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**E-PORTAL FILING**

Ms. Carlotta Stauffer, Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

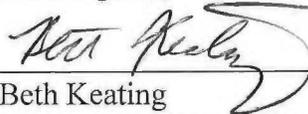
**Re: Docket No. 170010-GU - Joint petition requesting approval of territorial agreement for Escambia County, by City of Pensacola d/b/a Pensacola Energy and Florida Division of Chesapeake Utilities Corporation.**

Dear Ms. Stauffer:

Attached for filing on behalf of the City of Pensacola d/b/a Pensacola Energy and the Florida Division of Chesapeake Utilities Corporation, please find the Responses of Pensacola Energy and the Florida Division of Chesapeake Utilities Corporation to Commission Staff's First Data Requests in the above-referenced docket.

As always, please don't hesitate to let me know if you have any questions. Thank you for your assistance with this filing.

Kind regards,



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cc:/ Office of General Counsel (Taylor)  
Division of Economic Regulation (Guffey, Draper)

**Re: Docket No. 170010-GU: Joint Petition requesting approval of territorial agreement for Escambia County, by City of Pensacola d/b/a Pensacola Energy and Florida Division of Chesapeake Utilities Corporation.**

Responses to Staff's First Data Requests

The joint responses of the Florida Division of Chesapeake Utilities Corporation and the City of Pensacola d/b/a Pensacola Energy to Staff's First Data Requests are as follows:

1. Page 2, paragraph 4 of the petition states that Pensacola Energy is currently providing natural gas service. How does Pensacola currently receive natural gas (i.e., through which interstate pipeline) and could Pensacola serve new load such as the New Industrial Customers with its existing interstate pipeline capacity? If not, please explain why.

**Pensacola Response:** Pensacola currently receives service via the Gulf South Pipeline. Pensacola would have difficulty serving certain New Industrial Customers due to pressure constraints on its distribution system.

2. Page 2, paragraph 4 of the petition states that constructing a direct interconnection between Pensacola Energy and FGT interstate facilities, "would allow certain other large customers in Escambia County to receive natural gas service that, to date, have been unable to obtain service" How are these "other large customers" currently obtaining power? Are they currently utilizing electricity or other type of energy? Please explain.

**Joint Response:** At present, the "other large customers," referenced in paragraph 4 of page 2, are utilizing fuel, including natural gas, for industrial processes and electricity for power consumption. As it relates to these existing large customers, the natural gas supplied will be used in the customers' industrial processes, not to generate electricity to power the facility.

3. Page 3, paragraph 5 of the petition states that the service arrangement contemplates that Chesapeake will be allowed to serve "New Industrial Customers" within Escambia County that are not currently served by Pensacola Energy. What types of industries are anticipated to take service under the proposed territorial agreement and are there any projected job numbers?

**Chesapeake Response:** At present, the main industry that Chesapeake anticipates providing service to is the specialty chemical industry. There are other existing customers in the area that meet the criteria of "New Industrial Customers," as defined in

this Agreement, that may take service from Chesapeake at some point in the future. Because the potential customers already exist in the area, Chesapeake is unable to identify any new jobs that will result from natural gas service to these businesses. The addition of facilities providing additional access to natural gas supplies will, however, provide an additional tool for attracting new businesses and industry to the area; thus, it is possible that this project will, ultimately, result in new job creation as new business and industry is attracted to the area.

4. Please explain why Pensacola does not construct the Escambia Line (pipeline) in order to serve all potential new industrial customers themselves.

**Pensacola Response:** Pensacola does not own any transmission pipeline facilities, nor has it ever been involved in the construction of one. Consequently, we did not feel confident that we had the expertise within the organization to construct and operate a pipeline of this type. As such, we found it preferable to work with an entity, such as Chesapeake, with greater experience in this type of project.

5. Is Chesapeake aware of any other natural gas companies that would want to serve the New Industrial Customers in Pensacola and/or Escambia County?

