

BEFORE THE PUBLIC SERVICE COMMISSION

FOR THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION )  
OF CHESAPEAKE UTILITIES CORPORATION )  
FOR APPROVAL OF AN ALTERNATIVE ) PSC DOCKET NO. 05-322  
RATE DESIGN AND RATE STRUCTURE )  
IN EASTERN SUSSEX COUNTY, DELAWARE )  
(FILED SEPTEMBER 2, 2005) )

ORDER NO. 7137

AND NOW, this 27<sup>th</sup> day of February, 2007;

WHEREAS, on September 2, 2005, Chesapeake Utilities Corporation ("Chesapeake" or the "Company") filed with the Delaware Public Service Commission (the "Commission") an application (the "Application") seeking Commission approval of the following: (1) an alternative rate design and rate structure (the "Expansion Area Rate") for certain areas of eastern Sussex County and implementation of the alternative rate design and rate structure on a temporary basis and subject to refund, effective November 1, 2005; (2) that Chesapeake not be required to reduce its base tariff delivery rates so long as its return on equity (as reported to the Commission) did not exceed 15%; (3) deferral of the regulatory costs incurred with respect to the Application for future recovery in its next base rate case; (4) capitalization of the costs of converting customer equipment to utilize natural gas and inclusion of such costs in its rate base; (5) extension of its main lines, in its sole discretion, in the Expansion Rate Area if the forecasted return on its equity exceeded 9%; and (6) capitalization of Chesapeake's acquisitions of facilities purchased

from the Propane Service Providers and inclusion of the purchase prices in its rate base; and

**WHEREAS**, by Order No. 6744 dated October 11, 2005, the Commission suspended Chesapeake's proposed alternative rate design and rate structure request (along with other elements of the Application) until January 1, 2006 to enable the Commission to study the Application in greater detail; and

**WHEREAS**, by subsequent Orders, the Commission further suspended the Application until further Order of the Commission;<sup>1</sup> and

**WHEREAS**, in Order No. 6853 dated February 28, 2006, in which the Commission suspended the Application until further Order, the Company retained the right to request implementation of the alternative rate design and rate structure at a later date on a temporary basis; and

**WHEREAS**, on January 9, 2007, Chesapeake filed a Motion to Implement Temporary Rates (the "Motion") seeking permission to charge customers in the Expansion Rate Area the delivery service charges contained in the Application under Rate Schedule "RS1" (the "Expansion Area Rate") on a temporary basis and subject to refund pending the Commission's consideration of the Application; and

**WHEREAS**, if permitted, the implementation of the Expansion Area Rate would result in Expansion Rate Area customers being assessed a customer charge of \$20.60 per month, as opposed to the customer charge of \$9.50 per month applicable to all other Residential customers; and

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<sup>1</sup>Order No. 6802 dated December 20, 2005 (suspended until February 1, 2006); Order No. 6824 dated January 24, 2006 (suspended until March 1, 2006); Order No. 6853 dated February 28, 2006 (suspended until further Order of the Commission).

**WHEREAS**, Staff and other parties to this proceeding oppose the implementation of the Expansion Area Rate, even on a temporary basis, in part because: (1) The Expansion Area Rate is a new rate which is based on the cost of an alternative fuel (Propane), rather than on the cost to serve new customers which does not comport with the Commission's policy of cost of service ratemaking; (2) that the recovery of extension costs that exceed the Company's Internal Rate of Return Model ("IRRM") for new developments would be collected from future customers rather than developers, which is a new policy consideration for the Commission; (3) that the annual base revenue per customer associated with this rate will exceed the current level used in the evaluation for new developments using the Company's existing IRRM, which the Commission has previously approved for the Company; and (4) the proposed new rate should not be implemented on a temporary basis, but should be reviewed in the context of the overall rate design and cost of providing distribution service to all of the customers of Chesapeake, not just a few future customers.

**WHEREAS**, the Commission has reviewed and heard argument on the Company's request from Staff and other interested parties; now, therefore,

**IT IS ORDERED:**

1. That Chesapeake Utilities Corporation's request to implement the Expansion Area Rate effective with usage on and after March 1, 2007, is not approved at this time.

2. That Chesapeake Utilities Corporation may choose in its next base rate filing to include an Expansion Area Rate as part of its

overall cost of service study which the Commission will review in the context of Chesapeake Utilities Corporation's overall rate design.

3. 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