

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: August 27, 2021

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Forrest, Coston) *JGH*
Office of the General Counsel (Osborn, Crawford) *JSC*

RE: Docket No. 20210088-GU – Joint petition to modify tariffs to accommodate receipt and transport of renewable natural gas, by Florida Public Utilities Company, Florida Public Utilities - Indiantown Division, Florida Public Utilities - Fort Meade, and Florida Division of Chesapeake Utilities Corporation.

AGENDA: 09/08/21 – Regular Agenda – Tariff Filing - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 12/21/21 (8-Month Effective Date)

SPECIAL INSTRUCTIONS: None

Case Background

Florida Public Utilities Company, Florida Public Utilities-Indiantown Division, Florida Public Utilities-Fort Meade, and Florida Division of Chesapeake Utilities Corporation (jointly, Companies) are local distribution companies subject to the Commission's jurisdiction pursuant to Chapter 366, Florida Statutes (F.S.). The Companies serve customers in 26 counties within Florida. On April 21, 2021, the Companies submitted a joint petition for a new Renewable Natural Gas Service (RNGS) tariff for biogas¹ producers to allow the Companies to provide services for the purposes of converting biogas into usable Renewable Natural Gas (RNG) that meets pipeline quality gas standards. RNG is produced by cleaning and conditioning biogas in

¹ Biogas is described as raw, freshly emitted, and untreated gas, especially methane, produced by the breakdown of organic matter.

order to meet pipeline quality gas and heat standards, which can then be used interchangeably with natural gas within a gas distribution system.

The Commission has approved similar RNG rate schedules for Peoples Gas System in Order No. PSC-2017-0497-TRF-GU² and for Florida City Gas in Order No. PSC-2021-0040-TRF-GU.³ In 2020, the Companies received Commission approval to modify the quality of gas provisions in their tariff to allow for the receipt and transportation of RNG.⁴

The proposed tariff modifications include the new RNGS tariff (tariff sheet Nos. 7.506-7.507) and certain other tariff revisions to include definitions of RNG. During the review of this petition, staff issued two data requests for which responses were received on June 22, 2021 and July 23, 2021. On August 24, 2021, the Companies filed an amended tariff to include additional language concerning ratepayer protections and to correct a scrivener's error in the availability provision. The proposed RNGS tariffs are included as Attachment A to the recommendation.

By Order No. PSC-2021-0239-PCO-GU, issued on July 1, 2021, the Commission suspended the proposed tariffs pursuant to the 60-day file and suspend provision in Section 366.06(3), F.S. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, F.S.

² Order No. PSC-2017-0497-TRF-GU, issued December 29, 2017, in Docket No. 20170206-GU, *In Re: Petition for approval of tariff modifications to accommodate receipt and transportation of renewable natural gas from customers, by Peoples Gas System.*

³ Order No. PSC-2021-0040-TRF-GU, issued January 25, 2021, in Docket No. 20200216-GU, *In re: Request for approval of tariff modifications to accommodate receipt and transportation of renewable natural gas from customers, by Florida City Gas.*

⁴ Order No. PSC-2020-0113-TRF-GU, issued April 20, 2020, in Docket No. 20200046-GU, *In re: Petition to revise tariffs for Florida Public Utilities Company, Florida Public Utilities Company-Indiantown Division, Florida Public Utilities Company-Fort Meade, Florida Division of Chesapeake Utilities Corporation, and Peninsula Pipeline Company to update the description of gas quality and character of service.*

Discussion of Issues

Issue 1: Should the Commission approve the Companies' proposed new RNGS rate schedule and associated tariff modifications?

Recommendation: Yes, the Commission should approve the Companies' proposed new RNGS rate schedule and associated tariff modifications effective September 8, 2021. The RNGS rate schedule would furnish the Companies with an opportunity to provide biogas cleaning and conditioning services to interested customers. The utility demonstrated a reasonable approach to implementing the tariff. A participating customer would enter into an agreement with the respective Company and all capital and operating costs associated with the biogas upgrading and conditioning service would be borne by the customer over the life of the contract. (Forrest)

Staff Analysis: The Companies stated in the petition that RNG captures methane from animal waste and other biomass sources that otherwise would have directly entered the atmosphere. When it is eventually combusted, the RNG releases significantly fewer greenhouse gas emissions.⁵ Without the collection of the biogas to be conditioned into RNG, the biogas produced would escape into the atmosphere or be burned off at the source with emissions from the burning process released into the atmosphere. Once conditioned, RNG can be interchangeable with conventional natural gas from other sources and can be used as a carbon neutral fuel source for a variety of applications by different types of customers. The Companies explained that not only can RNG be used for fuel and generation purposes, but also has the opportunity to encourage growth in the agriculture industry by providing a solution to waste management.