**Chesapeake Response:** Chesapeake is not aware of any other local distribution companies having interest to serve the "New Industrial Customers" in Pensacola and/or Escambia County. The Company is aware that Gulf South Pipeline serves certain of these customers. However, as noted, the new project contemplated by the Territorial Agreement will provide enhanced reliability, as well as access to more economical transportation service and natural gas supply via FGT that are not currently available. This new project will not displace existing direct connections to the Gulf South Pipeline but will provide the Escambia County market with transportation alternatives that do not currently exist today.

6. Has Pensacola contacted any other entities (e.g., Seacoast, Peninsula) that could construct a new pipeline that would interconnect Pensacola to FGT? Please discuss the result of any such discussions.

**Pensacola Response:** Pensacola did not contact other entities with regard to this project. Instead, Pensacola pursued a sole source option working with Chesapeake based upon Chesapeake's operational experience with FGT and with similar pipeline projects to serve Chesapeake's larger industrial customers.

7. Please discuss how the proposed pipeline will increase reliability of natural gas service (see territorial agreement, page 1)

**Joint Response:** The proposed pipeline contemplated by this agreement, will increase the reliability of natural gas service by establishing an additional transportation and commodity supply source via a new pipeline. The redundancy of supply provides the end use customers the ability to continue their processes, uninterrupted, while maintenance is performed on the interstate pipeline to which they are connected.

8. Please confirm that no other investor-owned gas utility currently provides natural gas service in Escambia, Santa Rosa, Okaloosa, or Walton County.

**Joint Response:** The parties are not aware of any other investor-owned gas utilities currently providing service in Escambia, Santa Rosa, or Walton County.

9. Is Escambia County/City of Pensacola competing with the Gulf Power Company's service areas to attract industries? Is this proposed project part of Escambia County's economic development strategy?

**Pensacola Response:** Pensacola d/b/a Pensacola Energy, which provides natural gas, coordinates with Gulf Power, the area's largest electric provider, as well as other members of the Florida West Economic Development Alliance, to offer industry and businesses options that will attract them to Pensacola and Escambia County. Although this project is not specifically identified in the Pensacola Chamber's Greater Pensacola Area Economic Development Strategy for the period 2013-2018, we believe that the end result is, in fact, consistent with that Plan in that it will facilitate efforts to attract new businesses and industry, as well as encourage the retention of existing businesses and industries. Moreover, for those potential industries that rely upon natural gas for their industrial processes, the project will provide redundancy and a heightened level of confidence that, if they do choose Escambia County/Pensacola, they will be able to access the gas supplies they need.

10. Please provide a better defined map in color (Exhibit B – Pensacola Lateral Map), clearly identifying the proposed pipeline and its beginning and ending points.

**Joint Response:** Please see Attachment A.

11. Page 3, paragraph 5 of the petition states that Chesapeake's service area will consist only of service extensions to New Industrial Customers and not be defined by a land boundary or geographic area. Please explain how this qualifies as a territorial agreement? Should it be a special contract to serve the specific customers defined as New Industrial Customers?

**Joint Response:** The territorial agreement constitutes a valid territorial agreement under Rule 25-7.0471, Florida Administrative Code, consistent with past decisions of the Commission. The agreement addresses natural gas service in Escambia County and the parties have provided a map, as well as a description of the customers and circumstances under which either party will provide service within Escambia County. As set forth in the Joint Petition, there are no customers to be transferred under the agreement. The territorial agreement meets the criteria for approval set forth in Rule 25-7.0471(2), Florida Administrative Code, in that no facilities are being transferred, thus reasonableness of purchase price is not at issue. The territorial agreement will not decrease reliability of gas service in the area, but will, in fact, increase reliability and enable expansion to serve gas customers who would otherwise be unable to receive service, because Pensacola's current means of access to interstate supplies limits economic expansion opportunities. The agreement clearly delineates which customers will be served by either entity, and also requires that Pensacola and Chesapeake maintain an open line of communication as it relates to confirming service for such customers; thus, the agreement will avoid uneconomic duplication of gas facilities to serve New Industrial Customers.

