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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: November 18, 2015

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Rome, Draper) *CR*
Office of the General Counsel (Villafrate) *EJD P.A. CR*

RE: Docket No. 150221-GU – Petition for approval of firm service agreement with Peoples Gas System for an extension in Clay County, by SeaCoast Gas Transmission, L.L.C. *JSC*

AGENDA: 12/03/15 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: Please place this item immediately prior to the item for Docket No. 150220-GU on the Agenda

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Case Background

On October 13, 2015, SeaCoast Gas Transmission, L.L.C. (SeaCoast) filed a petition seeking approval of a firm transportation service agreement (Agreement) between SeaCoast and Peoples Gas System (Peoples). Pursuant to the Agreement, SeaCoast will transport natural gas to Peoples' distribution system on a firm basis. SeaCoast operates as a natural gas transmission company as defined in Section 368.103(4), Florida Statutes (F.S.). Peoples is a natural gas distribution company serving retail customers throughout Florida and is subject to the Commission's jurisdiction under Chapter 366, F.S.

In Order No. PSC-08-0747-TRF-GP, SeaCoast received approval of an intrastate gas pipeline tariff that allows it to construct and operate intrastate pipeline facilities and to actively pursue

agreements with gas customers.¹ SeaCoast provides transportation service only and does not engage in the sale of natural gas. Pursuant to Order No. PSC-08-0747-TRF-GP, SeaCoast is allowed to enter into certain gas transmission agreements without prior Commission approval. However, SeaCoast is requesting approval of this agreement as it does not fit any of the criteria enumerated in the tariff for which Commission approval would not be required.² SeaCoast and Peoples are affiliates in that their parent company is TECO Energy, Inc. Agreements between affiliated companies must be approved by the Commission pursuant to Section 368.105, F.S., and Order No. PSC-08-0747-TRF-GP.

SeaCoast plans to construct and operate an approximately 9.5-mile, 6-inch coated steel transmission pipeline in Clay County, Florida and is seeking Commission approval of a firm transportation service agreement with Peoples. Peoples will then interconnect with the new SeaCoast transmission pipeline and expand its distribution system to serve new load in Green Cove Springs and surrounding areas of Clay County where natural gas service is not currently available. The route of the proposed SeaCoast pipeline is shown in Attachment A.

On October 20, 2015, the Office of Public Counsel (OPC) filed a notice of intervention in the docket and on October 21, 2015, Peoples, OPC and staff met in a noticed meeting. During its evaluation of the petition, staff issued a data request to both SeaCoast and Peoples for which responses were received on October 26, 2015. The Commission has jurisdiction over this matter pursuant to Sections 366.06 and 368.105, F.S.

¹ Order No. PSC-08-0747-TRF-GP, issued November 12, 2008, in Docket No. 080561-GP, *In re: Petition for approval of natural gas transmission pipeline tariff by SeaCoast Gas Transmission, LLC.*

² SeaCoast Gas Transmission, LLC, Intrastate Pipeline Tariff, Original Volume 1, Sheet No. 2.

Discussion of Issues

Issue 1: Should the Commission approve the Agreement between SeaCoast and Peoples dated October 7, 2015?

Recommendation: Yes. The Commission should approve the Agreement dated October 7, 2015, for SeaCoast to provide firm transportation service to Peoples. (Rome, Draper)

Staff Analysis: To provide intrastate transportation of gas to Peoples, SeaCoast will tap into its existing 24-inch transmission pipeline near Asbury Lake and construct an approximately 9.5-mile 6-inch coated steel transmission pipeline to interconnect with a new Peoples distribution main in the vicinity of Green Cove Springs. In addition to the distribution main, Peoples will construct service lines for the purpose of delivering gas to customers in and around Green Cove Springs. SeaCoast's existing 24-inch transmission pipeline interconnects with Southern Natural Gas Company (SNG), an interstate pipeline company, in northwest Clay County.

SeaCoast and Peoples stated that the preliminary design for the infrastructure extensions has been completed and the negotiation of a franchise agreement with the City of Green Cove Springs has commenced. Pending Commission approval of the Agreement, the permitting process will be initiated and is expected to take from three to six months. Construction is anticipated to begin around the end of the first quarter or second quarter of 2016. SeaCoast and Peoples estimated that the SeaCoast transmission pipeline and the Peoples distribution main will be complete by the end of 2016.

The initial term of the proposed Agreement is 15 years, with an option to extend for an additional ten years. The negotiated reservation charge (confidential) included in the proposed Agreement is designed to allow SeaCoast to recover its operational and maintenance costs, depreciation, taxes, and return on investment associated with the new transmission pipeline. SeaCoast asserts that the rate set forth in the Agreement is a cost-based market rate similar to the rate set forth in the firm service agreement with its other customer, is just and reasonable, is not unreasonably preferential or unduly discriminatory, and is therefore consistent with Section 368.105(3)(b), F.S. While specific circumstances vary for different projects due to pipe size, construction conditions, permitting, etc., staff believes that the information provided by SeaCoast for the proposed pipeline appears reasonable and comparable to similar agreements.³

Consideration of Potential Alternatives to the SeaCoast Extension

Peoples stated that it evaluated other options to deliver gas to customers in the Green Cove Springs area, but those alternatives had shortcomings. One of the options considered was Peoples constructing a transmission pipeline that would have interconnected with Florida Gas

³ 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.*

Transmission (FGT) in northwest Clay County. However, Peoples explained that capacity constraints on the FGT interstate pipeline would leave customers in Green Cove Springs vulnerable to interruptions and potential other difficulties in scheduling deliveries of gas at certain times. SeaCoast, on the other hand, provides Peoples with access to the SNG interstate pipeline system which currently has no capacity constraints.

In response to staff's data request, SeaCoast and Peoples provided a cost estimate for the proposed 6-inch SeaCoast transmission pipeline and stated that this alternative is the most cost effective. The proposed SeaCoast line utilizes existing pipeline infrastructure thereby eliminating duplication of facilities in the area and minimizing the impact on the environment and population in Clay County. Any other alternative would require approximately nine to ten additional miles of transmission line as well as additional taps and interconnects with FGT and SNG. These incremental costs would exceed the costs of the proposed SeaCoast alternative because the necessary SeaCoast taps with the interconnecting interstate pipelines are already in place.

Peoples also stated that it did not believe there are other companies capable of completing construction of the required interstate pipeline taps, interconnects, and the new pipeline from the interstate supply sources (*i.e.*, FGT and/or SNG) within the time frame in which the larger prospective Green Cove Springs customers desire natural gas service (mid-2016).

Peoples' Cost Recovery of Payments to SeaCoast

Peoples' payments to SeaCoast will be included in the calculation of the monthly Purchased Gas Adjustment (PGA) factor.⁴ Consistent with the methodology approved by the Commission in Docket No. 000810-GU, a portion of the costs will be paid by transportation customers taking service under Peoples' Natural Choice Transportation Service program via the swing charge mechanism.⁵ Swing service charge revenues collected from transportation customers will then be credited back to the PGA. The remaining balance of the swing service charge will remain embedded in Peoples' PGA and recovered from Peoples' sales customers. Sales customers purchase their gas from Peoples and are subject to Peoples' PGA charges.

In Docket No. 150220-GU, Peoples filed for Commission approval of tariff modifications related to the swing service charge. Peoples has included the reservation charges it would pay to SeaCoast under the proposed Agreement in this docket in the swing service charges proposed in Docket No. 150220-GU, which is also scheduled for the December 3, 2015 Agenda Conference.

Peoples anticipates that initially all of the approximately 60 new commercial customers in the Green Cove Springs area will receive transportation service under Peoples' Natural Choice Transportation Service program. Peoples further anticipates an increasing customer base throughout the term of the Agreement due to significant economic development activities in Clay County.

⁴ Peoples does not anticipate any impact on its 2016 PGA cap approved in Docket No. 150003-GU due to the de minimis nature of the SeaCoast charges when compared to Peoples' total projected 2016 PGA expenses.

⁵ Order No. PSC-00-1814-TRF-GU, issued October 4, 2000, in Docket No. 000810-GU, *In re: Petition for approval of modifications to tariff provisions governing transportation of customer-owned gas and tariff provisions to implement Rule 25-7.0335, F.A.C., by Tampa Electric Company d/b/a Peoples Gas System.*

Conclusion

Based on the petition and responses from SeaCoast and Peoples to staff's data request, SeaCoast and Peoples have supported the importance of the need for the new pipeline to provide gas service to Green Cove Springs and the surrounding area. Staff believes that the proposed agreement is reasonable, meets the requirements of Section 368.105, F.S., and benefits Peoples' customers. Therefore, staff recommends approval of the Agreement dated October 7, 2015, for SeaCoast to provide firm transportation service to Peoples.

Issue 2: Should this docket be closed?

Recommendation: 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. (Villafrate)

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.

Proposed SeaCoast Transmission Pipeline and Vicinity

