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State of Florida

Public Service Commission

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COMMISSION CLERK

DATE: July 9, 2015

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Rome, Draper, Ollila)
Office of the General Counsel (Mapp)

RE: Docket No. 150117-GU – Joint petition for approval of modified cost allocation methodology and revised purchased gas adjustment calculation, by Florida Public Utilities Company, Florida Public Utilities Company - Indiantown Division, Florida Public Utilities Company - Fort Meade, and Florida Division of Chesapeake Utilities Corporation.

AGENDA: 07/21/15 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On April 7, 2015, Florida Public Utilities Company, Florida Public Utilities Company – Indiantown Division, and Florida Public Utilities Company – Ft. Meade (jointly, FPUC), as well as the Florida Division of Chesapeake Utilities Corporation (Chesapeake) (herein jointly, Companies), filed a petition for approval of a modified cost allocation methodology and revised Purchased Gas Adjustment (PGA) calculation. FPUC is a local distribution company (LDC) subject to the regulatory jurisdiction of the Commission pursuant to Chapter 366, Florida Statutes (F.S.). It is a wholly-owned subsidiary of Chesapeake Utilities Corporation which is headquartered in Dover, Delaware. Chesapeake is also an LDC subject to the Commission's

jurisdiction under Chapter 366, F.S. It is an operating division of Chesapeake Utilities Corporation.

On April 7, 2015, the Companies met in a noticed meeting with staff and the Office of Public Counsel to provide an overview of the evolution of the natural gas market and the current transportation service environment. The Companies also discussed the need to move toward a more equitable allocation of transportation costs across a broader base of customers. The Office of Public Counsel filed a Notice of Intervention in this docket on May 4, 2015.[1]

During its evaluation of the petition, staff issued a data request to the Companies for which a response was received on May 8, 2015. The Commission has jurisdiction over this matter pursuant to Sections 366.04, 366.041, 366.05, and 366.06, F.S.

[1] Order No. PSC-15-0245-PCO-GU, issued June 11, 2015, in Docket No. 150117-GU, In re: Joint petition for approval of modified cost allocation methodology and revised purchased gas adjustment calculation, by Florida Public Utilities Company, Florida Public Utilities Company – Indiantown Division, Florida Public Utilities Company – Fort Meade, and Florida Division of Chesapeake Utilities Corporation.

Discussion of Issues

Issue 1: Should the Commission approve the Companies' joint petition for approval of a modified cost allocation methodology and revised PGA calculation?

Recommendation: Yes. The modified cost allocation methodology and resulting revisions to the PGA factor calculation would enable the Companies to have the ability to better balance the costs of individual projects across the entire Chesapeake Florida system, rather than on a system-by-system basis. (Rome, Draper, Ollila)

Staff Analysis: To evaluate the Companies' proposal, it is necessary to offer some background information regarding: (a) the operational differences between FPUC and Chesapeake, (b) the different mechanisms for allocating unreleased capacity costs between interstate and intrastate pipelines, and (c) the different types of customers to whom intrastate pipeline costs are currently allocated versus those to whom such costs are not allocated.

Background

Operational Differences between FPUC and Chesapeake

FPUC, with the exception of the Indiantown Division,[2] functions as a traditional LDC as it maintains its role as gas provider for many customers on its system. While FPUC has implemented Commission-approved transportation service tariffs, it has not exited the gas merchant function entirely. When a company exits the gas merchant function, it ceases acting as an agent purchasing gas on behalf of its customers. Consequently, FPUC participates in the annual PGA cost recovery proceedings, pursuant to which it recovers the costs associated with the gas merchant function.[3] Large commercial or industrial customers who purchase their gas directly through a shipper (third party marketer) do not pay a PGA charge.

In contrast, FPUC's Indiantown Division and Chesapeake provide transportation service only.[4] In a transportation service environment, the gas utility only transports gas from the gate station (delivery point at which gas is transferred from the interstate pipeline to the LDC's distribution system) to the customer's meter. All customers in the Indiantown Division and Chesapeake are

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[2] The Commission approved Indiantown's exiting of the gas merchant function by Order No. PSC-02-1655-TRF-GU, issued November 26, 2002, in Docket No. 020471-GU, In re: Petition for authority to convert all remaining sales customers to transportation service and to terminate merchant function by Indiantown Gas Company. Thereafter, the Commission authorized Indiantown's proposed unbundling transitional cost recovery and refund of the Company's final PGA overrecovery by Order No. PSC-03-1109-PAA-GU, issued October 6, 2003, in Docket No. 030462-GU, In re: Petition of Indiantown Gas Company for approval of transition cost recovery charge and for approval of final purchased gas adjustment true-up credit.