The territorial agreement does not constitute a "special contract" for service by Chesapeake and could not have been crafted as such. While the parties to the territorial agreement, Pensacola and Chesapeake, have entered into a contractual agreement which provides that, between the two, there will be no dispute as to which party will be eligible to serve a certain defined class of customers, they have not, and could not, bind third parties to service or terms of service with Chesapeake or Pensacola. Rather, Chesapeake will be the gas provider eligible to serve New Industrial Customers under the territorial agreement, but will still need to enter into separately negotiated transportation service agreements with such customers. The possibility exists that some customers that qualify as New Industrial Customers may ultimately elect to fulfill their energy needs by other means. In entering into this territorial agreement, the parties have merely agreed to a delineation of each parties' territory based upon customer type within a specified County. As explained in greater detail in response to Data Request 12 below, delineation of service territory by this method has been accepted by the Commission in the past with regard to other natural gas territorial agreement.

12. Rule 25-7.0471(1)(a), Florida Administrative Code, requires a map and a written description of the area. Page 3, paragraph 5, of the petition states that Chesapeake's service area will not be characterized by defined service territory, mapped area, or land boundary. Please discuss how this rule requirement can be satisfied under the proposal.

**Joint Response:**

Commission approval of territorial agreements constructed in this manner is not unprecedented. In fact, the territorial structure contemplated in the subject agreement is not unlike the territorial agreement entered into between Florida Public Utilities Company and Peoples Gas System for Nassau and Duval Counties, whereby Peoples' "territory" as it relates to Nassau County is not defined by a geographical boundary, but rather it is defined as specific customers in Nassau County. See, Order No. PSC-12-0230-PAA-GU, issued May 9, 2012, in Dockets Nos. 110271-GU and 110277-GU. Similarly, the 2003 territorial agreement between City Gas Company and Florida Public Utilities Company for Palm Beach County contemplates that, in a limited area of the county, both companies will be allowed to serve, with City Gas' (now Florida City Gas) being allowed to serve industrial customers with loads exceeding 250,000 therms per year, and FPUC being allowed to serve all other residential and commercial customers that do not meet that load requirement. See, Order No. PSC-03-0478-PAA-GU, issued April 10, 2003, in Docket No. 030134-GU. See also, Order No. PSC-01-0891-PAA-EU, issued in Docket No. 930885-EU, on April 9, 2001.

Moreover, the Commission has stated that, "Unless we determine that the Amended Agreement will cause a detriment to the public interest, the agreement should be approved." Order No. PSC-09-0276-PAA-EU, issued April 29, 2009, in Docket No. 080632-EU; citing Utilities Commission of the City of New Smyrna v. Florida Public Service Commission, 469 So. 2d 731 (Fla. 1985).

13. Please consider the following hypothetical scenario: a New Industrial Customer is served by Chesapeake, while another new customer in the adjacent lot does not meet the definition of "New Industrial Customer" as shown in Section 1 of the proposed territorial agreement and is served by Pensacola. Both customers are behind the Chesapeake Delivery Point as defined in the Gas Transportation Agreement and need new gas mains and a regulator to receive natural gas service.

**Joint Response:**

- a) Will the distribution equipment needed to serve both customers be owned and maintained by Pensacola, or will each utility own and operate the distribution equipment required to serve their customer.

**Joint Response:** Chesapeake does not anticipate, as a result of this Territorial Agreement, the need to install additional mains to serve new distribution customers behind the Delivery Point. To the extent capable, Pensacola anticipates serving customers behind the Delivery Point; thus, Pensacola would own and operate any equipment used to serve its customers. In the event that Pensacola is unable to meet the needs of a particular customer, the Territorial Agreements contemplates that the Parties will meet to determine the best means to ensure that any such customer is able to obtain satisfactory service.

