

**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 GAS SALES) PSC DOCKET NO. 06-287F
SERVICE RATES ("GSR") TO BE EFFECTIVE)
NOVEMBER 1, 2006)
(FILED SEPTEMBER 1, 2006))

ORDER NO. 7228

AND NOW, this 24th day of July, 2007.

WHEREAS, the Commission has received and considered the Findings and Recommendations of the Hearing Examiner issued in the above-captioned docket, which was submitted after a duly noticed public evidentiary hearing, and which is attached to the original hereof as Attachment "A";

AND WHEREAS, the Hearing Examiner recommends that the Gas Sales Service Rates ("GSR") proposed by Chesapeake Utilities Corporation in its September 1, 2006 application be approved as just and reasonable for service rendered on and after November 1, 2006;

AND WHEREAS, the Hearing Examiner recommends that the Proposed Settlement agreement, dated July 16, 2007, which is endorsed by all the parties, and which is attached to the original hereof as Attachment "B", be approved as reasonable and in the public interest.

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

1. That, by and in accordance with the affirmative vote of a majority of the Commissioners, the Commission hereby adopts the July 16, 2007 Findings and Recommendations of the Hearing Examiner, appended to the original hereof as Attachment "A".

2. That the Commission approves the Proposed Settlement, appended to the original hereof as Attachment "B", and Chesapeake Utilities Corporation's proposed GSR rates, effective for service on and after November 1, 2006.

3. That Chesapeake Utilities Corporation's proposed rates are approved as just and reasonable rates effective November 1, 2006, as set forth below:

<u>Service Classification</u>	<u>Effective 11/1/06</u>
RS, GS, MVS, LVS	\$1.340
GLR, GLO, GCR, GCO	\$1.125
HLFS, SFS	\$1.280
Firm Balancing Rate (LVS)	\$0.039
Firm Balancing Rate (HLFS, SFS)	\$0.017

4. 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/ Dallas Winslow
Commissioner

PSC Docket No. 06-287F, Order No. 7228 Cont'd.

Commissioner

Commissioner

ATTEST:

/s/ Karen J. Nickerson
Secretary

A T T A C H M E N T "A"

BEFORE THE PUBLIC SERVICE COMMISSION

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IN THE MATTER OF THE APPLICATION OF)
CHESAPEAKE UTILITIES CORPORATION)
FOR APPROVAL OF A CHANGE IN ITS GAS) PSC DOCKET NO. 06-287F
SALES SERVICE RATES ("GSR") TO BE)
EFFECTIVE NOVEMBER 1, 2006)
(FILED SEPTEMBER 1, 2006))

FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

DATED: JULY 16, 2007

WILLIAM F. O'BRIEN
SENIOR HEARING EXAMINER

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FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

William F. O'Brien, duly appointed Hearing Examiner in this Docket pursuant to 26 Del. C. § 502 and 29 Del. C. Ch. 101, by Commission Order No. 7040, dated October 3, 2006, reports to the Commission as follows:

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"):

Murphy, Spadaro & Landon
BY: FRANCIS J. MURPHY, ESQUIRE

On behalf of the Division of the Public Advocate ("DPA"):

G. ARTHUR PADMORE, PUBLIC ADVOCATE

II. BACKGROUND

1. On September 1, 2006, Chesapeake applied to the Public Service Commission ("Commission") for approval of changes to its Gas Sales Service Rates ("GSR") to become effective for service rendered

on and after November 1, 2006. The proposed rates, as compared to the current, approved rates, are as follows (per ccf):

<u>Service Classification</u>	<u>Effective 3/15/06 (approved)</u>	<u>Effective 11/1/06 (proposed)</u>
RS, GS, MVS, LVS	\$1.383	\$1.340
GLR, GLO, GCR, GCO	\$1.201	\$1.125
HLFS, SFS	\$1.340	\$1.280
Firm Balancing Rate (LVS)	\$0.038	\$0.039
Firm Balancing Rate (HLFS, SFS)	\$0.017	\$0.017

According to Chesapeake, under the proposed rates, residential space heating customers using 120 ccf of gas in the winter months will experience a decrease of \$5.16 or 2.4%, in monthly gas billings over the rate in effect prior to November 1, 2006.

