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FPSC - COMMISSION CLERK

State of Florida

Public Service Commission

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14 DEC -4 AM 8:51
COMMISSION CLERK

DATE: December 4, 2014

TO: Office of Commission Clerk (Stauffer)

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

RE: Docket No. 140190-GU – Petition for approval of transportation service agreement for an extension in Palm Beach County with Florida Public Utilities Company, by Peninsula Pipeline Company, Inc.

AGENDA: 12/18/14 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: Place this item next to the item for Docket No. 140189-GU on the Agenda

Case Background

On September 30, 2014, Peninsula Pipeline Company, Inc. (Peninsula) filed a petition seeking approval of a firm transportation service agreement (Agreement) between Peninsula and Florida Public Utilities Company (FPUC) for an extension in Palm Beach County. Peninsula operates as a natural gas transmission company as defined in Section 368.103(4), Florida Statutes (F.S.).[1]

[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.

In Order No. PSC-07-1012-TRF-GP[2] Peninsula 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. Peninsula provides transportation service only, and does not engage in the sale of natural gas. Pursuant to Order No. PSC-07-1012-TRF-GP Peninsula is allowed to enter into certain gas transmission agreements without prior Commission approval. However, Peninsula is requesting Commission 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.[3] Both Peninsula and FPUC are subsidiaries of Chesapeake, and agreements between affiliated companies must be approved by the Commission pursuant to Section 368.105, F.S., and Order No. PSC-07-1012-TRF-GP.

Peninsula is seeking to extend its existing infrastructure at the Port of Palm Beach in the city of Riviera Beach, Palm Beach County, Florida. During its evaluation of the petition, staff issued a data request to both Peninsula and FPUC for which responses were received on October 29, 2014. The Commission has jurisdiction over this matter pursuant to Sections 366.05(1), 366.06, and 368.105, F.S.

[2] Order No. PSC-07-1012-TRF-GP, issued December 21, 2007, Docket No. 070570-GP, In re: Petition for approval of natural gas transmission pipeline tariff by Peninsula Pipeline Company, Inc.
[3] Peninsula Pipeline Company, Inc., Intrastate Pipeline Tariff, Original Vol. 1, Sheet No. 12, Section 4.

Discussion of Issues

Issue 1: Should the Commission approve the Transportation Service Agreement between Peninsula and FPUC dated September 26, 2014, for an extension in Palm Beach County?

Recommendation: Yes. The Commission should approve the Transportation Service Agreement between Peninsula and FPUC dated September 26, 2014, for an extension in Palm Beach County. (Draper, Rome)

Staff Analysis: The proposed Agreement provides for three projects Peninsula will undertake at the Port of Palm Beach (Port) and will be in effect for an initial period of 20 years. Peninsula explained in the petition that the Port has started construction to support anticipated growth and redevelopment. Delivery pressure in and around the Port on FPUC's distribution system is currently limited and FPUC therefore is not able to serve any potential new customers on this part of the existing distribution system.

Peninsula's proposed projects interconnect to the Riviera Lateral Peninsula acquired in September 2013 from the Florida Gas Transmission Company (FGT). The 5.4 mile Riviera Lateral interconnects FPUC's distribution system to FGT's interstate pipeline system. Subsequent to Peninsula's purchase of the Riviera Lateral, Peninsula and FPUC executed a transportation service agreement[4] providing for deliveries of natural gas received from FGT to FPUC's distribution system through the Riviera Lateral. Peninsula's three new projects are discussed in more detail below and are shown in the map provided in Attachment A.

First, Peninsula will inspect, test, and reactivate 800 feet of an existing 12 inch steel pipe that extends across the southern boundary of the Port. This pipe is part of the Riviera Lateral that was cut and capped during Peninsula's acquisition of the lateral from FGT. Reactivating the line will alleviate the pressure issues FPUC has been experiencing around the Port. In response to staff's data request, FPUC explained that Peninsula's activation of that pipe is more cost effective than FPUC installing a new pipe.