Proposed New RNGS Tariff

Under the proposal, a biogas-producing customer would enter into a mutually satisfactory RNG Service Agreement (agreement) with one of the Companies to construct and operate the RNG facilities on behalf of the customer. In the response to staff's first data request, the Companies stated that the estimated cost for biogas conditioning equipment and facility could range from \$2 to \$40 million for a single facility based on size and scope of the project.⁶ The tariff requires that all RNG be conditioned to meet the Companies' pipeline quality gas and heat standards. This requirement would ensure that all RNG produced under the proposed tariff can be safely used without any adverse impact to the integrity of the customers' and the Companies' natural gas equipment.

The proposed RNGS tariff provides the terms and conditions under which the Companies may provide service to biogas producers who wish to convert their biogas into RNG. These services include upgrading and conditioning biogas to pipeline quality gas standards that can then be interconnected and injected for delivery onto the Companies' distribution system. The terms of this agreement would include the design, location, quality specifications, operational requirements, and the required monthly service charge.

⁵ Florida Public Utilities Company, Florida Public Utilities Company- Indiantown Division, Florida Public Utilities Company- Fort Meade, and the Florida Division of Chesapeake Utilities Corporation petition, Document No. 03632-2021.

⁶ Response to Staff's first data request No. 3, (Document No. 06659-2021).

The monthly service charge would be designed to cover the costs of construction, operational costs, and carrying costs of the facilities that would allow the respective Company to collect a rate of return on the RNG facility investment. Under the tariff, ownership and title of the RNG remains with the customer and the customer is solely responsible for determining the end-user of the RNG. Should the Companies elect to purchase RNG from a biogas producer, the Companies and the customer would enter into an RNG commodity purchase agreement.

Impact on the General Body of Ratepayers

The Companies state that the RNGS tariff has essential safeguards that ensure that the contracting company's general body of ratepayers would not subsidize the biogas customers taking service under the RNGS tariff. Specifically, the Companies stated that they would ensure that service taken under the proposed RNGS tariff would not affect any ratepayers by confirming the credit worthiness of the customers taking service under the tariff. In response to staff's second data request the Companies stated that they would do sufficient due diligence to ensure that the non-participants are not at risk by requiring RNGS customers to provide one of the following options: (a) a guarantor to secure payment of bills, (b) an irrevocable letter of credit from a bank equal to two months average bills, (c) a surety bond equal to two months average bills, or (d) pay a cash deposit.⁷

In the event of default, the Companies stated that they would discontinue service, terminate the contract, and start all remedies that are provided in the service agreement. This may include applying any deposit paid to the customer's account, seeking payment from a guarantor to cover the outstanding balance, and pursuing legal or equitable claims against the defaulting customer. In response to staff's second data request, the Companies modified the proposed tariff on August 24, 2021, to incorporate language on tariff sheet No. 7.507 (last paragraph) emphasizing that the tariff would not cause any additional costs to non-participants.

Staff recommends approval of this petition based, in part, on the Companies' assertion that they would implement a thorough and reasonable process to evaluate the credit worthiness of a potential customer to be served under the RNGS tariff. Based on this process, the Companies do not anticipate any cost impact to the general body of ratepayers.

Conclusion

Staff recommends that Commission should approve the Companies' proposed new RNGS rate schedule and associated tariff modifications effective September 8, 2021. The RNGS rate schedule would furnish the Companies with an opportunity to provide biogas cleaning and conditioning services to interested customers. The Companies demonstrated a reasonable approach to implementing the proposed tariff. A participating customer would enter into an agreement with the respective Company and all capital and operating costs associated with the biogas upgrading and conditioning service would be borne by the customer over the life of the contract.

⁷ Response to Staff's second data request No. 1 (Document No. 08261-2021).

Issue 2: Should this docket be closed?

Recommendation: Yes. If Issue 1 is approved and a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Osborn, Crawford)

Staff Analysis: Yes. If Issue 1 is approved and a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.

Florida Public Utilities Company and Florida Division of Chesapeake Utilities
FPSC Tariff
Original Volume No. 1

Original Sheet No. 5.005

TECHNICAL TERMS AND ABBREVIATIONS - CONTINUED

Relinquishment. The release of firm capacity right(s) pursuant to the Rules and Regulations in this Natural Gas Tariff and FERC rules.