2. Pursuant to 26 Del. C. §§ 304 and 306, the Commission, in Order No. 7040 (Oct. 3, 2006), permitted the proposed rate changes to go into effect on November 1, 2006, on a temporary basis subject to refund, pending full evidentiary hearings. The Commission designated this Hearing Examiner to conduct such hearings and to report to the Commission proposed findings and recommendations based on the evidence presented.

3. A duly noticed¹ public evidentiary hearing was commenced on June 7, 2007, but was adjourned at the request of the parties for

¹ The affidavits of publication of notice from the *Delaware State News* and *The News Journal* are included in the record as Exhibit 1. Exhibits will be cited as "Ex.____" and references to the hearing transcript will be cited as "Tr.____."

... (footnote continued to next page.)

additional time to negotiate a settlement agreement. The hearing included a public comment session but no members of the public appeared at the hearing and no written comments from the public were received. The evidentiary hearing was completed on July 16, 2007. On July 16, the parties submitted a proposed settlement agreement ("Proposed Settlement"), which, if adopted, would resolve all issues in the case. (Ex. 15.) The record, as developed at the hearing, consists of a verbatim transcript and fifteen exhibits. As there were no issues in dispute, post-hearing briefs were deemed unnecessary.

4. I have considered all of the record evidence, including the Proposed Settlement and, based thereon, I submit for the Commission's consideration these findings and recommendations.

III. SUMMARY OF THE EVIDENCE

5. Jennifer A. Clausius, Manager of Pricing and Regulation for Chesapeake, submitted pre-filed direct testimony, dated September 1, 2006. (Ex. 4.) Ms. Clausius described the calculations of the three proposed gas sales service rates and discussed the Company's gas supply and transportation service offerings. According to Ms. Clausius, the three GSR rates were developed in accordance with the approved gas cost recovery mechanism prescribed by the Company's natural gas tariff. (Id. at 6.) Ms. Clausius testified that the proposed decrease in GSR rates reflect anticipated decreases in commodity gas costs since the last filing. The variable cost decreases, however, are offset somewhat by increases in fixed costs, which are mainly attributable to increased daily firm transportation entitlements on the Eastern Shore Natural Gas Company ("ESNG")

pipeline. (*Id.* at 8.) Ms. Clausius noted that the Company has taken steps to mitigate the effects of high natural gas costs by encouraging enrollment in its budget billing program and by promoting conservation measures. (*Id.* at 18-19.)

6. David J. Kempista, a Rate Analyst with Chesapeake, submitted pre-filed direct testimony, dated September 1, 2006. (Ex. 2.) Mr. Kempista provided background support for the Company's forecasted sales volumes and unaccounted for gas volumes. Mr. Kempista testified that actual unaccounted for gas for the twelve months ended July 31, 2006, was 0.65% of total gas requirements, which is under the targeted percentage range of 2.7% to 3.7% as approved in PSC Docket No. 92-87F. (*Id.* at 10.)

7. Susan J. Phinnessee, Manager of Gas Supply and Procurements for Chesapeake, submitted pre-filed direct testimony, dated September 1, 2006. (Ex. 3.) Ms. Phinnessee provided background support for the GSR calculations, addressed the Company's gas supply procurement activities, and explained Chesapeake's relationship with its "asset manager." (*Id.* at 5.)

8. Funmi Jegede, a Public Utilities Analyst for Staff, submitted pre-filed direct testimony, dated March 16, 2007. (Ex. 11 (confidential) and Ex. 12 (public).) Ms. Jegede reviewed the proposed GSR factors and firm balancing rates, verified that they comply with Chesapeake's tariff and recommended approval of all of the proposed rate changes. (*Id.* at 22.) However, Ms. Jegede asserted that the Company violated an earlier agreement by delaying implementation of its gas price hedging program; by failing to submit its hedging plan for Commission consideration; and by not following its own guidelines regarding volumes, price and monitoring. (*Id.* at 15-17.) For these

reasons, Ms. Jegede recommended disallowance of certain "losses" from hedging transactions as measured against NYMEX indexes. Ms. Jegede also proposed certain reporting requirements and recommended deferral of certain costs associated with the Company's expansion in eastern Sussex County. (Id. at 18-19.)