- b) How will it be clear to safety inspectors or gas utility workers which natural gas facilities such as regulators or gas mains belong to which utility?

**Joint Response:** Any new customers establishing service under this Agreement would be identified by both inspectors and gas utility workers in the same manner that are they are currently identified.

- c) How would such a scenario satisfy the requirement of Rule 25-7.0471(2)(c), F.A.C.?

**Joint Response:** Service to new customers will be established consistent with the Territorial Agreement, as well as applicable Commission Rules. At present, it is anticipated that Pensacola will serve customers, including those that otherwise meet the definition of a "New Industrial Customer," that reside behind the Chesapeake Delivery Point. Here, the Parties note that the Territorial Agreement specifically provides in the definition of "New Industrial Customers" that Pensacola must affirmatively decline to serve a customer before such customer can fully meet the definition of a "New Industrial Customer." Thus, the Parties, and the Territorial Agreement, do not contemplate an intermingling of facilities of Pensacola and Chesapeake. That said, in the event that there is a "New Industrial Customer," behind the Chesapeake Delivery Point, Pensacola and Chesapeake will coordinate to see that the customer is able to obtain service in an efficient, cost-effective manner. While this may result in Chesapeake facilities behind the Chesapeake Delivery Point, this will not result in uneconomic duplication of facilities to serve a customer. This type of analysis and cooperation as to which entity is best situated to serve is also consistent with the Commission's analysis of the territorial agreement addressed in Order No. PSC-01-0891-PAA-EU, issued in Docket No. 930885-EU, in which the Commission analyzed and approved a territorial agreement between Gulf Power and Gulf Coast Electric Cooperative, which was of a somewhat similar nature to the Territorial Agreement presented for approval in this Docket.

14. With respect to the definition of “New Industrial Customers” as shown in Section 1 of the proposed territorial agreement, please state:

- a) What happens if a customer who has been deemed a New Industrial Customer and is being served by Chesapeake does not meet the annual load requirement once operational?

**Joint Response:** The Territorial Agreement provides for the establishment of a new service rather than the ongoing treatment of established customers. Once service is established consistent with the Territorial Agreement, a customer will remain the customer of the entity currently providing service.

- b) How was the 600 dekatherm threshold determined?

**Joint Response:** The 600 dekatherm threshold was a negotiated level between the two parties based on anticipated customers in the area.

- c) Chesapeake’s tariff sheet No. 17 defines commercial and industrial consumers. Please consider the following hypothetical scenario: a new hotel with projected annual load in excess of 600 dekatherms. Would the hotel be served by Pensacola since it is defined as a commercial, not industrial, customer?

**Joint Response:** The use of “New Industrial Customer” found on page 3, paragraph 5 of the Territorial Agreement contemplates the definition of an Industrial Customer as found in CFG’s, FPSC approved, Tariff Sheet 17.

Moreover, consistent with paragraphs III and IV of the Territorial Agreement, at the request of either party and consistent with good engineering practices or economic constraints, the parties can come to a mutual agreement to allow one or the other to serve a particular customer that may not otherwise meet the criteria set forth in the agreement. Any such modification would be submitted to the Commission to approval.

- d) How would a dispute between Pensacola and Chesapeake whether a new customer qualifies as a New Industrial Customer be handled? Would it be brought before the Commission?

**Joint Response:** Any dispute regarding the Territorial Agreement or other related dispute involving service territory would be submitted to the Commission for resolution consistent with Section 366.04(3)(b), Florida Statutes.

15. Please explain the differences between Chesapeake Utilities Corporation (CUC) referred to in the Gas Transportation Service Agreement and Central Florida Gas (CFG) referred to in the proposed Territorial Agreement. Do the names refer to the same entity and if so what is the reasoning to use two different names?

