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August 28, 2017

**E-PORTAL FILING**

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

**Re: Docket No. 20170176-GU - Petition by Florida Division of Chesapeake Utilities Corporation for approval of special contract with Sebring Gas System, Inc.**

Dear Ms. Stauffer:

Attached for filing in the referenced docket, please find the Responses of the Florida Division of Chesapeake Utilities Corporation to Staff's First Data Requests in the 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:/ (PSC Staff – Taylor, Guffey)

**Docket No. 20170176-GU: Petition of the Florida Division of Chesapeake Utilities Corporation for Approval of Special Contract with Sebring Gas System, Inc.**

Florida Division of Chesapeake Utilities Corporation's Response to Staff's First Data Request

1. How is Sebring currently receiving its gas supplies to serve customers in Desoto County? Does Sebring have an interconnection(s) with Florida Gas Transmission (FGT) and where is that interconnection in relation to the proposed Sebring Line?

**Company Response:**

**The Company is not currently part of the service that Sebring provides to its existing customers in Desoto County, but understands Sebring receives its natural gas supplies from FGT via an interconnection located approximately 13 miles from the project proposed in this Petition.**

2. Referring to Chesapeake's tariff provision on Special Contract Service discussed on page 4 of the petition, please discuss how Sebring, which is defined as a natural gas utility, falls within the definition of "Consumer." Consumer is defined on Sheet No. 6 of Chesapeake's tariff as "Any individual, firm or organization receiving Transportation Service at one premise" and different consumers are listed on tariff page Nos. 17 and 18 (residential, commercial, industrial, special purpose).

**Company Response:**

**A Consumer, as defined on Sheet No. 6 of Chesapeake's tariff, can be an "organization receiving Transportation Service at one premise." In the present case, Sebring is an organization receiving transportation service at the interconnect being constructed with Chesapeake. The different consumers identified on Sheet 17 and specifically Sheet 18 section I, paragraph A, part 1(d) define consumers as "Special Purpose Consumers" when they are "consumers receiving Transportation Service from the Company that does not meet the definition for any of the above Consumer classifications." In this case, Sebring meets the criteria of "Special Purpose Consumer" as defined by the Company's tariff.**

3. Please state how many and what mix (residential, commercial) new gas customers Sebring projects to serve in the City of Arcadia?

**Company Response:**

**The Company does not have direct information with regard to Sebring's plans to service within the City of Arcadia.**

4. Please provide a map showing the location of the Sebring Lateral (interconnection with FGT, custody transfer station, etc.) in relation to existing infrastructure.

**Company Response:**

**See attached map.**

5. Did Sebring issue a Request for Proposals (RFP) to obtain construction cost estimates for the Sebring Lateral from other entities? If the answer is affirmative, please identify all respondents to the RFP and provide an explanation regarding why their proposals were rejected. If the answer is negative, please state why Sebring did not solicit competitive bids.

**Company Response:**

**The Company is not fully aware of the process by Sebring evaluated its options for service; however, the Company can state that its own negotiations for this arrangement with Sebring were not initiated in response to an RFP.**

6. Did Sebring consider building the facilities itself in lieu of contracting with Chesapeake? If the answer is affirmative, please provide an estimate of what the costs to Sebring would be if it were to undertake the entire project itself.

**Company Response:**

**The Company is without direct knowledge of the process by which Sebring evaluated its options for service.**

7. Will Chesapeake need to obtain approval from any other state or local agencies to construct the Sebring Lateral? If the answer is affirmative, please provide a brief description of the approvals that will be required and an estimate of when they will be, Florida Department of Environmental Protection.

**Company Response:**

**Yes, Chesapeake is required to obtain approvals from both Florida Department of Transportation (FDOT) for the easement on the road and Florida Department of Environmental Protection (FDEP) for a Sovereign Submerged Land Easement. Additionally, Chesapeake must get approval from the Seminole Gulf Railroad for the railroad crossing. Currently all permits are complete with the exception of the railroad permit which is anticipated to be received by September 2017.**

8. When does Chesapeake anticipate that construction of the Sebring Lateral will commence and what is the estimated completion date? Also, please confirm that the proposed pipeline will not be “bare steel” construction.

**Company Response:**

**Chesapeake currently anticipates that construction of the Sebring Lateral will commence in early September with completion anticipated in early October.**

9. Paragraph 9 of the petition refers to Exhibit B. Please confirm if the reference is to the pages titled *Incremental Cost of Service Study, Sebring Gas Company*, following Exhibit A to the special contract.