9. Richard W. LeLash, an independent financial consultant, submitted pre-filed direct testimony, dated March 16, 2007, on behalf of Staff. (Ex. 13 (confidential) and Ex. 14 (public).) Mr. LeLash found the Company's forecast of firm volumes for purposes of planning its capacity requirements to be reasonable but recommended certain changes to improve its forecasting methodology. (Id. at 7-8.) Mr. LeLash reviewed the Company's planned addition of deliverability from its Cove Point facility and found that the acquisition of supply at that point is warranted based on both reliability and economic considerations. (Id. at 8-9.) Mr. LeLash also addressed the concerns raised about capacity costs associated with the Company's expansion in eastern Sussex County and recommended Commission review of the issue in the next base rate case. (Id. at 10.) In addition, Mr. LeLash recommended certain changes to the Company's margin sharing arrangement for capacity and to its asset management agreement. (Id. at 10-11.)

10. Andrea C. Crane, Vice President of The Columbia Group, submitted pre-filed direct testimony, dated March 16, 2007, on behalf of DPA. (Ex. 8 (confidential) and Ex. 9 (public).) Ms. Crane testified that the Company's GSR rates continue to be "very high" relative to those charged by other utilities in the area and she recommended that the Commission eliminate the pipeline costs associated with the Company's expansion in eastern Sussex County from

the GSR rates and deny recovery of any hedging "losses" incurred to date. (Ex. 9 at 5-6.) Ms. Crane also recommended certain revisions to the Company's hedging program and recommended that the Company keep Staff and the DPA fully informed of its effort to select a new Asset Manager in 2007.

11. Ms. Clausius and Kenneth Novak (of Earnst & Young L.L.P.) submitted prefiled rebuttal testimony, dated April 19, 2007, in which they responded to the testimony submitted by Ms. Jegede, Mr. LeLash, and Ms. Crane. (Exs. 5 (Clausius Rebuttal-Confidential), 6 (Clausius Rebuttal-Public), 7 (Novak-Confidential), 8 (Novak-Public).) Ms. Clausius asserted that no evidence has been presented to show that the Company's procurement costs were unreasonable and noted that, under Delaware law, such costs are recoverable unless incurred "as a result of waste, in bad faith, or out of an abuse of discretion." (Ex. 6 at 8-9.) Ms. Clausius also noted that the hedging "losses" calculated by Staff and DPA were for the most part based on a comparison with the lowest possible NYMEX prices, or with "perfect hindsight," whereas comparison against a simple average of NYMEX prices would result in a finding of significant savings to its customers as a result of the Company's hedging transactions. (Id. at 11-13.) Ms. Clausius also provided additional information regarding the Company's procurement practices and the state of the market during the determination period and explained why the Company believes its hedging program and its reporting thereof to be appropriate. Mr. Novak provided additional analysis of the Company's procurement expenses and concluded that the Company exercised reasonable business judgment in its gas procurement transactions and he found no abuse of discretion or bad faith. (Ex. 7.)

12. At the July 16, 2007 hearing, the parties submitted a Proposed Settlement, in which they agreed that the Company would modify its hedging program in accordance with Exhibit A to the Proposed Settlement and that Staff would retain a consultant to review the implementation of the revised program. (Ex. 15 at 4-5.) In addition, the Company agreed to provide certain information regarding: (1) its upcoming Asset Management Agreement procurement process; (2) ESNG's filings at the Federal Energy Regulatory Commission; (3) the steps it takes to mitigate the effects of rising gas costs; and (4) the amount of capacity charges for delivery points in eastern Sussex County. (Ex. 15 at 2-3, 6.) In addition, the Company agreed to make three annual contributions in the amount of \$37,500 each, starting in November 2007, to its "Sharing Fund," which is administered by Catholic Charities to assist customers of the Company who are elderly, disabled, or living on fixed incomes. The Company also agreed to credit its GSR costs for \$275,000 in capacity charges relating to its delivery points in Sussex County in its next GSR proceeding (filed September 2007) while retaining the right to seek recovery thereof in the following GSR proceeding (filed September 2008). In the GSR proceeding to be filed in September 2008, Staff and DPA reserve their respective rights to argue that up to \$535,000 in capacity charges that are the subject of this proceeding (PSC Docket No. 06-287F) should be disallowed and not be borne by ratepayers.