[3] PGA is administered in accordance with the methodology established by Order Nos. 24463 and 24463-A, issued May 2, 1991, and May 17, 1991, respectively, in Docket No. 910003-GU, In re: Purchased Gas Adjustment True Up, under the true-up schedule established by Order No. PSC-98-0691-FOF-PU, issued May 19, 1998, in Docket No. 980269-PU, In re: Consideration of change in frequency and timing of hearings for fuel and purchased power cost recovery clause, capacity cost recovery clause, generating performance incentive factor, energy conservation cost recovery clause, purchased gas adjustment (PGA) true-up, and environmental cost recovery clause.

[4] Order No. PSC-02-1646-TRF-GU, issued November 25, 2002, in Docket No. 020277-GU, In re: Petition of Florida Division of Chesapeake Utilities Corporation for authority to convert all remaining sales customers to transportation service and to exit merchant function.

responsible for purchasing their gas from shippers. Thus, FPUC – Indiantown and Chesapeake do not participate in the annual PGA proceedings at the Commission.

When Chesapeake exited the merchant function, the Commission approved Chesapeake's Transitional Transportation Service (TTS) tariff.[5] The TTS program shippers are natural gas marketers who purchase and transport gas from the wellhead to delivery points on Chesapeake's distribution system. The TTS program shippers purchase gas for all residential customers and for commercial customers who do not contract directly with a shipper for their gas supply. Thus, the customers served under Chesapeake's TTS program are similar to the residential and commercial classes of customers on FPUC's system that are subject to the PGA, with the noted absence of the actual retail sale of the gas commodity. The Commission does not approve or review the gas prices that TTS shippers offer. Chesapeake customers that are not part of the TTS customer pools participate in the individual transportation services program. Those are primarily large commercial or industrial customers who contract directly with a shipper for their gas supply.

Different Mechanisms for Allocating Unreleased Capacity Costs between Interstate and Intrastate Pipelines

Both FPUC and Chesapeake receive gas deliveries from interstate transmission pipelines, such as Florida Gas Transmission Company, that are regulated by the Federal Energy Regulatory Commission (FERC). The Companies hold capacity on the interstate pipelines; however, the FERC-approved capacity release mechanism allows owners of capacity to release all or a portion of their capacity to other parties such as gas marketers. Consistent with the FERC-approved capacity release process, a portion of FPUC's interstate capacity contract quantities and the associated costs is allocated to FPUC's pool managers (third party marketers).[6] The remainder of FPUC's interstate capacity is retained to serve FPUC retail sales customers (all residential customers and those non-residential customers who either elect not to obtain a third party supply contract or are unable to do so). The cost of FPUC's retained interstate capacity is recovered in the PGA. FPUC – Indiantown and Chesapeake, who provide transportation service only, release all their interstate pipeline capacity and associated costs to shippers each month.

Unlike the mechanisms for interstate capacity as described above, intrastate pipelines (i.e., pipelines operating in Florida only) and LDCs do not have tariff provisions or other mechanisms that support the release of capacity to pool managers. Therefore, FPUC has historically recovered unreleased intrastate and LDC interconnection capacity costs through its PGA. Chesapeake's unreleased intrastate and LDC interconnection capacity cost recovery has been addressed through its Operational Balancing Account (OBA) tariff, a PGA-like transportation service cost recovery mechanism billed to shippers.[7] The OBA tariff allows Chesapeake, as

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[5] Id.

[6] Relevant Commission tariffs were approved pursuant to the following orders: Order No. PSC-01-0073-TRF-GU, issued January 9, 2001, in Docket No. 000795-GU, In re: Petition by Florida Public Utilities Company for approval of unbundled transportation service; Order No. PSC-04-1110-PAA-GU, issued November 8, 2004, in Docket No. 040216-GU, In re: Application for rate increase by Florida Public Utilities Company; Order No. PSC-09-0375-PAA-GU, issued May 27, 2009, in Docket No. 080366-GU, In re: Petition for rate increase by Florida Public Utilities Company.

[7] Order No. PSC-02-1646-TRF-GU, issued November 25, 2002, in Docket No. 020277-GU, In re: Petition of Florida Division of Chesapeake Utilities Corporation for authority to convert all remaining sales customers to

reflected in its tariff, to "...recover or refund any and all charges or credits related to the provision of Transportation Service, as have historically been recovered from or allocated through the Commission's on-going PGA cost recovery proceedings."[8] The tariff also includes a provision that authorizes recovery of "Charges or credits associated with any unreleased Transporter capacity that has not otherwise been assigned or allocated."[9] Therefore, consistent with the reference in the OBA tariff to the historic PGA allocation practice, Chesapeake has assigned unreleased intrastate and LDC interconnection capacity costs to its two TTS shippers.