Second, Peninsula will install a new interconnection at the midpoint of the reactivated pipe and install 820 feet of 12 inch steel pipe north across the Port property to FPUC's facilities serving the existing and potential new customers at the Port. The existing customer is currently served by a 4 inch lower pressure plastic main owned by FPUC, which is undersized as the customer has increased consumption. In addition, the Port has given FPUC notice that it must relocate its 4 inch main as the Port needs the space. FPUC explained in response to staff's data request that FPUC evaluated a self build project and concluded that there is no cost difference between FPUC's cost to abandon the 4 inch plastic main and construct the 12 inch steel pipe north through the Port and Peninsula's cost of the project. FPUC stated that it will remove the 4 inch main from rate base.

Third, delivery pressure on the FPUC distribution system in and around the Port is limited to a maximum of 25 pounds per square inch. Peninsula will install an additional custody

[4] Order No. PSC-13-0378-PAA-GU, issued August 13, 2013, in Docket No. 120313-GU, In re: Petition for approval of transportation service agreement with Florida Public Utilities Company, by Peninsula Pipeline Company, Inc.

transfer point, with pressure regulation, to connect the activated 800 feet of 12 inch steel pipe into FPUC's existing distribution system at the southeast corner of the Port property to alleviate existing pressure problems and support growth in that area. Finally, Peninsula will increase its contract capacity with FPUC to make more gas available to FPUC.

Peninsula stated that it has applied to obtain permits from the Department of Transportation and the Port Authority to install the proposed projects and expects to receive all permits before the end of 2014 and complete the construction in the second quarter of 2015. The negotiated monthly reservation charge included in the proposed Agreement is designed to allow Peninsula to recover its investment and operational costs associated with the projects. These costs include design engineering, permitting, material and installation costs, on-going maintenance costs, property taxes, and Peninsula's return on investment.

The parties assert that the rates contained in the Agreement are consistent with a market rate in that they are within the ranges of rates set forth in similar agreements as required by Section 368.105(3)(b), F.S. In response to staff's data request, Peninsula provided a comparison of construction costs (confidential) for other similar agreements entered into by Peninsula. While construction costs vary for each project due to pipe size, construction conditions, permitting, etc., staff believes that Peninsula's construction costs for the proposed extension appear reasonable and comparable to other projects. Peninsula explained that the Port is a highly congested, asphalt-surrounded property, which impacts construction costs.

To support the proposed Agreement, Peninsula lists four benefits of Peninsula, as opposed to FPUC, constructing the projects: (1) Peninsula has expertise to construct and manage this type of pipeline, (2) the project would satisfy FPUC's requirement to relocate the 820 feet of existing 4 inch main, (3) the existing FPUC customer at the Port would no longer experience pressure problems or delivery quantity limits, and (4) Peninsula's construction and ownership will avoid FPUC undertaking the costs and risk for this project, protecting FPUC's ratepayers.

FPUC is proposing to recover the payments to Peninsula under the proposed agreement through its Purchased Gas Adjustment (PGA) mechanism consistent with other gas transmission pipeline costs incurred by FPUC. Staff notes that in the annual PGA docket the Commission does not set an actual factor, but a PGA cap. FPUC provided information showing that the impact on the PGA cap will be minor.[5] While FPUC will incur costs associated with this service expansion to new areas, the anticipated new load will help spread the costs over a larger customer base.