13. At the hearing, each party presented a witness who described the reasons why adoption of the Proposed Settlement would be in the public interest. Generally, Ms. Clausius, Ms. Jegede, and Ms. Crane testified that the settlement avoids the costs of protracted

litigation; satisfies Staff's and DPA's concerns (for the time being) regarding the Company's hedging practices, Asset Management Agreement, and recovery of ESNG's capacity charges for delivery points in eastern Sussex County; and improves the information flow on these activities. The settlement also provides for the payment by the Company of \$112,500 to an internal fund for disbursement by an outside agency to the Company's at-risk residential customers. While the Company denied any wrongdoing in connection with its gas purchasing practices, the Company agree to make this contribution in order to resolve the issue in this proceeding and avoid protracted litigation. The \$275,000 credit in the 2007 GSR filing relating to ESNG's capacity charges in eastern Sussex County essentially defers the issue of recovery for such charges to the 2008 GSR filing. (Tr.)

V. DISCUSSION

14. The Commission has jurisdiction in this matter pursuant to 26 *Del. C.* § 303(b).

15. As discussed above, Staff and DPA have verified that Chesapeake developed the proposed GSR rates using reasonable price projections and made its calculations in conformance with its tariff. The proposed decrease in GSR rates reflect anticipated decreases in commodity gas costs since the last filing, which costs were elevated at that time due in part to hurricane activity in the Gulf of Mexico. (See PSC Docket No. 05-315F, Hearing Examiner's Report, at page 4.) The variable cost decreases, however, are offset somewhat by increases in fixed costs, which are mainly attributable to increased daily firm transportation entitlements on the ESNG pipeline. (Ex. 4 (Clausius) at 8.) In any event, under its tariff, Chesapeake must recover such costs (without any profit component) through its gas cost recovery

mechanism. Based on the Company's supporting testimony and documentation, and on Staff and DPA's favorable recommendations, I find that the proposed rates are just and reasonable and in compliance with the Company's tariff. I recommend, therefore, that the Commission approve the GSR rates as proposed in the Company's application, as seen above at paragraph 1.

16. Regarding the issues raised by Staff and DPA in their direct testimony, the parties agreed to enter into the Proposed Settlement as a resolution of all such matters. The terms of the settlement are summarized above (at paragraphs numbered 13 and 14) and are, of course, delineated in the Proposed Settlement document, which is attached hereto.² The settlement terms, which were reached by parties representing the interests of shareholders and customers, appear to be a reasonable resolution to the issues raised by Staff and DPA. I agree with Ms. Clausius, Ms. Jegede, and Ms. Crane, therefore, that adoption of the Proposed Settlement would be in the public interest.

VI. RECOMMENDATIONS

17. In summary, and for the reasons discussed above, I propose and recommend to the Commission the following:

- A. That the Commission approve as just and reasonable the Company's proposed revised GSR charges as proposed in the Company's September 1, 2006 application; and
- B. That the Commission adopt as reasonable and in the public interest the Proposed Settlement, which is attached to the proposed Order in this matter.

A proposed order, which will implement the foregoing recommendations, is attached hereto.

Respectfully submitted,

/s/ William G. O'Brien
William F. O'Brien
Hearing Examiner

Dated: July 16, 2007

² The hedging plan is attached to the original Proposed Settlement, under seal, as the Company considers it to be confidential.

