

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: July 9, 2015

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Rome) *CR*
Office of the General Counsel (Barrera) *ED* *MB*

RE: Docket No. 150094-GP – Petition for approval of amendment to special contract with Peninsula Pipeline Company, by Peoples Gas System.

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

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Patronis

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

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Case Background

On March 26, 2015, Peoples Gas System (Peoples) filed a petition requesting Commission approval of the First Amendment (Amendment) to the transportation service agreement (Agreement) with Peninsula Pipeline Company (Peninsula) approved by Commission Order No. PSC-12-0230-PAA-GU.¹ Peoples is a natural gas distribution utility subject to the Commission’s regulatory jurisdiction under Chapter 366, Florida Statutes (F.S.). Peninsula operates as a natural

¹ Order No. PSC-12-0230-PAA-GU, issued May 9, 2012, in Docket No. 110277-GU, In re: Joint petition for approval of territorial agreement in Nassau and Duval Counties by Peoples Gas System and Florida Public Utilities Company; gas transportation agreement by Peoples Gas System and Peninsula Pipeline Company, Inc.; and application for approval of tariff revisions to reflect service in Nassau and Okeechobee Counties, by Florida Public Utilities Company.

gas transmission company as defined in Section 368.103(4), F.S.² Rule 25-9.034(1), Florida Administrative Code, requires Commission approval of special contracts.

The Amendment for which Peoples seeks approval is the result of constructing 1.6 miles of a new 20-inch pipeline interconnect with Southern Natural Gas Company's (SNG's) Cypress Lateral that will enable Peoples to provide Peninsula with incremental transportation service through the Peoples system. During its evaluation of the petition, staff issued two data requests to Peoples for which responses were received on April 24, 2015, and May 6, 2015, respectively. The majority of the questions posed by staff were intended to ensure that the proposed Amendment would not impose additional costs on People's general body of ratepayers. The Commission has jurisdiction in this matter pursuant to Sections 366.05(1) and 366.06, F.S.

² Order No. 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.

Discussion of Issues

Issue 1: Should the Commission approve the Amendment to the transportation service agreement between Peoples and Peninsula?

Recommendation: Yes, the Commission should approve the Amendment because it establishes rates that cover the cost of service and therefore benefits Peoples' general body of ratepayers. (Rome)

Staff Analysis: Order No. PSC-12-0230-PAA-GU approved a jointly developed plan by Peoples and Peninsula for the expansion of natural gas service in Nassau County.³ The Agreement was an integral component of the expansion plans. Prior to Peoples and Peninsula entering into the Agreement, Peoples owned interconnection points with Florida Gas Transmission Company (FGT) and Southern Natural Gas (SNG). FGT and SNG are interstate pipelines that transport gas into Florida. In addition, Peoples owned gas distribution facilities in Duval and Nassau Counties. To facilitate the expansion of gas service in Nassau County, Peoples and Peninsula entered into the Agreement that provided for Peoples to upgrade certain portions of its facilities and for Peoples and Peninsula to jointly construct and own a 16.1 mile pipeline terminating at a Fernandina Beach paper products mill. This pipeline is referred to as the Fernandina Beach Line in Order No. PSC-12-0230-PAA-GU. Peoples provides gas transportation service under the Agreement through its distribution system in order to deliver gas to Peninsula for further transportation through the Fernandina Beach Line to Peninsula's customers.

The proposed Amendment will enable Peoples to provide Peninsula with incremental transportation service. Specifically, Peoples will design and construct a new gate station connected to the SNG Cypress Lateral and install approximately 1.6 miles of 20-inch pipeline connecting the new gate station to Peoples' existing 20-inch line that traverses Ford Road in Nassau County. In addition, Peoples will uprate the existing Capper Regulator Station. The additional gas delivered from the new Peoples-SNG interconnect will then be transported by Peninsula through the Fernandina Beach Line for delivery by Peninsula to its customers.

Peoples has not submitted applications for the necessary construction permits due to ongoing negotiations with affected land owners; however, Peoples believes that once the permit applications are tendered, the permitting process will take less than six months to complete. The estimated completion date for the installation of the pipeline is June 1, 2016. To complete the construction of the infrastructure expansion, Peoples will issue an RFP and select a contractor.

The negotiated monthly reservation charge (confidential) included in the proposed Amendment is designed to recover Peninsula's allocated portion of the expansion project. Costs associated with capital investment, operation and maintenance, depreciation, income taxes, and Peoples' return on investment were allocated to Peninsula based on Peninsula's incremental hourly capacity requirement compared to the overall project's incremental hourly capacity requirement.

³ Florida Public Utilities Company (FPUC) was also a party in the gas expansion plans in that portion of Florida.

Peoples provided confidential cost of service information with its petition and in response to staff's data requests. The cost of service study demonstrated that the incremental transportation revenues derived from the Amendment will enable Peoples to fully recover the incremental costs of providing the additional transportation service to Peninsula. Staff recommends that the Commission approve the Amendment because it establishes rates that cover the cost of service and therefore benefits Peoples' general body of ratepayers.

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. (Barrera)

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.