

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

IN THE MATTER OF THE APPLICATION OF)
CHESAPEAKE UTILITIES CORPORATION)
FOR APPROVAL OF A CHANGE IN ITS) PSC DOCKET NO. 06-355
ENVIRONMENTAL RIDER RATE TO BE)
EFFECTIVE DECEMBER 1, 2006)
(FILED NOVEMBER 1, 2006))

FINDINGS AND ORDER NO. 7117

AND NOW, to-wit, this 23rd day of January, 2007, the Public Service Commission ("PSC" or "Commission") makes the following findings, determination, and Order:

I. APPEARANCES

On behalf of the Applicant, Chesapeake Utilities Corporation - Delaware Division ("Chesapeake" or "Company"):

Parkowski, Guerke & Swayze, P.A.,
BY: WILLIAM A. DENMAN, ESQUIRE

On behalf of the Public Service Commission Staff ("Staff"):

GARY A. MYERS, DEPUTY ATTORNEY GENERAL, RATE COUNSEL

II. BACKGROUND

1. In PSC Order No. 4104 (Dec. 19, 1995) entered in PSC Docket No. 95-73, the Commission authorized an annually adjusted surcharge mechanism to allow Chesapeake Utilities Corporation ("Chesapeake" or "Company") to recover the expenses it incurs for remediation of environmental damage liabilities. On November 1, 2006, Chesapeake made application to the Commission for approval of a decrease in the Environmental Rider ("ER") rate (resulting in a credit to customers) to be effective on December 1, 2006, with such rate to continue until changed by further Order of the Commission. The decrease requested is

from a positive surcharge of \$0.0018 per Ccf to a credit of \$0.0022 per Ccf. Under the proposed rates, residential space heating customers using 120 Ccf of gas in the winter months would experience a decrease of approximately 0.2 percent or \$0.48 per month.

2. Pursuant to 26 Del. C. §§ 304 and 306, the Commission, in Order No. 7076 (Nov. 21, 2006), permitted the proposed rate change to go into effect on December 1, 2006, on a temporary basis subject to refund, pending full evidentiary hearings.

3. At the direction of the Commission, Chesapeake published notices of this proposed adjustment to its ER rate in The News Journal and Delaware State News newspapers on November 29, 2006. The notices (Exhs. 1A & 1B) established a time period for intervention petitions and announced that the Commission would hold a hearing on the proposed rate adjustment at its regular meeting on January 23, 2007. No one petitioned for intervention.

4. On January 23, 2007, the Commission conducted a public evidentiary hearing. No members of the public attended the hearing or submitted written comments. The Company and Staff each presented one witness. The record, as developed at the hearing, consists of a verbatim transcript and two exhibits.

III. SUMMARY OF EVIDENCE

5. Jennifer A. Clausius, Manager for Pricing and Regulation for Chesapeake, submitted pre-filed direct testimony, dated November 1, 2006. Exh. 2. Ms. Clausius described the purpose of the ER rate and provided calculations to support the Company's proposed

change in the ER rate from \$0.0018 per Ccf to (\$0.0022) per Ccf. According to Ms. Clausius, the purpose of the ER rate is to allow Chesapeake to recover environmental expenses associated with cleaning up former manufactured gas plant ("MGP") sites, which for this filing includes the Dover Gas Light Site and the Smyrna Gas Plant Site. Exh. 2 at 4. Recoverable environmental costs include investigation, testing, monitoring, remediation (including remediation of the groundwater), land acquisition, and legal costs relating to former MGP sites, disposal sites, or sites to which material may have migrated as a result of the earlier operation or decommission of the plants.

6. Ms. Clausius testified that the reason for the proposed decrease in the ER rate is that the Company did not incur any expenses during the applicable time period (*i.e.*, October 1, 2005, to September 30, 2006) because its obligations with respect to the Dover Gas Light Site ended upon the approval of a Consent Decree by the U.S. District Court on July 18, 2003. Exh. 2 at 7-8. In addition, Chesapeake received a net payment in August 2003 of \$1,150,000 as a result of the settlement of its litigation against GPU, Inc., which was approved by the Court in July 2003. This year's rate is a credit because the Company has collected the costs that it incurred and is returning to customers the net payment that it received.

7. David N. Bloom, a Public Utilities Analyst for Commission Staff, testified that Staff reviewed the Company's ER schedules and calculations and concluded that the calculations were correct and the requested rate was appropriate. No audit of the Company's accounts

was necessary as there were no expenses claimed. Based on its review, Staff recommended approval of the Company's application. In addition, Mr. Bloom recommended that prior to next year's ER rate review, the Company work with Staff to develop an ER rate that will credit all remaining environmental costs associated with this account. This would allow the Company to avoid one year of administrative costs associated with collecting the very small amount of remaining environmental costs. Mr. Bloom noted that the Company agrees with this recommendation.

IV. DISCUSSION AND CONCLUSIONS

8. The Commission has jurisdiction in this matter pursuant to 26 Del. C. § 304.

9. As discussed above, Staff verified that Chesapeake developed the proposed ER rate in accordance with the environmental remediation recovery mechanism approved by the Commission in PSC Order No. 4104 (Dec. 19, 1995) in PSC Docket No. 95-73. Because of the net payment Chesapeake received in 2003 from a third party, and because the Company did not incur any ER expenses during the applicable time period (*i.e.*, October 1, 2005, to September 30, 2006), this year's ER results in a small credit to the customers. Based on the evidence presented, the Commission finds that the proposed ER rate is just and reasonable and in compliance with the Company's tariff. For the next ER application, Staff and the Company should work together to develop an ER rate that will eliminate the small amount of remaining environmental costs associated with this account.

Now, therefore, **IT IS ORDERED:**

1. That the Company's proposed Environmental Rider rate of a credit of \$0.0022 per Ccf, which represents a decrease of \$0.004 per Ccf, is approved as a just and reasonable rate, effective for services provided on and after December 1, 2006.

2. That the Commission reserves the jurisdiction and authority to enter such further Orders in this matter as may be deemed necessary or proper.

BY ORDER OF THE COMMISSION:

/s/ Arnetta McRae
Chair

/s/ Joann T. Conaway
Commissioner

/s/ Jaymes B. Lester
Commissioner

/s/ Dallas Winslow
Commissioner

/s/ Jeffrey J. Clark
Commissioner

ATTEST:

/s/ Karen J. Nickerson
Secretary