

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
15 OCT - 1 AM 8:48
COMMISSION
CLERK

DATE: October 1, 2015

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Ollila) *A.O. fad EJD*
Office of the General Counsel (Mapp) *YRM JC*

RE: Docket No. 150172-GU – Petition for approval of amendments to special contract with Polk Power Partners, L.P., by Florida Division of Chesapeake Utilities Corporation.

AGENDA: 10/13/15 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Patronis

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On July 27, 2015, the Florida Division of Chesapeake Utilities Corporation (Chesapeake or Company) filed a petition for approval of amendments to its special contracts with Polk Power Partners, L.P. (Polk). The most recent amendments were approved in 2006 and expire at the end of 2015.¹ In this proceeding, Chesapeake seeks approval of amendments to the Delivery Point Lease, the Capacity Relinquishment Agreement, and the Gas Transportation Service Special Contract. Staff issued two data requests.

¹ Order No. PSC-06-0143-PAA-GU, issued February 27, 2006, in Docket No. 050835-GU, *In re: Petition for approval of Amendment No. 2 to gas transportation agreement (special contract), master gas transportation service termination agreement, delivery point lease agreement and letter agreement: CFG Transportation Aggregation Service between Florida Division of Chesapeake Utilities Corporation and Polk Power Partners, L.P.*

Chesapeake has provided gas transportation service to Polk's 115 megawatt cogeneration facility for over 20 years.² In 1993, Polk established a direct connection with Florida Interstate Gas Transmission's (FGT) interstate pipeline and currently obtains the majority of the gas it needs to operate its cogeneration facility from FGT. According to Chesapeake, Polk is fully capable of entirely bypassing Chesapeake in favor of obtaining all of its gas requirements through its direct connect with FGT at a rate which would make bypass an attractive option to Polk.

Rule 25-9.034(1), Florida Administrative Code, requires that whenever a special contract is entered into by a utility for the sale of its product or services in a manner or subject to the provisions not specifically covered by its filed regulations and standard approved rate schedules, such contract must be approved by the Commission prior to its execution. The Commission has jurisdiction over this matter pursuant to Section 366.05, Florida Statutes.

² Order No. PSC-92-0201-FOF-GU, issued April 14, 1992, in Docket No. 920156-GU, *In re: Petition by the Florida Division of Chesapeake Utilities Corporation for approval of Large Volume Contract Transportation Service Rate Schedule and Gas Transportation Agreement with Mulberry Energy Company, Inc.*

Discussion of Issues

Issue 1: Should the Commission approve the amendments to the special contracts between Chesapeake and Polk?

Recommendation: Yes, the Commission should approve the amendments because they allow Chesapeake to continue its relationship with Polk through August 2024, prevent bypass, and establish a rate that covers the incremental cost of service, thereby benefiting Chesapeake's general body of ratepayers. (Ollila)

Staff Analysis: Chesapeake seeks approval of amendments to the Delivery Point Lease, the Capacity Relinquishment Agreement, and the Gas Transportation Service Special Contract. The three contracts are discussed below.

Contracts

Delivery Point Lease

This contract designates Chesapeake as Polk's delivery point operator at the point where Polk's gas lines connect to FGT. As the delivery point operator, Chesapeake is permitted to combine the volumes delivered to Polk in order to manage gas deliveries. By combining the deliveries, gas over burns and under burns can be offset, which could serve to reduce or eliminate potential penalties imposed by pipelines. The proposed amendment extends the contract term from December 2015 to August 2024.

Capacity Relinquishment Agreement

This contract describes the terms under which Chesapeake agrees to relinquish to Polk certain firm capacity rights pursuant to Chesapeake's agreement with FGT. The proposed amendment has two changes: it extends the contract term from December 2015 to August 2024; and it changes the capacity release commitment from a specific amount to a range, modifying the language to be more consistent with Federal Energy Regulatory Commission requirements for noticing capacity releases.

Gas Transportation Service Special Contract

The proposed amendment has two changes: it extends the contract term from December 2015 to August 2024; and it revises the proposed negotiated (confidential) rate, which covers the incremental cost of service.

Chesapeake explains that because of Polk's direct connection with FGT, Polk has been able to meet a majority of its need for gas directly from FGT, thus gradually reducing the amount it has obtained from Chesapeake. This results in a reduction of the capacity requirement on Chesapeake's system. According to Chesapeake, the amendment reflects the new and reduced level of capacity that Polk needs from Chesapeake. The proposed rate reflects a small reduction, which Chesapeake states recognizes the value of Polk as a customer as well as the risk of harm to Chesapeake and its ratepayers if Polk were to bypass Chesapeake. Chesapeake provides a benefit to Polk by serving as a second source of gas.

The incremental cost of service study results in an annual cost of \$176,110. This amount includes operations and maintenance expense, depreciation, taxes, and return on investment.

Chesapeake asserts that the proposed rate allows Chesapeake to appropriately recover its ongoing costs to serve Polk.

Conclusion

In its petition, Chesapeake states that the Commission has recognized:

Having industrial customers on the system greatly benefits all users, particularly the residential customers. Customers benefit because large load users are able to absorb a greater portion of the fixed cost necessary to provide the service; as a result, rates are lower, especially for small load users. Conversely, losing industrial customers who have alternative fuel sources or viable bypass options would pose a greater burden on all ratepayers, and could result in higher rates.³

Staff recommends that the Commission approve the amendments because they allow Chesapeake to continue its relationship with Polk through August 2024, prevent bypass, and establish a rate that covers the incremental cost of service, thereby benefiting Chesapeake's general body of ratepayers.

³ 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.*

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. (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.