Renewable Natural Gas (RNG). Pipeline-quality biomethane that is interchangeable with conventional natural gas.

Request for Gas Sales or Transportation Service. Company's Natural Gas Service Agreement which, when properly executed by a prospective Customer, requests Gas Service from the Company.

Retainage. A percentage of Customer's or Customer's Agent's Gas that Company is allowed to retain for Gas shrinkage at no cost to Company.

Service Line. All piping between the Main tap up to and including the first valve or fitting of the Meter or regulator setting.

Shipper. Customer or Pool Manager who has executed a Transportation Service Agreement or an Aggregated Transportation Service Agreement, and who has acquired capacity with a Transportation Service Provider.

Shipper's Designee. A contractually authorized Marketer or Agent of an Individual Transportation Service Customer or CFG Off-system Delivery Point Operator Service Customer under these Rules and Regulations who is appointed by Customer and approved by Company to perform the obligations of an ITS and CFG OS-DPO Customer or Pool Manager on the Company's system such as invoicing and payment, nominations, monthly imbalance resolution or operator order responsibility.

Standard Delivery Pressure. Gas delivered at Standard Delivery Pressure may vary from three (3) inches to fifteen (15) inches of water column. No adjustment will be made for variation from the normal Atmospheric Pressure at the Customer's Meter.

Sub-metering. The practice of installing additional metering equipment beyond the Company installed utility Meter.

Therm. A unit of heating value equivalent to one hundred thousand (100,000) British Thermal Units.

Total Heating Value. The number of British Thermal Units produced by combustion in a recording calorimeter at a constant pressure of the amount of gas which would occupy a volume of one (1) cubic foot at a temperature of sixty degrees Fahrenheit (60°F.) if saturated

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Florida Public Utilities Company and Florida Division of Chesapeake Utilities
FPSC Tariff
Original Volume No. 1

Original Sheet No. 5.006

TECHNICAL TERMS AND ABBREVIATIONS - CONTINUED

Total Heating Value continued

with water vapor, and under a pressure equal to that of thirty inches (30") of mercury at thirty-two degrees Fahrenheit (32°F.) and under standard gravitational force (acceleration 980.665 centimeters per second) with air of the same temperature and pressure as the gas, when the products of combustion are cooled to the initial temperature of the gas and air, and when

TECHNICAL TERMS AND ABBREVIATIONS - CONTINUED

Total Heating Value continued

the water formed by combustion is condensed to the liquid state.

Company will determine a monthly average heating value of natural gas to be effective as of the first Day of each Month. Said monthly average heating value will be in effect on a calendar Month basis. It will reflect the average monthly heating value of the natural gas delivered to Company during the immediately preceding calendar Month.

Transportation Service. The service provided by Company where Customer-owned Gas is received by Company from a Transportation Service Provider at the Company Receipt Point(s), transported through Company's distribution system, and delivered by Company at the Company's Delivery Points to Customer.

Transportation Service Agreement. The fully executed Transportation Service Agreement or Contract Transportation Service Agreement between Company and Customer.

Transportation Service Provider. Any interstate pipeline, intrastate pipeline, or local distribution company that transports Gas to Company's Receipt Point(s).

Transportation Service Provider Delivery Point(s). The point at the connection of the facilities of Transportation Service Provider, at which the gas leaves the outlet side of the measuring equipment of Transportation Service Provider and enters an off-system facility.

Upstream Pipeline Capacity Costs. Expenses incurred by the Company including but not limited to reservation, demand, usage, commodity, fuel, and applicable fuel charges incurred by the Company as a result of Company's contractual arrangements with Transportation Service Provider(s).

Working Day. Shall have the same meaning as Business Day, previously defined herein.

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Effective:

Florida Public Utilities Company and Florida Division of Chesapeake Utilities
FPSC Tariff
Original Volume No. 1

