system. The interconnection with the Cypress pipeline provides double the operating pressure that is available from the SGNG, Seacoast or Peoples Gas proposals. The PPC proposal (as was generally the case with the other proposals) is based on a "fixed reservation charge" over the term of the contract, not on a rate per unit of capacity reserved. The Company negotiated an initial capacity quantity of [REDACTED], with an option to increase to [REDACTED] over the first ten (10) years of the thirty (30) year agreement. The relative pricing proposals and capacity limitations are included in Attachment A to the Company's response.

The Company has engaged in discussions with SONAT, several gas marketers and various other SONAT capacity holders to identify interstate capacity availability on the SONAT Cypress pipeline. Based on these discussions the Company is confident that it can obtain sufficient quantities of gas to meet the demands of any customer that elects sales service (the retail purchase of gas from the Company). The Company has multiple offers for firm delivered gas service into Nassau County. It should be noted, however, that the Company intends that over the long-term customers will receive gas transportation service under the Company's Commission approved tariff. Several gas marketers (Shippers) on the Company's distribution system have the ability to deliver gas on the Cypress pipeline into the PPC transmission system. The Company is continuing to evaluate the purchase of firm SONAT capacity on Cypress. The in-service date of the pipeline is several months out (projected July 2012). The Company intends to allow gas marketers an opportunity to enter into commercial contracts with customers for gas delivery service. To the extent the Company needs to contract for interstate pipeline capacity and/or commodity deliveries to support commercial and residential customer needs, it shall do so.

(Cheryl Martin)

4. What are the costs and benefits of the planned connection to the Cypress Pipeline by PPC and FPUC?

The cost of the transmission service provided by PPC is [REDACTED] per month, [REDACTED] per year. The Company has included the PPC costs for six months of 2012 [REDACTED], assuming a July 2012 in-service date. The Company has also included [REDACTED] (6 month estimate) of projected interstate pipeline capacity costs and commodity costs based on a delivered gas arrangement on Cypress. As noted above, the Company's direct purchase of capacity and gas supply (or a delivered capacity and commodity arrangement) is likely to be required in very small quantities. To the extent commercial customers elect a transportation option, the Shipper would be responsible for deliveries on the interstate system. The Company's estimate of delivered gas costs proposed for PGA recovery in this docket assumes retail gas deliveries to a small number of sales service commercial customers connected in the last six months of 2012. As another option, the Company could contract for interstate pipeline capacity, and allocate such capacity and the costs, to Shippers in accordance with the FPUC tariff. Capacity is available directly from SONAT on Cypress during the winter season (November through April) and from other entities during the summer.

Interrogatory responses 2 and 3 outlined the principal benefits to the Company and its customers resulting from the PPC proposal. Attachment A provides a cost comparison for the various proposals. Connecting to Cypress shortens the route to the market areas. Estimates received by the Company from PPC indicated a construction cost savings of approximately [REDACTED] by electing the Cypress interconnect. The permitting

on a segment U.S. 301 is also simplified by connecting to Cypress. A road widening project is underway on U.S. 301. The Cypress interconnect avoids a significant portion of the road project and eliminates the need for PPC, and ultimately FPUC, to bear the expense of clearing the right-of-way for the affected segment. The operating pressure on Cypress is approximately 1,100 psig, compared to approximately 550 psig on the SGNG and proposed Seacoast or Peoples Gas systems. The higher Cypress pressure reduces pipe size and helps control costs; the cost savings ultimately flow through to the Company's ratepayers. Cypress is a 24 inch pipeline connected into the SONAT mainline, the Elba Island LNG terminal and the Elba Express pipeline. The SGNG pipeline by contrast is a 12 inch pipe at the end of SONAT's transmission system. At present, there are a limited number of Shippers on the Cypress pipe (British Gas controls most of the capacity). As noted above, the Company is currently able to contract for capacity and/or delivered gas supply on the Cypress pipeline. SONAT originally planned a series of expansions on Cypress to add compression and double the initial capacity. Over the long-term, the Company believes Cypress will expand and provide a significant path to access on-shore production through SONAT's west receipt points as well as low cost shale gas coming from the northeast. Cypress also interconnects with FGT's system in Clay County, which offers potential delivery displacement opportunities.

(Cheryl Martin)

5. **What are the other options considered by FPUC and how was the PPC bid compared with the other options? As part of the response, please provide FPUC's bid evaluation, including annual savings each year for the term of the contract.**

Company Response: See Company's response to Interrogatory 3 and Attachment A.

(Cheryl Martin)

DOCUMENTS REQUESTED

- 1. Please provide production of documents in support of the response to Interrogatory No. 5.**

Company Response: See the attached confidential Excel spreadsheet referenced in the above Interrogatory Responses at Attachment A.

FLORIDA PUBLIC UTILITIES COMPANY
NASSAU COUNTY EXPANSION PROJECT
EVALUATION OF PROPOSALS
August 1, 2011

Attachment A
 REDACTED

Company	Description of Project	Upstream Pipeline	Term	MDTQ	Maximum Hour (DT)	Firm	Annual Rate	Upstream Capacity (DT)	Upstream Capacity Rate	Rank
[REDACTED]										

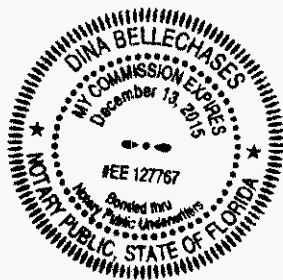
AFFIDAVIT

STATE OF FLORIDA)

COUNTY OF PALM BEACH)

I hereby certify that on this 10th day of October, 2011, before me, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared Cheryl Martin, who is personally known to me, and he/she acknowledged before me that he/she provided the answers to interrogatory number(s) 1 through 5 from STAFF'S FIRST SET OF INTERROGATORIES TO FLORIDA PUBLIC UTILITIES COMPANY (NOS. 1-5) in Docket No(s). 110003-GU, and that the responses are true and correct based on his/her personal knowledge.

In Witness Whereof, I have hereunto set my hand and seal in the State and County aforesaid as of this 10th day of October, 2011.



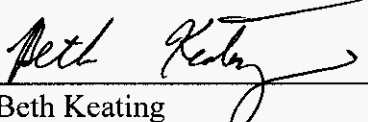
Dina Bellechases
Notary Public
State of Florida, at Large

My Commission Expires:
December 13, 2015

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct redacted copy of foregoing in Docket No. 110003-GU has been furnished by Electronic Mail to the following parties of record this 10th day of October, 2011:

Cheryl Martin Florida Public Utilities Company 401 South Dixie Hwy. West Palm Beach, FL 33401	Ansley Watson, Jr. MacFarlane Ferguson Law Firm P.O. Box 1531 Tampa, FL 33601-1531
	J.R. Kelly/Patricia Christensen Office of Public Counsel c/o The Florida Legislature 111 West Madison Street Room 812 Tallahassee, FL 32399-1400
Paula Brown Peoples Gas System P.O. Box 111 Tampa, FL 33601-0111	Mr. Stuart L. Shoaf St. Joe Natural Gas Company, Inc. P.O. Box 549 Port St. Joe, FL 32457-0549
TECO Energy, Inc. Javier Cuebas P.O. Box 111 Tampa, FL 33601-0111	Elizabeth Wade/David Weaver/Brian Sulmonetti AGL Resources Inc. Ten Peachtree Place Location 1470 Atlanta, GA 30309
Melvin Williams Florida City Gas 933 East 25 th Street Hialeah, FL 33013-3498	Jennifer Crawford Florida Public Service Commission 2540 Shumard Oak Boulevard Tallahassee, FL 32399


Beth Keating
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706