**Chesapeake Response:** No distinction was intended, nor any confusion. In each of the introductory paragraphs of the Joint Petition, the Territorial Agreement, and the Transportation Service Agreement, the full name of the company, the Florida Division of Chesapeake Utilities Corporation, as it is registered with the Florida Public Service Commission was included. In the Territorial Agreement, the Company's fictitious name was also included. Merely as a result of timing and different authors, the abbreviation for Chesapeake ("CUC") was used in the Transportation Service Agreement, while the short form for the Company's d/b/a Central Florida Gas ("CFG") was used in the Territorial Agreement. Again, no distinction or confusion was intended.

16. Please provide a clear map depicting Pensacola Energy's service area/territory referred to in Section II, page 2 of the Territorial Agreement.

**Joint Response:** Please refer to Attachment B.

17. What is the projected and/or estimated quantity of natural gas to be transported via the proposed pipeline? Is the pipeline sized to meet a certain projected number of New Industrial Customers, or will there be extra capacity that can be reserved by large customers being served by Pensacola?

**Joint Response:** The Territorial Agreement defines the quantity of natural gas to be available via the new pipeline for Pensacola, not the pipeline in its entirety. Pipelines are sized based on known components, such as demand and pressure of identified customers.

18. Please explain whether the rates contained in Exhibit A of the Gas Transportation Service Agreement are designed to allow Chesapeake to recover its costs (operations and maintenance, depreciation, property taxes, return, etc.) associated with constructing the pipeline.

**Chesapeake Response:** The rates defined in Exhibit A are designed to recover the costs associated with Pensacola's portion of the pipeline.

19. Please discuss how Chesapeake will treat the revenues (below the line, above the line) received from the City of Pensacola pursuant to the Gas Transportation Service Agreement.

**Chesapeake Response:** Consistent with any agreement Chesapeake enters into, the revenues associated with this Agreement will be treated as required by U.S. Generally Accepted Accounting Principles ("GAAP").

20. Please state whether Chesapeake will petition the Commission in a future proceeding to put the pipeline in rate base and recover the associated revenue requirement from its general body of ratepayers.

**Chesapeake Response:** The Company will recover the costs of the facility through the contract price with Pensacola and any new contracts with customers that connect to Chesapeake's facilities. Chesapeake currently has no plans for a rate proceeding and believes that the terms of the contract are sufficient.

21. Please explain how the pipeline investment once completed (i.e., the cost and revenues associated with the pipeline) will affect Chesapeake's surveillance reports as filed with the Commission.