Original Sheet No. 6.029

RULES AND REGULATIONS - CONTINUED

- f. Flexible Gas Service (FGS):
This service is available at the Company's option to Customers meeting the applicability standards which include i) the Customer must demonstrate to the Company that Customer has a viable economic energy alternative including verifiable documentation of Customer's energy alternative; and ii) the Company must demonstrate that this new Customer will not cause any additional costs to, or cross-subsidization by, the Company's other rate classes. The Company is under no obligation to grant service under this Tariff.
- g. Off System Sales Service (OSSS-1):
Interruptible Natural Gas delivered by Company to any person not connected to Company's distribution system. Customer and Company shall rely on measurement made by the Transportation Service Provider. Unless curtailed, all Nominations to Customer's Transportation Service Provider Pipeline Delivery Point shall be considered to have been made by the Transportation Service Provider. Off-System Sales include i) intrastate and interstate pipeline capacity releases made by the Company, ii) commodity sales made by the Company, and / or iii) delivered sales made by the Company. Fifty percent (50%) of the net revenues shall be retained by Company. The remaining fifty percent (50%) of the net revenues shall be used to reduce Company's costs recovered through the Company's Purchase Gas Cost Recovery Clause.
- h. Renewable Natural Gas Service (RNG):
Service provided to RNG producers which includes conditioning or upgrading biogas into pipeline quality RNG for interconnection, injection, and delivery into the Company's distribution systems. The Company may provide upgrade equipment, compressors, blowers, anaerobic digestors, site work, piping, heat exchangers, driers, metering, system interconnects, injection equipment, storage vessels, and other equipment deemed necessary for the safe and reliable operation of the biogas conditioning site and system interconnect/injection point(s). The Company's provision of RNG service to the Customer may require an agreement between the Company and the Customer. RNG shall conform to the Quality of Gas provisions contained in this tariff.
- i. h-Pool Manager Services:
i. Shipper Administrative and Billing Service (SABS):
Administrative and billing service provided to a Pool Manager under the SABS rate schedule, in accordance with the Rules and Regulations and Agreements set forth in this Tariff. The Company shall provide the following services to Pool Managers under the SABS; i) reading of

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Effective:

Florida Public Utilities Company and Florida Division of Chesapeake Utilities
FPSC Tariff
Original Volume No. 1

Original Sheet No. 6.030

RULES AND REGULATIONS - CONTINUED

Customer's Meters, ii) provision of Customer projected monthly usage information, along with Transportation Service Provider capacity quantity to be released to Pool Manager, iii) provision of Customer usage information to Pool Manager each Month, iv) retention of Customer's historical usage information, v) LOA retention and administration, vi) receipt and administration of Pool Manager's Gas rates for Customer billing, vii) calculation and presentation of Pool Manager's gas billing charges on Company's monthly bill or, at Company's sole option, on a separate bill to Customer, viii) collection and application of Customer payments for Pool Manager's Gas billing charges, ix) remittance of Customer payments for Pool Manager's gas billing charges to Pool Manager, net of Pool Manager's billing charges that are bad debt write-

RULES AND REGULATIONS - CONTINUED

Shipper Administrative and Billing Service (SABS) Continued

offs and recovery of said bad debts, the SABS Tariff-approved charges and other applicable charges and adjustments, and x) other services as the Company may determine necessary to administer Gas deliveries by Pool Managers to Customers. This service is required for TTS Pool Managers and is not available to CI Pool Managers. Billing Adjustments and Taxes and Fees, as set forth on Sheet Nos. 7.900-7.922, may also apply.

- ii. Shipper Administrative Service (SAS):
Administrative service provided to a Pool Manager under the SAS rate schedule, in accordance with the Rules and Regulations set forth in this Tariff. The Company shall provide the following services to Pool Managers under the SAS; i) reading of Customer's Meters, ii) provision of Customer projected monthly usage information, along with Transportation Service Provider capacity quantity to be released to Pool Manager, iii) provision of Customer usage information to Pool Manager each Month, iv) retention of Customer's historical usage information, v) Letter of Authorization retention and administration, and vi) other service as the company may determine necessary to administer Gas deliveries by Pool Managers to Customers. This service is required for CI Pool Manager or Customers that have executed an FGS or Special Contract Agreement, as may be negotiated by Company, and is not available to TTS Pool Manager. Billing Adjustments and Taxes and Fees, as set forth on Sheet Nos. 7.900-7.922, may also apply.

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Effective:

Florida Public Utilities Company and Florida Division of Chesapeake Utilities
FPSC Tariff
Original Volume No. 1

Original Sheet No. 6.031

iii. Delivery Point Operator Service (DPO):

RULES AND REGULATIONS - CONTINUED

Administrative service provided to a Pool Manager by Company, or Company's agent acting as DPO, in accordance with the Rules and Regulations set forth in this Tariff. Company shall provide the following services to Pool Managers receiving DPO service; i) receipt and administration of scheduled Gas quantities for Pool Manager's Customer Pool, ii) compilation of measured Gas quantities for Pool Manager's Customer Pool, iii) resolution of monthly imbalances with Transportation Service Provided (difference between scheduled Gas quantities for all Pool Managers and measured Gas quantities at the Company's Receipt Points), using approved book-out and/or cash-out processes of Transportation Service Provider(s), iv) resolution of monthly imbalances with Pool Manager (difference between scheduled Gas quantities and measured Gas quantities for Pool Manager's Customer Pool), in