A T T A C H M E N T "B"

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(FILED SEPTEMBER 1, 2006))

PROPOSED SETTLEMENT

On this 16th day of July, 2007, Chesapeake Utilities Corporation, a Delaware corporation (hereinafter "Chesapeake" or the "Company"), and the other undersigned parties (all of whom together are the "Settling Parties") hereby propose a settlement that, in the Settling Parties' view, appropriately resolves all issues raised in this proceeding.

I. INTRODUCTION

1. On September 1, 2006, Chesapeake filed with the Delaware Public Service Commission (the "Commission") an application (the "Application") for a change in its Gas Sales Service Rates to be effective for service rendered on and after November 1, 2006. By Commission Order dated October 3, 2006, the Commission allowed Chesapeake's proposed rates to go into effect on November 1, 2006 on a temporary basis pending full evidentiary hearings and a final decision of the Commission.

2. On or about March 16, 2007, the Commission Staff (the "Staff") and the Division of the Public Advocate (the "DPA") filed testimony. The testimony of the Staff and DPA, among other things, raised several cost recovery and reporting issues.

3. Subsequently, on April 19, 2007, Chesapeake filed its rebuttal testimony pursuant to which Chesapeake took issue with various recommendations of the Staff and DPA regarding several cost recovery and reporting issues.

4. During the course of this proceeding, the parties have conducted substantial written discovery in the form of both informal and formal data requests.

5. The Settling Parties have conferred in an effort to resolve all cost recovery and reporting issues raised in this proceeding. The Settling Parties acknowledge that the parties differ as to the proper resolution of many of the underlying issues in this proceeding. Notwithstanding these differences, the Settling Parties have agreed to enter into this Proposed Settlement on the terms and conditions contained herein, because they believe that this Proposed Settlement will serve the interest of the public and the Company, while meeting the statutory requirement that rates be both just and reasonable.

II. SETTLEMENT PROVISIONS

6. Issues relating to the sharing of off-system sales, interruptible margins, and capacity release margins, as well as the Company's Unaccounted For Gas Incentive Mechanism, will be addressed in the Company's 2007 base rate proceeding about to be filed.

7. The Company will provide, on a confidential basis, reasonable information and documents requested by Staff and DPA, on its upcoming Asset Management Agreement procurement process, including but not limited to, the following: a) a copy of the Request for Proposal; b) number of entities receiving the Company's Request For Proposal; c) number of respondents; d) evaluation criteria; and e) analysis of bids. The Company will provide this information on a rolling basis, as it becomes available, and prior to any selection by the Company of an Asset Manager.

8. Chesapeake will continue to notify the Staff and DPA of Eastern Shore Natural Gas Company filings with the Federal Energy Regulatory Commission. Such notification will include a summary of the filing, whether or not Chesapeake intends to intervene, and the anticipated impact on Chesapeake's firm customers.

9. The Company will continue to include, in its future GSR applications, an update on steps taken to mitigate the effect of rising gas costs.

10. The Company agrees that its next Long-Term Gas Supply and Demand Strategic Plan will be filed with the Commission no later than September 30, 2008.

11. The Settling Parties agree that the Company's proposed rates as set forth in the Company's Application are just and reasonable rates.

12. On or before November 1st of 2007, 2008, and 2009, the Company will make contributions to the Sharing Fund, an assistance fund administered by Catholic Charities to assist customers of the Company who are elderly, disabled, or living on fixed incomes, in the amount of \$37,500 (for a total of \$112,500 over the three-year period).

13. In this docket ("Docket 06-287F"), the DPA recommended a disallowance of a portion of the Company's capacity charges, and the Staff recommended the deferral of approximately \$535,000 in capacity charges paid by the Company for capacity from Eastern Shore Natural Gas Company ("Eastern Shore") at the Company's primary delivery points in eastern Sussex County, Delaware. Of this amount, approximately \$106,000 has already been recovered in rates pursuant to PSC Docket 05-315F, and \$429,000 is being recovered in the current rates approved by the Commission on a temporary basis in Docket 06-287F. While the Company believes that the recovery of these capacity charges is warranted, with respect to the aforesaid capacity charges incurred by the Company, in its next GSR proceeding for the determination period November 1, 2007 through October 31, 2008, the Company will credit its GSR charge by an amount equal to \$275,000. The Company shall nevertheless have the right to seek recovery of the aforesaid \$275,000 credit from ratepayers in its GSR period for the determination period November 1, 2008 through October 31, 2009. The Staff and DPA reserve

their respective rights to argue in that proceeding that all or a portion of the aforesaid capacity charges (\$535,000) incurred by the Company should not be borne by ratepayers.