Customers to whom Costs are currently Allocated versus Those to whom Costs are not Allocated

The Companies explained that because currently no intrastate or LDC interconnection capacity release mechanism exists, unreleased intrastate and LDC interconnection capacity costs are being recovered solely from PGA and TTS pool customers, who are residential and small commercial customers. Large volume transportation customers outside the PGA and TTS pools do not bear costs even though they share in benefits from projects such as infrastructure upgrades.

Evaluation of the Companies' Proposal

In this docket, the Companies propose Phase I of an anticipated two-phase process that would change the way the Companies allocate unreleased intrastate and LDC interconnection capacity costs. A subsequent filing in a future docket for Phase II would then propose to expand the classes of customers from whom costs are recovered through these mechanisms.

Phase 1 as proposed in the instant docket would aggregate the unreleased intrastate and LDC interconnection capacity costs from the Companies and spread those costs across all customers in the PGA and TTS pools. The Companies are not proposing tariff amendments in conjunction with the change at this time. The tariff components, as well as the way the recovery mechanisms are billed to customers, will not change. If approved, the change in allocation would simply be an accounting change reflected in the allocations across the Companies' respective books.

Benefits cited by the Companies in support of the proposal include the ability to allocate unreleased intrastate and LDC interconnection capacity costs across a larger body of customers, thereby reducing the impacts to customers of individual systems as a result of infrastructure upgrades. For example, the unreleased intrastate capacity costs associated with Chesapeake's Haines City project would be allocated across a larger body of customers, thereby reducing the impact on Chesapeake's TTS pool shippers and customers; in addition, unreleased capacity costs associated with recent large projects on FPUC's system, such as the Nassau County extension and the project in Palm Beach County also would be allocated across a broader base of

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transportation service and to exit merchant function; 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; 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.

[8] Florida Division of Chesapeake Utilities Corporation, Original Volume No. 4, Second Revised Sheet No. 67.

[9] Id., Second Revised Sheet No. 68.

customers.[10] The Companies assert that the proposed allocation methodology would result in a more equitable allocation of costs and the ability to better balance the costs of individual projects across the entire Chesapeake Florida system, instead of on a system-by-system basis.

Customer Impacts

The Companies estimate the impact to aggregate all the unreleased intrastate and LDC interconnection capacity costs across the entire Chesapeake Florida system would be an approximate increase of 2.5 cents per therm to the PGA factor.[11] Chesapeake's TTS pool shippers would see a reduction in the unreleased intrastate and LDC interconnection capacity costs allocated to them, resulting in potential savings to the TTS pool customers. The Companies further state that the proposed allocation methodology would not require FPUC to exceed its currently established PGA cap (98.747 cents per therm). Staff notes that the actual PGA factor billed to customers varies monthly; if this petition is approved, the first adjustment to the PGA factor billed would take effect in September 2015.

Preview of Phase II

In Phase II, the Companies would propose that the allocation of these costs be expanded to include transportation service customers on FPUC's system (*i.e.*, customers who are not part of the current PGA mechanism) as well as shippers on Chesapeake's system that are not part of the TTS pools. The Companies believe that these customers ultimately should bear their fair portion of the intrastate capacity costs; however, the Companies recognize that shippers for these larger classes of customers provide service under contracts that will likely need to be amended to adjust for revised cost allocations. Thus, the Companies will seek Commission approval of Phase II in a separate docket with a suggested future implementation date. This would allow the Companies time to conduct meetings with shippers who would be affected, as well as time for these shippers to pursue contract amendments with their customers as may be necessary. The Companies held an initial shipper's meeting in May 2015. Staff intends to work with the industry to develop a plan for Commission approval that addresses a fairer allocation methodology of assigning intrastate transportation costs.

Conclusion

The modified cost allocation methodology and resulting revisions to the PGA factor calculation would enable the Companies to have the ability to better balance the costs of individual projects across the entire Chesapeake Florida system, rather than on a system-by-system basis. Therefore, staff recommends approval of the Companies' proposal.

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[10] See Order No. PSC-15-0206-PAA-GU, issued May 26, 2015, in Docket No. 150031-GU, In re: Petition for approval of transportation service agreement with the Florida Division of Chesapeake Utilities Corporation by Peninsula Pipeline Company, Inc., Order No. PSC-14-0713-PAA-GU, issued December 31, 2014, in Docket No. 140189-GU, In re: Petition for approval of transportation service agreement for an extension in Nassau County with Florida Public Utilities Company, by Peninsula Pipeline Company, Inc., and Order No. PSC-14-0712-PAA-GU, issued December 31, 2014, In Docket No. 140190-GU, In re: Petition for approval of transportation service agreement for an extension in Palm Beach County with Florida Public Utilities Company, by Peninsula Pipeline Company, Inc.

[11] Cost figures declassified pursuant to the Companies' request; Document No. 01978-15, April 9, 2015.

Issue 2: Should this docket be closed?

Recommendation: Yes. 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. (Mapp)

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.