RULES AND REGULATIONS - CONTINUED

Delivery Point Operator Service (DPO) Continued

accordance with this Tariff, v) administration of the Operational Balancing Account ("OBA"), in accordance with this Tariff, vi) administration of Transportation Service Provider Operational Orders, including financial transactions, if any, and vii) other service as Company may determine necessary to administer Gas deliveries by Shippers to Customers.

iv. Off-System Delivery Point Operator Service (OS-DPO):

Administrative service, in accordance with an executed Off-System Delivery Point Operator Agreement, provided at Company Receipt Point(s) to a Pool Manager by Company, or Company's agent acting as DPO, in accordance with the Rules and Regulations set forth in this Tariff, as applicable. Company shall provide the following services to Pool Managers under the OS-DPO Service, i) receipt and administration of scheduled Gas quantities for Pool Manager's Customer Pool, ii) compilation of measured Gas quantities for Pool Manager's Customer Pool, iii) resolution of monthly imbalances with Transportation Service Provider (difference between scheduled Gas quantities for all Pool Managers and measured Gas quantities at the Company Receipt Point(s)), using approved book-out and/or cash-out processes of Transportation Service Provider, iv) resolution of monthly imbalances with Pool Manager

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Florida Public Utilities Company and Chesapeake Utilities Corporation

Effective:

Florida Public Utilities Company and Florida Division of Chesapeake Utilities
FPSC Tariff
Original Volume No. 1

Original Sheet No. 6.032

(difference between scheduled Gas quantities and measured Gas quantities for Pool Manager's Customer Pool), in accordance with this Tariff, v) administration of the OBA account, in accordance with this Tariff, vi) administration of Transportation Service Provider Operational

RULES AND REGULATIONS - CONTINUED

Orders, including financial transactions, if any, in accordance with this Tariff, and vii) other services as Company may determine necessary to administer Gas deliveries by Pool Managers to Customers. Billing Adjustments and Taxes and Fees, as set forth on Sheet Nos. 7.900-7.922, may also apply. Upon initiation of service, any TTS Pool Manager or CI Pool Manager who has executed an Off-System Delivery Point Operator Agreement will be assigned to the OS-DPO rate schedule.

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Effective:

Florida Public Utilities Company and Florida Division of Chesapeake Utilities
 FPSC Tariff
 Original Volume No. 1

Original Sheet No. 7.002

INDEX OF RATE SCHEDULES - CONTINUED

All Companies	7.500
FLEXIBLE GAS SERVICE - (FGS)	7.500
OFF SYSTEM SALES SERVICE - 1 - (OSSS-1)	7.503
RENEWABLE NATURAL GAS SERVICE - (RNGS)	<u>7.506</u>
POOL MANAGER RATE SCHEDULES	7.600
All Companies	7.600
POOL MANAGER SERVICE - (PMS)	7.600
SHIPPER ADMINISTRATIVE AND BILLING SERVICE - (SABS)	7.605
SHIPPER ADMINISTRATIVE SERVICE - (SAS)	7.606
CFG	7.700
OFF-SYSTEM DELIVERY POINT OPERATOR SERVICE - (OSDPOS)	7.700
CUSTOMER RIDERS	7.800
All Companies	7.800
CONTRACT TRANSPORTATION SERVICE - RIDER - (CTS - RIDER)	7.800
AREA EXTENSION PROGRAM - RIDER - (AEP - RIDER)	7.803
BILLING ADJUSTMENTS	7.900
All Companies	7.900
COMPETITIVE RATE ADJUSTMENT	7.900
COMPETITIVE RATE ADJUSTMENT - FIXED	7.902
ENERGY CONSERVATION COST RECOVERY	7.903
ENERGY CONSERVATION COST RECOVERY - FIXED	7.905
GAS RELIABILITY INFRASTRUCTURE PROGRAM	7.906
GAS INFRASTRUCTURE REPLACEMENT PROGRAM (GRIP) - FIXED	7.910
TRANSPORTATION COST RECOVERY ADJUSTMENT	7.912
SWING SERVICE RIDER	7.913
OPERATIONAL BALANCING ACCOUNT	7.915
TAXES AND OTHER ADJUSTMENTS	7.918
Ft. Meade and FPUC	7.919
PURCHASED GAS COST RECOVERY FACTOR	7.919
CFG	7.920
TEMPORARY ENVIRONMENTAL SURCHARGE	7.920