14. DPA and Staff have concerns, expressed in their testimonies, regarding the Company's hedging practices. Pursuant to the Settlement reached in PSC Docket 05-315F, the Company hired a consultant to review a proposed hedging program and make recommendations regarding the hedging program. The consultant, Richard LeLash, as well as DPA witness Andrea Crane, have made several recommendations regarding the hedging program. In response, the Company has prepared a revised hedging program, a copy of which is attached hereto as Exhibit A. The DPA and Staff agree that the attached hedging program (the "hedging program") is reasonable. However, the Company acknowledges that the other parties have the right to recommend further modifications, on a prospective basis, to the hedging program and activities. The Company also acknowledges that the other parties have the right to recommend the use of different or additional performance guidelines in place of the guidelines set forth in the attached hedging program when evaluating the results of the program contained in Exhibit A. The Company has informed the Staff and the DPA that, pursuant to the revised hedging program (Exhibit A hereto), the Company will not be engaging in financial hedging transactions. The Company has also informed the Staff and DPA that it will not engage in financial hedging transactions in the future until it files a further revised hedging plan with the Commission which contains provisions that permit the Company to engage in such transactions, and the Commission acknowledges such a Company plan. The Company agrees to notify the Commission, the Staff, and the DPA, in writing, before the Company begins to follow the parameters of the attached plan, and the Company agrees that its physical hedging activities and transactions will be subject to the restrictions set forth in Exhibit A, including the volume guidelines set forth on Page 10, Section XV(a). For its part, the Staff has informed the Company that the Staff intends to retain a

consultant to review the Company's revised hedging program (Exhibit A) and its hedging activities.

15. The Company shall submit an Annual Report of all of its hedging activities and transactions, including the results, as part of the Company's annual GSR filings. The Annual Report shall contain sufficient detail to allow the Staff and DPA to fully evaluate the Company's hedging program, activities and results. Additionally, the Company shall circulate a draft report to the Staff and the DPA, no later than thirty (30) days after the end of each calendar quarter, followed by a meeting or conference call with the Staff and the DPA to discuss the Company's hedging activities and results. No later than sixty (60) days after the end of each calendar quarter, the Company shall submit a final written report to the Commission, and provide copies to Staff and the DPA. The quarterly report shall contain details regarding 1) gas commodity costs forecasted in the GSR versus actual gas commodity costs, 2) actual hedging activity for the period by month, 3) the commodity price outlook for the remainder of the current GSR determination period plus the twelve (12) months immediately preceding the end of the current GSR determination period, and 4) the actual and projected commodity costs versus the simple average and the NYMEX settle. Company information provided to the Commission, the Staff, or the DPA with respect to the Company's hedging program, activities, and results will be afforded confidential treatment. Based on these quarterly reviews, the parties reserve the right to seek further modifications to the hedging program prospectively.

16. The Company agrees to meet with the Staff, the Staff's hedging consultant, and the DPA, within ninety (90) days of the date of this settlement agreement, to review the Company's hedging program, activities, and results. In connection with such meeting, the Company agrees to provide, on a confidential basis, reasonable information and documents

requested by the Staff, its consultant, or the DPA related to the Company's hedging program, activities, and results.

17. The Company shall include in its annual GSR filings information that specifies the amount of capacity charges for delivery points in eastern Sussex County, Delaware that the Company is seeking to recover in its GSR rates.