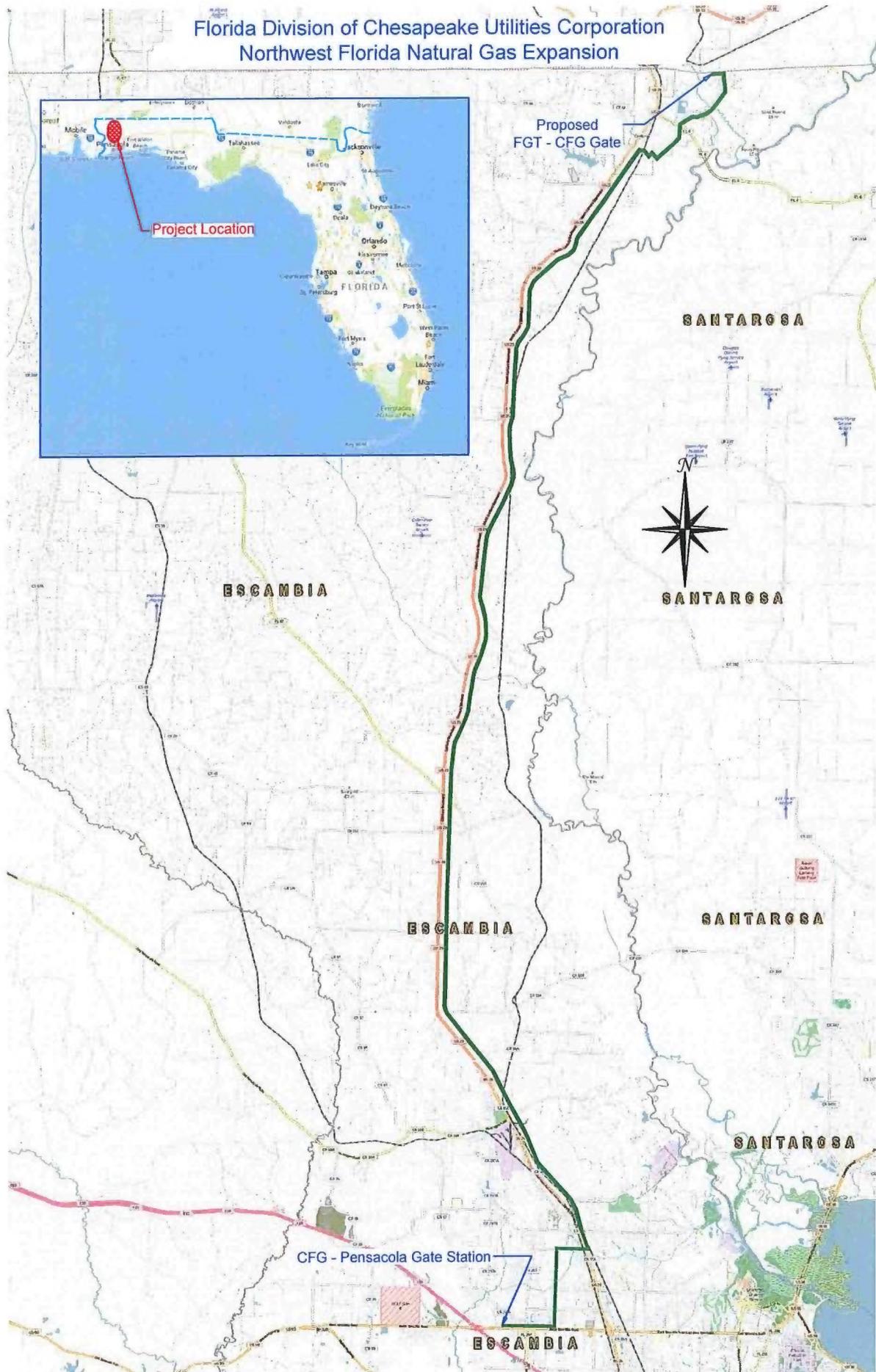
**Chesapeake Response:** Once completed this investment, as well as all appropriate investments, will be included in Chesapeake's surveillance reports.

22. Please discuss how Chesapeake's general body of ratepayers will benefit from the proposed territorial agreement and Chesapeake's construction and ownership of the proposed pipeline.

**Chesapeake Response:** The completion of the project contemplated under this Territorial Agreement will benefit the general body of Chesapeake ratepayers by further expanding the Company's distribution system, adding more volumes and allowing further distribution of costs to new customers. Moreover, it is in the public interest in that it will facilitate expansion of natural gas service, enable current gas customers to obtain additional gas supplies at sufficient pressure levels, and provide economic development opportunities to encourage new, large, gas-reliant customers to locate in Escambia County.