**Company Response:**

**Yes, Exhibit B refers to the Incremental Cost of Service Study, Sebring Gas Company, following Exhibit A to the special contract.**

10. Referring to Exhibit A of the special contract, please respond to the following questions:

- a) Please discuss the relation between the negotiated annual fixed rate (\$136,812) and the total operating cost (\$111,374). Is the annual fixed rate designed to recover Chesapeake’s annual cost of service of the Sebring Lateral, plus an additional amount?
- b) Please explain why the monthly reservation charge is an annual fixed rate (divided into monthly increments) as opposed to a variable per therm usage charge?
- c) If Sebring transports well below the Maximum Daily Transportation Quantity stated in the special contract during the month of December, for example, will the monthly reservation charge still be \$12,401?
- d) Please discuss the reasoning in the variation in the monthly increments (e.g., \$12,401 for December through March vs. \$10,401 for August through November).
- e) Section 3.1 of the special contract refers to the Minimum Daily Transportation Quantity as set forth in Exhibit A. Please state where in Exhibit A the Minimum Daily Transportation Quantity is shown.
- f) Please explain what “MHTP: 6%” on page 2 of Exhibit A stands for.

**Company Response:**

- a) **The annual fixed rate of \$136,812 represents the revenue required to cover the cost of capital, operating expenses and a return on the investment while the cost of service of \$111,374 represents the annual amount required for Chesapeake to operate this particular pipeline.**

- b) The monthly reservation charge was negotiated between Chesapeake and Sebring based on requirements set forth by Sebring. The fixed monthly charge most completely met the requirements of both parties in this negotiation.
- c) Yes, the monthly reservation charged is a fixed amount and does not vary based on usage.
- d) The variation in monthly increments represents a sculpting to more closely tie to usage that is generally dependent on seasonal variations.
- e) The MDTQ is found on the top right hand column of page one of Exhibit A. It is represented by the value stated as 720.
- f) MTHP 6% stands for Maximum Therms Hourly

11. Referring to the Incremental Cost of Service Study, please list the components and associated amounts (interconnection, pipe, meter, etc.) included in Cost of Plant/Rate Base (\$821,384).

**Company Response:**

Main Installation	\$556,713
Skid Mount M & R	\$100,000
Odorizer	\$ 40,000
Property and Improvements	\$ 50,000
Florida Engineering and Supervisory Overhead	\$ 74,671
Total	\$821,384

12. To calculate the Return on Net Plant/Rate Base to be included in the cost of service, please explain why the calculation was not done as follows:  $\$714,604 \times 5.67\%$  (Dec 31, 2016 ESR) = \$40,518 (return included in cost of service is \$42,744; please also refer to the Cost of Service Study provided in Docket No. 130136-GU for comparison)

**Company Response:**

**Please see Attachment A for the revised cost of service study.**

13. Referring to the Incremental Cost of Service Study, Estimated O&M expenses, please explain:

- a) What costs are included under Miscellaneous, \$5,000?
- b) Please describe the work done by Chesapeake for Line Locating Expense (\$6,514)
- c) What is the significance of the calculation shown below the Estimated O&M Expenses table?

**Company Response:**

- a) **Miscellaneous is an allowance for unanticipated expenses such as line break or damages.**
- b) **This is based on 8 hours a month or 96 hours a year. Because of the location being 50 miles from the employee's location, there is a half day spent for each location. If there are two locations a month, the total is 8 hours. The procedure consists of a tech driving to Arcadia, locating the line, replacing line markers, and driving back to Winter Haven. This estimate may be low since the markers are on public road right of ways and State and County work crews mow down the markers.**
- c) **The calculation estimates corporate and Florida overheads. Customer Care, regulatory, accounting, finance, etc. are included in the overheads.**

14. Referring to the Incremental Cost of Service Study, Estimated Income Taxes, please explain the derivation of the Tax Rate (65.03%). Should the number be  $1 - 38.55\% = 61.45\%$ ?