Issued by: Jeffrey Householder, Chief Executive Officer
 Florida Public Utilities Company and Chesapeake Utilities Corporation

Effective:

Florida Public Utilities Company and Florida Division of Chesapeake Utilities
FPSC Tariff
Original Volume No. 1

Original Sheet No. 7.003

INDEX OF RATE SCHEDULES - CONTINUED

SOLAR WATER HEATING ADMINISTRATIVE BILLING SERVICE	7.921
CFG and Indiantown	7.922
SHIPPER OF LAST RESORT	7.922

Issued by: Jeffrey Householder, Chief Executive Officer
Florida Public Utilities Company and Chesapeake Utilities Corporation

Effective:

Florida Public Utilities Company and Florida Division of Chesapeake Utilities
FPSC Tariff

Original Volume No. 1

Original Sheet No. 7.506

All Companies

RENEWABLE NATURAL GAS SERVICES – (RNGS) - CONTINUED

Availability:

Throughout all service areas of the Companies, and within the area served by an interstate or intrastate natural Gas pipeline that provides service to the Companies.

Applicability:

For services provided to eligible Customers for biogas upgrading and conditioning services to generate Renewable Natural Gas (“RNG”) and for requisite gas services as agreed upon in the service agreement between the Customer and the Company. Service under this schedule is contingent upon mutually satisfactory arrangements between the Company and the Customer for the design, location, construction, and operation of RNG facilities.

Renewable Natural Gas Service Agreement:

The Customer and the Company will enter into a service agreement with terms designed to recover the Company’s costs to provide services, including but not limited to return on investment, amortization and depreciation, and taxes, as well as any terms necessary to comply with other provisions as determined appropriate by the Company. Absent an executed RNG service agreement, this rate schedule is not available to Customers.

Service Charges:

The Customer will be charged a monthly service charge, or other agreed upon rate and rate mechanism, designed to collect the required return on investment for the Company’s plant investment, depreciation and amortization expenses, operation and maintenance expenses, taxes, and all other expenses incurred by the Company to perform the services necessary to upgrade the biogas and to inject and transport the RNG on the Company’s distribution system for the RNG project. The Company’s plant investment in the RNG project may include, but is not limited to biogas upgrade facility equipment, compressors, blowers, anaerobic digestion equipment, site work, piping, heat exchangers, driers, metering, system interconnects, injection equipment, storage vessels, and any other equipment deemed necessary for the safe and reliable operation of the biogas conditioning site and system interconnect/injection points. The Company’s provision of RNG services to the customer will require an agreement by the Customer to purchase RNG services for a minimum period of time, to take or pay for a minimum amount of RNG service, to pay a contribution in aid of construction, if necessary, to provide adequate security as determined by the Company, and to comply with other provisions as determined necessary by the Company.

Additional Terms:

The Company’s provision of RNG service does not include the provision of electricity, natural gas, or any other fuels required to operate the RNG facilities. The customer shall reimburse the Company for all such electricity and fuel expenses incurred by the Company to provide RNG services to the customer.

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Florida Public Utilities Company and Chesapeake Utilities Corporation

Effective:

Florida Public Utilities Company and Florida Division of Chesapeake Utilities
FPSC Tariff

Original Volume No. 1

Original Sheet No. 7.507

All Companies

RENEWABLE NATURAL GAS SERVICES – (RNGS) - CONTINUED

Additional Terms Continued:

Service provided under this Rate Schedule shall be subject to the Rules and Regulations as set forth in the Company's tariff, except as modified under this Rate Schedule and in the executed service agreement.

All RNG delivered into the Company's distribution system must meet the gas quality standards as set forth in the "Quality of Gas" section of the Company's tariff. The Company, at its sole discretion, may accept or reject RNG that does not meet those standards.

Unless otherwise agreed to between the Customer and the Company, ownership of the RNG commodity will remain with the Customer, and the Customer shall remain solely responsible for determining the end-user of such RNG unless the Company and the Customer enter into a RNG commodity purchase agreement.

Service under this Rate Schedule is contingent upon the Company and the Customer entering a mutually satisfactory RNG Service Agreement; provided, however, that the service provided to the Customer under this Rate Schedule shall not cause any additional cost to the Company's other rate classes, unless otherwise approved by the Commission in a future proceeding.

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Effective: