

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-

RECEIVED-FPSC
02 JAN 11 11:32
COMMISSION

DATE: JANUARY 10, 2002

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK &
ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF COMPETITIVE SERVICES (MAKIN, BULECZA-BANKS) *gross*
DIVISION OF LEGAL SERVICES (DODSON) *SPD*

RE: DOCKET NO. 011620-GU - PETITION BY FLORIDA DIVISION OF
CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL OF SPECIAL
CONTRACT WITH SUWANNEE AMERICAN LIMITED PARTNERSHIP.

AGENDA: 01/22/02 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\CMP\WP\011620.RCM

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve the special contract
between The Florida Division of Chesapeake Utilities Corporation
(Chesapeake or the Company) and Suwannee American Partnership
(Suwannee American)?

RECOMMENDATION: Yes. The Commission should approve the special
contract between Chesapeake and Suwannee American, effective the
date of the Commission vote in this matter. (MAKIN, BULECZA-BANKS)

STAFF ANALYSIS: On December 4, 2001, Chesapeake filed its petition
for approval of a 10-year special contract with Suwannee American
under Rule 25-9.034(1), Florida Administrative Code. Jurisdiction
over this matter is vested in the Commission by several provisions
of Chapter 366, Florida Statutes, including Sections 366.04,
366.05, and 366.06, Florida Statutes.

DOCUMENT NUMBER-DATE

00359 JAN 10 8

FPSC-COMMISSION CLERK

Because Suwannee American's proposed usage, location, and operating characteristics are somewhat different than what is currently provided for in Chesapeake's tariff, Chesapeake and Suwannee American have entered in a special contract, in which Chesapeake would receive certain quantities of natural gas at its Suwannee Gate Station for Suwannee American's account, and redeliver the natural gas to Suwannee American's cement plant in accordance with the terms and conditions of the Agreement.

Suwannee American is currently constructing a cement plant near the City of Branford in Suwannee County, Florida. Natural gas will be used in the production process of cement products. Chesapeake is constructing an interconnect with Florida Gas Transmission (FGT) and connecting it into Suwannee American's facilities located on the cement plant site. Chesapeake's facilities are expected to be in service in the third quarter of 2002.

During the initial term of the Agreement, Suwannee American would pay to the Company a monthly reservation/delivery fee of \$20,075. After the expiration of the initial 10-year term, both parties will negotiate in good faith all contract terms. Consistent with the Company's tariff, the special contract recognizes that the monthly reservation/delivery fee established in the contract may change from time-to-time due to changes in the Company's operations, and that the service options may be revised, amended, or superceded from time to time subject to the approval of the Commission. Neither this agreement nor any of the terms of the agreement may be terminated, amended, supplemented, waived or modified except by an instrument in writing by the Party against which enforcement of the termination, wavier or modification shall be sought. Parties expressly acknowledge that the limitation on amendments to this agreement shall not apply to or otherwise limit the effectiveness of amendments which are necessary to comply with the requirement of, or are otherwise approved by the Commission or its successor agency or authority.

The annual transportation revenues derived from the contract will more than recover the fully allocated cost of serving Suwannee American. As indicated in the cost study, the estimated \$60,485 in total annual operating costs will be fully recovered through an annual reservation/delivery fee of \$240,900 (\$20,075 x 12 months) for the 10-year service agreement. The Company's rate of return from the September 2001 surveillance report filed with the

DOCKET NO. 011620-GU
DATE: January 10, 2002

Commission is 6.20% with a mid-point of 7.92%. This project will provide a return of 43.3% on the Company's net investment in this project alone. The agreement clearly generates revenues in excess of the cost to serve, thereby providing benefits to the general body of ratepayers.

This agreement states that Suwannee American shall provide Chesapeake an irrevocable letter of credit or surety bond in an initial amount of \$1,200,000 to cover the term of this agreement. The principal amount of such letter of credit or surety bond may be reduced annually to reflect 50 percent of the remaining reservation/delivery charges during the term of this agreement.

The Company also submits for approval a new tariff sheet depicting the portion of Suwannee County in which Suwannee American facilities are located as part of the service territory of the Company.

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. (DODSON)

STAFF ANALYSIS: If a protest is filed by a person whose substantial interest are affected within 21 day of the Commission Order approving this tariff, the tariff should remain in effect pending resolution of the protest, with any charges held subject to refund pending resolution of the protest. If no protest is filed, this should be closed upon the issuance of a Consummating Order.