**Company Response:**

**See Attachment A for the revised cost of service study.**

**Revised Incremental Cost of Service Study**  
**Sebring Gas Company**  
**Cost of Service**

*Attachment A*

Operation & Maintenance	\$	28,742
Depreciation	\$	21,356
Taxes - other than income	\$	17,116
Income Taxes	\$	20,441
Return @	5.67%	<u>\$ 40,518</u>
 Total Operating Cost	 \$	 <u>128,173</u>
  Revenue	  \$	  136,812

**Incremental Cost of Service Study  
Sebring Gas Company  
Estimated Rate Base and Return**

Cost of Plant	\$	821,384
Accumulated Depreciation	\$	<u>(106,780)</u>
Net Plant	\$	714,604
Working Capital	\$	-
Accum. Def. Inc. Tax	\$	-
Deferred Invest. Credit	\$	<u>-</u>
Rate Base	\$	<u><u>714,604</u></u>
Total Midpoint Return Per ROR	5.67%	<u><u>\$ 40,518</u></u>



**Incremental Cost of Service Study**  
**Sebring Gas Company**  
**Estimated Income Taxes**

Rate Base	\$	<u>714,604</u>
Return on Rate Base	\$	40,518
Interest on Debt	\$	<u>(7,675)</u>
Net Income after Tax	\$	32,843
Divide by Tax Rate		61.45%
Taxable Income	\$	<u>53,024</u>
Income Taxes	38.55%	<u>\$ 20,441</u>

Incremental Cost of Service Study  
 Sebring Gas Company  
 Capitalization as Filed in 2016 Surveillance Report

	Ratio	Total	Cost Rate	Rate Base
Long Term Debt	15.18%	\$ 10,394,312	4.93%	714,604.08
Short Term Debt	19.10%	\$ 13,080,119	1.52%	714,604.08
Customer Deposits	1.55%	\$ 1,060,164	2.30%	714,604.08
Deffered Taxes	21.63%	\$ 14,816,450		714,604.08
Equity	42.55%	\$ 29,139,593		714,604.08
	100.00%	\$ 68,490,638		

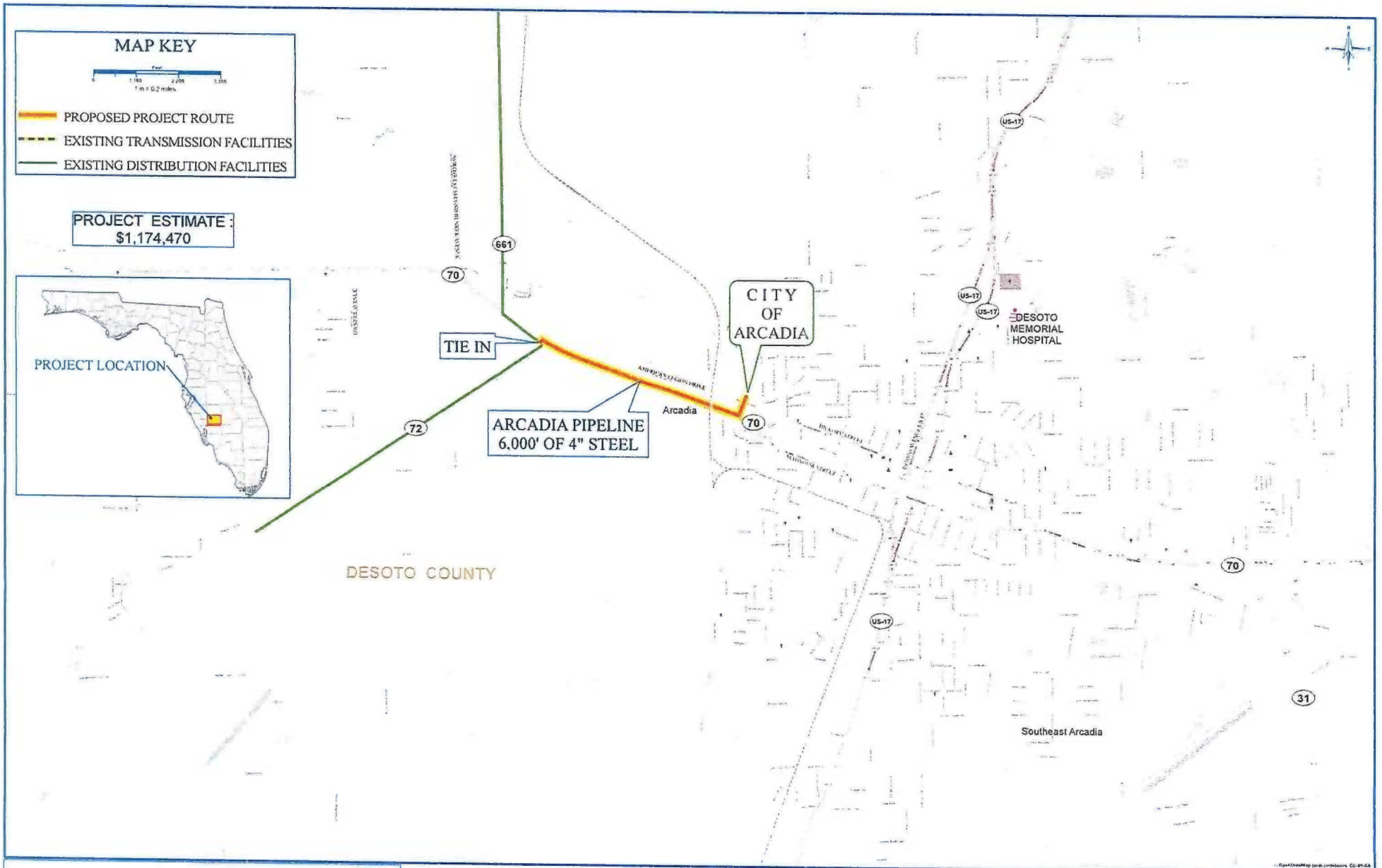
**Incremental Cost of Service Study  
Sebring Gas Company  
Estimated O&M Expenses**