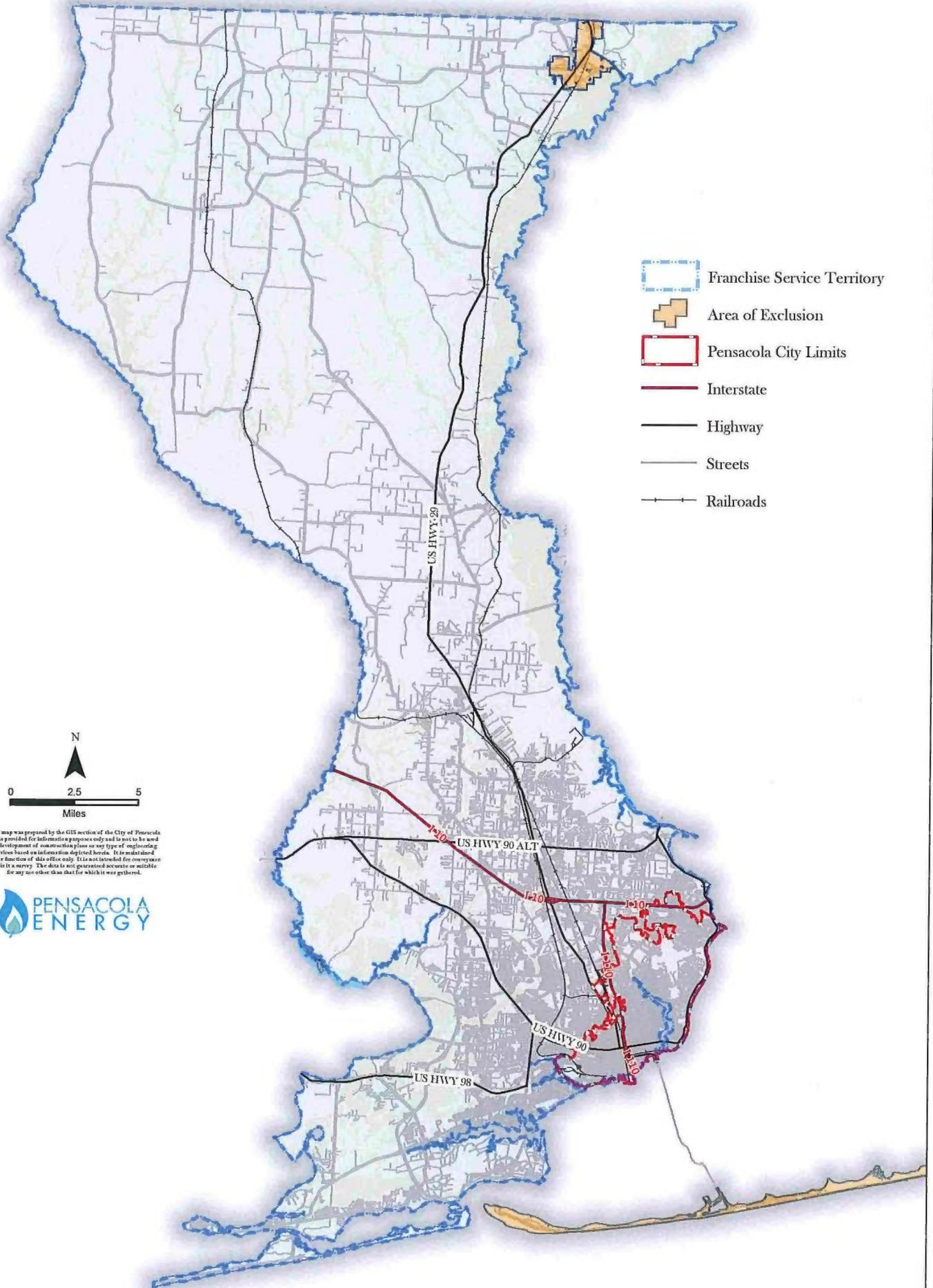
**ATTACHMENT A**

Florida Division of Chesapeake Utilities Corporation  
Northwest Florida Natural Gas Expansion

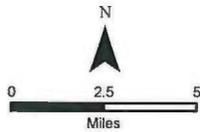


**ATTACHMENT B**

# FRANCHISE SERVICE TERRITORY



-  Franchise Service Territory
-  Area of Exclusion
-  Pensacola City Limits
-  Interstate
-  Highway
-  Streets
-  Railroads



This map was prepared by the GIS section of the City of Pensacola and is provided for informational purposes only and is not to be used for development of engineering plans or any type of engineering services based on information depicted herein. It is understood for the function of this office only. It is not intended for any use not in a survey. The data is not guaranteed accurate or suitable for any use other than that for which it was gathered.