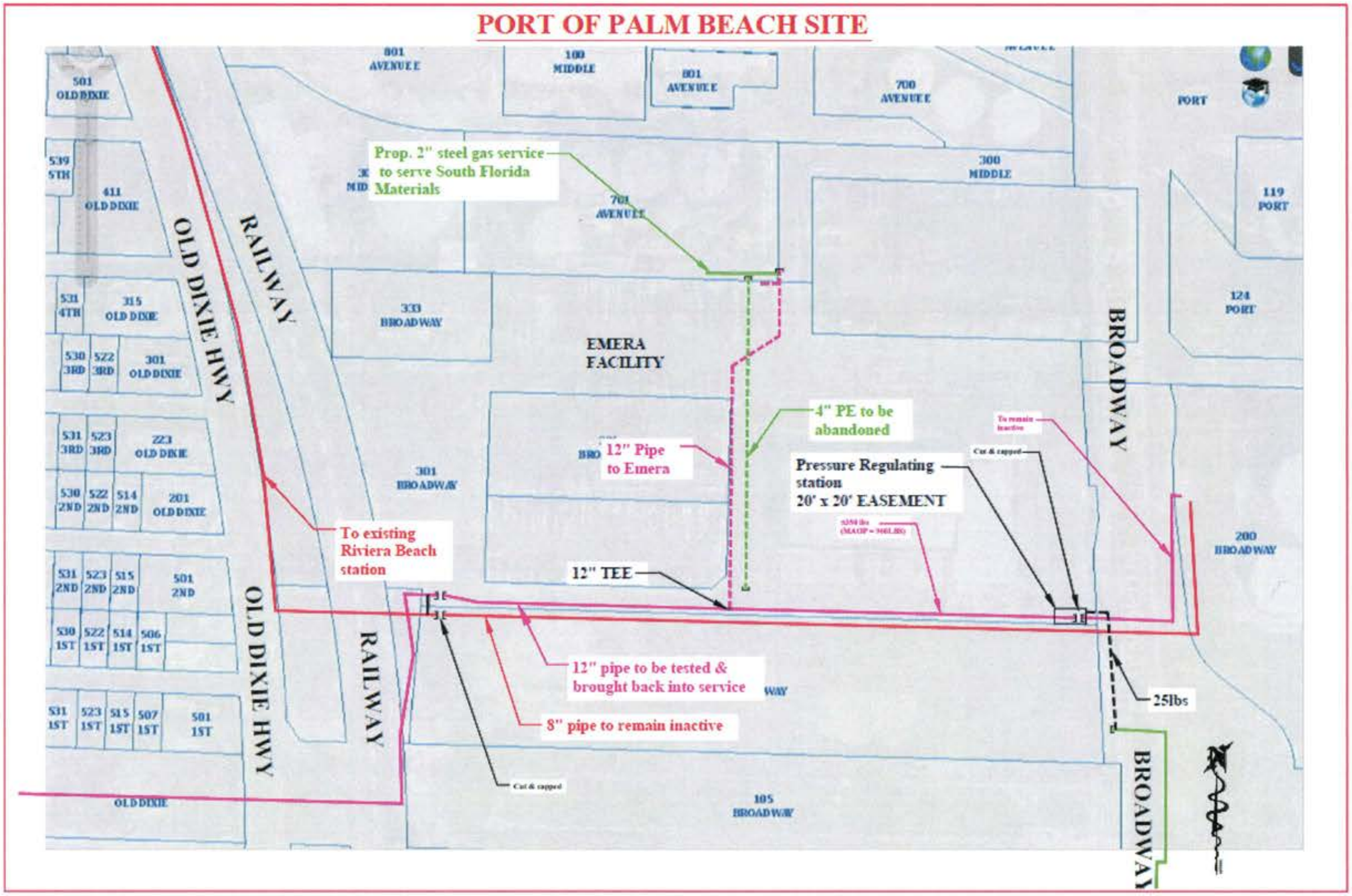
Based on the petition and responses from FPUC and Peninsula to staff's data request, staff believes the proposed Agreement is cost effective, reasonable, meets the requirements of Section 368.105, F.S., and benefits FPUC's customers. Staff therefore recommends approval of the proposed Agreement.

[5] The projected $/therm impact to the PGA factor was provided under a claim of confidentiality.

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. (Janjic)

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.


PORT OF PALM BEACH SITE
Prop. 2" steel gas service to serve South Florida Materials
EMERA FACILITY
4" PE to be abandoned
12" Pipe to Emera
Pressure Regulating station
20' x 20' EASEMENT
To existing Riviera Beach station
12" TEE
12" pipe to be tested & brought back into service
8" pipe to remain inactive
25lbs
OLD DIXIE HWY
RAILWAY
BROADWAY
333 BROADWAY
301 BROADWAY
200 BROADWAY
105 BROADWAY
300 MIDDLE
100 MIDDLE
700 AVENUE E
801 AVENUE E
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