			2.5%		10				
			1		2		3		4
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Cathodic Protection Testing	\$ 864	\$ 864	\$ 885	\$ 907	\$ 930	\$ 953	\$ 977		
Leak Testing	\$ 936	\$ 536	\$ 549	\$ 563	\$ 577	\$ 592	\$ 606		
Pipeline Marker Replacement	\$ 82	\$ 82	\$ 84	\$ 86	\$ 88	\$ 90	\$ 93		
Repaint Station every 3 yrs	\$ 2,500	\$ 2,500	\$ 2,563	\$ 2,627	\$ 2,692	\$ 2,760	\$ 2,829		
Maintenance & Calibration of EFM equip	\$ 986	\$ 986	\$ 1,011	\$ 1,036	\$ 1,062	\$ 1,088	\$ 1,116		
Maintenance & Calibration of Flow Control Valve	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Meter Test every 5 years	\$ 207	\$ 207	\$ 212	\$ 218	\$ 223	\$ 229	\$ 234		
Meter parts	\$ 100	\$ 100	\$ 103	\$ 105	\$ 108	\$ 110	\$ 113		
Annual Regulator Testing	\$ 1,572	\$ 1,572	\$ 1,611	\$ 1,652	\$ 1,693	\$ 1,735	\$ 1,779		
Telemetry Monitoring and T/E functions	\$ 3,065	\$ 3,065	\$ 3,142	\$ 3,220	\$ 3,301	\$ 3,383	\$ 3,468		
Annual Odorant expense	\$ 1,379	\$ 1,379	\$ 1,413	\$ 1,448	\$ 1,485	\$ 1,522	\$ 1,560		
Paint and Maintain City Gate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Cathodic Protection Expense - replace anodes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Railroad Crossing Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Emergency Valve Maint	\$ 100	\$ 100	\$ 103	\$ 105	\$ 108	\$ 110	\$ 113		
Line Locating Expense	\$ 6,514	\$ 6,514	\$ 6,677	\$ 6,844	\$ 7,015	\$ 7,190	\$ 7,370		
Overheads & Services (corp/bu)	\$ 2,500	\$ 2,500	\$ 2,562	\$ 2,626	\$ 2,692	\$ 2,759	\$ 2,828		
Misc	\$ 5,000	\$ 5,000	\$ 5,125	\$ 5,253	\$ 5,384	\$ 5,519	\$ 5,657		
<b>Total Estimated O&amp;M Expense</b>	<b>\$ 25,404</b>	<b>\$ 25,404</b>	<b>\$ 26,690</b>				<b>\$ 28,742</b>		

Ovhd/svcs	\$ 414,362.00
Sebring Contract vols	244,550
CFG Transp Vols	236,736,000
 Sebring % of Total Vols	 0.10%
 Corp svcs/ovhds Polk % of Total Cost	 \$ 428.04
 CFG ovhds 0.500%	 \$ 2,071.81

**Incremental Cost of Service Study  
Sebring Gas Company  
Calculation of Other Taxes**

Average Tax Rate		2.00%
x Gross Plant	\$	821,384
Property Taxes	\$	<u>16,428</u>
Estimated Sales Revenue	\$	136,812
Revenue Related Taxes	\$	<u>688</u>
Total Other Taxes	\$	<u>17,116</u>



# ARCADIA PIPELINE PROJECT

Print By: jebinski

File Name: Strategic Project FVL10 - Arcadia

Print Date: 6/19/2017