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: September 12, 2013

TO: Office of Commission Clerk (Cole)

FROM: Division of Economics (Rome) CRR EJD PR J.W.D.
Office of the General Counsel (Brownless) ASh JSC

RE: Docket No. 130136-GU – Petition for approval of assumption of special contract with JDC Development, LLC by the Florida Division of Chesapeake Utilities Corporation.

AGENDA: 09/25/13 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECO\WP\130136.RCM.DOC

Case Background

On May 3, 2013, the Florida Division of Chesapeake Utilities Corporation (Chesapeake) filed a petition with the Commission seeking approval of its assumption of a Special Contract originally held by Peninsula Pipeline Company (Peninsula) for firm transportation service with JDC Development, LLC (JDC). JDC owns and operates a phosphate facility in Fort Meade, Florida.

Peninsula operates as a natural gas transmission company as defined in Section 368.103(4), Florida Statutes (F.S.).[1] Peninsula is in the business of actively pursuing transportation agreements with gas customers which include industrial, electric generation, or other large volume customers. Pursuant to Order No. PSC-07-1012-TRF-GP, Peninsula is allowed to enter into certain gas transmission agreements without express Commission approval.[2] As such, the original 2011 contract between Peninsula and JDC (Special Contract) did not require Commission approval. However, Peninsula and JDC did file affidavits with the Commission as required by Section 368.105, F.S., stating that the contract was fairly negotiated under competitive market conditions.[3]

In recent months, Peninsula has determined that Chesapeake is best positioned to continue to provide transportation service to JDC at the Fort Meade location. The customer, JDC, also has indicated a preference for service by Chesapeake, which will enable the customer to participate in company conservation programs. Chesapeake is willing to undertake the service obligation and is able to provide service to the JDC facility with no adverse impact to its existing body of ratepayers. Peninsula and JDC have agreed to the assignment and have filed a Consent to Assignment pursuant to Section 9.9 of the Special Contract.

During its evaluation of the petition, staff issued three data requests to Chesapeake. The majority of the questions posed by staff were intended to ensure that the assumption of the Special Contract would not impose any additional costs on Chesapeake's general body of ratepayers. The Commission has jurisdiction over this matter pursuant to Sections 366.05(1), 366.06, and 368.105, F.S.

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[1] See 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.
[2] See 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] Notice and affidavits filed September 30, 2011, in Docket No. 110000-OT.

Discussion of Issues

Issue 1: Should the assumption by Chesapeake of the Special Contract for firm transportation service between Peninsula and JDC be approved?

Recommendation: Yes. Staff recommends that the assumption by Chesapeake of the Special Contract be approved. (Rome)

Staff Analysis: Pursuant to Order No. PSC-07-0427-TRF-GU, the Commission approved Chesapeake's request to replace its previous volume of tariff sheets with the current volume (Volume 4).[4] Chesapeake's Commission-approved tariff allows for Special Contracts of this nature consistent with Volume 4, Original Sheet No. 19, which provides, in pertinent part:

> c. Special Contract Service (SCS)
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> Transportation Service provided to a Consumer, at the sole option of the Company pursuant to Commission Rule 25-9.034, F.A.C., where the rates, terms and/or conditions of service may be different than those set forth in the Company's approved tariff. All SCS Consumers shall enter into a Special Contract Agreement with the Company, subject to the approval of the Commission.

Approval to allow Chesapeake to be the gas transportation service provider to JDC will benefit the parties to the Special Contract and Chesapeake's general body of ratepayers. Chesapeake would benefit from having the additional load from JDC on its system. JDC would benefit by being able to participate with Chesapeake in a Conservation Demonstration and Development Program (CDD) project to monitor and gather data for greenhouse gas emissions during phosphate processing at the JDC demonstration plant. The CDD Program supports research and development, demonstration and monitoring projects designed to promote energy efficiency, conservation, and reductions in climate change emissions.[5] JDC also potentially would be eligible for Chesapeake's Gas Space Conditioning Program to encourage the use of energy efficient natural gas air conditioning products by non-residential customers.[6] Chesapeake's general body of ratepayers will not be harmed as the rate set forth in the Special Contract allows Chesapeake to appropriately recover its costs to serve JDC.

In conjunction with its petition and responses to staff's data requests, Chesapeake provided a cost of service study to illustrate that the costs of serving JDC are covered at the rate set forth in the Special Contract. Chesapeake also submitted three Requests for Confidential Classification regarding the treatment of certain information contained in the Special Contract and the cost of service study. With regard to the Special Contract, Chesapeake sought

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[4] See Order No. PSC-07-0427-TRF-GU, issued May 15, 2007, in Docket No. 060675-GU, In re: Petition for authority to implement phase two of experimental transitional transportation service pilot program and for approval of new tariff to reflect transportation service environment, by Florida Division of Chesapeake Utilities Corporation.

[5] See Order No. PSC-10-0113-PAA-EG, issued February 25, 2010, in Docket No. 090122-EG, In re: Petition for approval of modifications to approved energy conservation programs, by Associated Gas Distributors of Florida.

[6] Chesapeake response to Staff's First Data Request, Question Number 3

confidential treatment for the "Maximum Daily Transportation Quantity (MDTQ)" and the "Monthly Reservation Charge" in Exhibit A. With regard to the cost of service study, Chesapeake sought confidential treatment for the "Monthly Rate per Special Contract," "Annual Revenues," and "Annual Revenue Excess (Deficiency)" amounts identified on page two of the study. The indicated information has been afforded confidential classification in this docket.[7]

Peninsula's investment to serve JDC is $393,527, which includes a city gate station, distribution mains, and meters. If the Commission approves Chesapeake's assumption of the Special Contract, Peninsula will transfer this infrastructure to Chesapeake. The estimated annual cost associated with that investment is $63,000 and includes a return on investment, operations and maintenance expense, depreciation, and taxes.[8] Based on staff's review of the contract and the cost of service study, the Special Contract rate provides for the generation of annual revenues that exceed annual costs; therefore, staff recommends that the petitioner's request to assume the Special Contract be approved. Staff further recommends the effective date of the assumption of the contract be the date of the Commission's vote.

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[7] See Order No. PSC-13-0219-CFO-GU, issued May 23, 2013, and Order No. PSC-13-0330-CFO-GU, issued July 19, 2013.

[8] Chesapeake's cost of service study used its Commission-approved depreciation rates. See Order No. PSC-08-0364-PAA-GU, issued June 2, 2008, in Docket No. 070322-GU, In re: 2007 Depreciation Study by Florida Division of Chesapeake Utilities Corporation.

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 Contract 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. (Brownless)

Staff Analysis: If a protest is filed within 21 days of the issuance of the order, the Special Contract 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.