

industrial facility. The purchase of such locally generated power would benefit FPUC's electric rate payers through lower overall purchased power costs.

The Company has produced customer growth forecasts for its initial customer connections and five (5) and (20) year time periods. The Company projects that approximately 400 residential customers and 240 commercial and industrial customers will be served by the end of five year. Over the initial twenty (20) year horizon, the Company expects to serve a minimum of 2,500 residential customers and 450 commercial and industrial customers, including the industrial electric generator described above. At the end of year five, the Company forecasts a requirement of [REDACTED] to [REDACTED] Dt/day in upstream pipeline capacity. The forecast requirements beyond that period are principally dependent upon industrial growth that is difficult to project.

(Cheryl Martin)

REDACTED

(PGA) filings for recovery. The Commission has traditionally approved the recovery of these transmission costs.

The above described interstate pipeline extension model has been used by virtually all Florida (regulated and non-regulated) LDC's to expand service to new areas. However, over the past decade, interstate pipelines have been reluctant to construct small diameter laterals off their primary pipelines. The Federal pipeline integrity standards require expensive maintenance actions on interstate pipelines that are onerous to perform. In addition, an interstate pipeline company's construction costs (including the Federal tax gross up) for small diameter pipe are typically much higher than a LDC's. In the case of Nassau County, FGT eventually provided a cost estimate that was in excess of [REDACTED], which would have resulted in an unreasonable capacity commitment. SONAT submitted a letter to the Company indicating that it would not construct the lateral. FGT's proposal is included in Attachment A (Confidential) to the Company's response.

The Company next turned to intrastate pipeline companies for the construction of the transmission pipeline. As the interstate pipelines discontinued the construction of small diameter laterals, two intrastate pipeline companies were formed under Chapter 368, F.S., the Natural Gas Pipeline Intrastate Regulatory Act. These companies are Seacoast Pipeline (an affiliate of TECO Energy) and Peninsula Pipeline Company (PPC, an affiliate of the Company). Both intrastate pipelines have approved tariffs on file with the Commission. The Company solicited proposals from both Seacoast and PPC to provide transmission service in Nassau County. Both companies provided transmission pipeline proposals to the Company. It should be noted that the proposal received from

TECO included options for interconnections with a proposed Seacoast Pipeline, as well as a wholesale transportation service option to be provided through a Peoples Gas main extension to Amelia Island. The PPC, Seacoast and Peoples Gas proposals are included in Attachment A to the Company's response.

The Company evaluated the terms and pricing under each proposal and selected PPC. The PPC proposal provides i) the lowest cost option, ii) a superior proposed route in support of the Company's target market, iii) the earliest in-service date, iv) greater delivered capacity for the cost, v) a high probability of long-term supply flexibility for Shippers and, vi) an option to increase capacity during the term. PPC proposed to construct a 6" transmission pipeline from the SONAT Cypress pipeline in southwest Nassau County approximately 35 miles onto Amelia Island and extending north and south on the island for approximately 4 miles in each direction. PPC would provide six (6) interconnection points along the route to serve the Company's distribution system. The interconnection with the Cypress pipeline provides double the operating pressure that is available from the SGNG, Seacoast or Peoples Gas proposals. The PPC proposal (as was generally the case with the other proposals) is based on a "fixed reservation charge" over the term of the contract, not on a rate per unit of capacity reserved. The Company negotiated an initial capacity quantity of [REDACTED], with an option to increase to [REDACTED] over the first ten (10) years of the thirty (30) year agreement. The relative pricing proposals and capacity limitations are included in Attachment A to the Company's response.

4. What are the costs and benefits of the planned connection to the Cypress Pipeline by PPC and FPUC?

The cost of the transmission service provided by PPC is [REDACTED] per month, [REDACTED] per year. The Company has included the PPC costs for six months of 2012 [REDACTED], assuming a July 2012 in-service date. The Company has also included [REDACTED] (6 month estimate) of projected interstate pipeline capacity costs and commodity costs based on a delivered gas arrangement on Cypress. As noted above, the Company's direct purchase of capacity and gas supply (or a delivered capacity and commodity arrangement) is likely to be required in very small quantities. To the extent commercial customers elect a transportation option, the Shipper would be responsible for deliveries on the interstate system. The Company's estimate of delivered gas costs proposed for PGA recovery in this docket assumes retail gas deliveries to a small number of sales service commercial customers connected in the last six months of 2012. As another option, the Company could contract for interstate pipeline capacity, and allocate such capacity and the costs, to Shippers in accordance with the FPUC tariff. Capacity is available directly from SONAT on Cypress during the winter season (November through April) and from other entities during the summer.

Interrogatory responses 2 and 3 outlined the principal benefits to the Company and its customers resulting from the PPC proposal. Attachment A provides a cost comparison for the various proposals. Connecting to Cypress shortens the route to the market areas. Estimates received by the Company from PPC indicated a construction cost savings of approximately [REDACTED] by electing the Cypress interconnect. The permitting

FLORIDA PUBLIC UTILITIES COMPANY
NASSAU COUNTY EXPANSION PROJECT
EVALUATION OF PROPOSALS
August 1, 2011

Attachment A
REDACTED

Company	Description of Project	Upstream Pipeline	Term	MDTQ	Maximum Hour (DT)	Firm	Annual Rate	Upstream Capacity (DT)	Upstream Capacity Rate	Rank
										