III. STANDARD PROVISIONS AND RESERVATIONS

18. The provisions of this Proposed Settlement are not severable.

19. This Proposed Settlement recommends a compromise for the purposes of settlement and shall not be regarded as a precedent with respect to any rate making or any other principle in any future case or in any existing proceeding, except that, consistent with and subject to the provisos expressly set forth below, this Proposed Settlement shall preclude any Settling Party from taking a contrary position with respect to issues specifically addressed and resolved herein in proceedings involving the review of this Proposed Settlement and any appeals related to this Proposed Settlement. No party to this Proposed Settlement necessarily agrees or disagrees with the treatment of any particular item, any procedure followed, or the resolution of any particular issue addressed in this Proposed Settlement other than as specified herein, except that each Settling Party agrees that the Proposed Settlement may be submitted to the Commission for a determination that it is in the public interest and that no Settling Party will oppose such a determination. Except as expressly set forth below, none of the Settling Parties waives any rights it may have to take any position in future proceedings regarding the issues in this proceeding, including positions contrary to positions taken herein or previously taken.

20. In the event that this Proposed Settlement does not become final, either because it is not approved by the Commission or because it is the subject of a successful appeal and remand, each of the Settling Parties reserves its respective rights to submit additional testimony, file

briefs, or otherwise take positions as it deems appropriate in its sole discretion to litigate the issues in this proceeding.

21. The Proposed Settlement will become effective upon the Commission's issuance of a final order approving this Proposed Settlement and all the settlement terms and conditions without modification. After the issuance of such final order, the terms of this Proposed Settlement shall be implemented and enforceable notwithstanding the pendency of a legal challenge to the Commission's approval of this Proposed Settlement or to actions taken by another regulatory agency or Court, unless such implementation and enforcement is stayed or enjoined by the Commission, another regulatory agency, or a Court having jurisdiction over the matter.

22. The obligations under this Proposed Settlement, if any, that apply for a specific term set forth herein shall expire automatically in accordance with the term specified, and shall require no further action for their expiration.

23. The Settling Parties may enforce this Proposed Settlement through any appropriate action before the Commission or through any other available remedy. The Settling Parties shall consider any final Commission order related to the enforcement or interpretation of this Proposed Settlement as an appealable order to the Superior Court of the State of Delaware. This shall be in addition to any other available remedy at law or in equity.

24. If a Court grants a legal challenge to the Commission's approval of this Proposed Settlement and issues a final non-appealable order which prevents or precludes implementation of any material term of this Proposed Settlement, or if some other legal bar has the same effect, then this Proposed Settlement is voidable upon written notice by any of the Settling Parties.

25. This Proposed Settlement resolves all of the issues specifically addressed herein and precludes the Settling Parties from asserting contrary positions during subsequent litigation in

this proceeding or related appeals; provided, however, that this Proposed Settlement is made without admission against or prejudice to any factual or legal positions which any of the Settling Parties may assert (a) in the event that the Commission does not issue a final order approving this Proposed Settlement without modifications; or (b) in other proceedings before the Commission or other governmental body so long as such positions do not attempt to abrogate this Proposed Settlement. This Proposed Settlement is determinative and conclusive of all of the issues addressed herein and, upon approval by the Commission, shall constitute a final adjudication as to the Settling Parties of all of the issues in this proceeding.

26. This Proposed Settlement is expressly conditioned upon the Commission's approval of all of the specific terms and conditions contained herein without modification. If the Commission should fail to grant such approval, or should modify any of the terms and conditions herein, this Proposed Settlement will terminate and be of no force and effect, unless the Settling Parties agree to waive the application of this provision. The Settling Parties will make their best efforts to support this Proposed Settlement and to secure its approval by the Commission.

27. It is expressly understood and agreed that this Proposed Settlement constitutes a negotiated resolution of the issues in this proceeding and any related court appeals.

IV. CONCLUSION

Intending to legally bind themselves and their successors and assigns, the undersigned parties have caused this Proposed Settlement to be signed by their duly authorized representatives.

Chesapeake Utilities Corporation

Dated: 07/16/2007

By: /s/ Stephen C. Thompson

Delaware Public Service Commission Staff

Dated: 07/16/2007

By: /s/ Michael Sheehy

The Division of the Public Advocate

Dated: July 16, 2007

By: /s/ Andrea C. Crane