BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR A GENERAL INCREASE IN ITS NATURAL GAS RATES AND FOR APPROVAL OF CERTAIN OTHER CHANGES TO ITS NATURAL GAS TARIFF (OPENED JULY 6, 2007)	PSC DOCKET NO. 07-186

ORDER NO. 7434

AND NOW, this 2nd day of September, 2008.

WHEREAS, the Commission having received and considered the Report and Recommendations of the Hearing Examiner ("Report") issued in the above-captioned docket, which was submitted after a duly noticed public evidentiary hearing;

AND WHEREAS, the Hearing Examiner recommends that the proposed Settlement agreement, which is endorsed by the Company, Commission Staff, the Division of the Public Advocate, and the Delaware Association of Alternative Energy Providers, and which is attached to his Report as "Exhibit 1", be adopted;

AND WHEREAS, the Commission finds, for the reasons identified by the Hearing Examiner in his Report, that the Proposed Settlement and the resolutions contained therein are in the public interest as required by 26 Del. C. § 512(c); now therefore,

IT IS ORDERED:

1. That, by and in accordance with the affirmative vote of a majority of the Commissioners, the Report and Recommendations of the

Hearing Examiner, appended to the original hereof as "Attachment A," are hereby adopted.

2. That the Proposed Settlement document, attached to the Hearing Examiner's Report as Exhibit "1", is accepted as a resolution of this matter that is in the public interest under the provisions of 26 Del. C. § 512.

3. That, consistent with the Proposed Settlement, the depreciation rates set forth in Exhibit B of that document, are hereby approved as the governing depreciation rates for Chesapeake Utilities Corporation.

4. That, consistent with the Proposed Settlement, the Main Extension Policy and Area Extension Plan policies attached as Exhibits C and D respectively to the Proposed Settlement are approved to govern, along with relevant tariff provisions, expansion of services by Chesapeake Utilities Corporation.

5. That, consistent with the Proposed Settlement, the revised Tariff (attached as Exhibit E to the Proposed Settlement) and the revised rates and rate structure set forth in such tariff are approved and shall govern the gas services offered by Chesapeake Utilities Corporation.

6. That, consistent with the consensus of Chesapeake Utilities Corporation, the Division of the Public Advocate, and the Commission Staff, the changes made by the Proposed Settlement adopted herein shall be implemented on the following timetable of effective dates:

(a) except as outlined below, the revised Tariff (attached as Exhibit E to the Proposed

Settlement) shall become effective for services rendered by the utility on or after September 3, 2008;

(b) the four new miscellaneous charges endorsed by the Proposed Settlement shall become effective, and shall govern for all customers, beginning on September 3, 2008;

(c) the new delivery rate charges contained in the new Tariff shall become effective for services on or after September 3, 2008 for all new customers initially obtaining services on or after such date; and

(d) the new delivery rate charges contained in the new Tariff shall become effective, and govern rates for service, for existing customers (those having service on September 2, 2008) on the first day of each existing customer's next billing cycle period after such date. Until such initial day of the next billing cycle, the interim rates previously approved shall continue to apply for services to an existing customer, but such continued interim rate shall be subject to the refund obligation for interim rates set forth in Ordering paragraph 7 and 26 Del. C. § 306(b) & (c).

7. That Chesapeake Utilities Corporation, the Division of Public Advocate, and Staff shall confer to determine the amount of any refund amounts that might be due in this matter and how such refunds (or refund credits) are to be made.

8. 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/ Norma J. Sherwood
Acting Secretary

ATTACHMENT "A"

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR A GENERAL INCREASE IN ITS NATURAL GAS RATES AND FOR APPROVAL OF CERTAIN OTHER CHANGES TO ITS NATURAL GAS TARIFF (OPENED JULY 6, 2007)	) PSC DOCKET NO. 07-186

REPORT AND RECOMMENDATIONS OF THE HEARING EXAMINER

GARY A. MYERS
CONTRACT HEARING EXAMINER

DATED: AUGUST 25, 2008

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF
CHESAPEAKE UTILITIES CORPORATION FOR A)
GENERAL INCREASE IN ITS NATURAL GAS
RATES AND FOR APPROVAL OF CERTAIN) PSC DOCKET NO. 07-186
OTHER CHANGES TO ITS NATURAL GAS
TARIFF (OPENED JULY 6, 2007)

REPORT AND RECOMMENDATIONS OF THE HEARING EXAMINER

Gary A. Myers, having been appointed to act as the Hearing Examiner in this matter by PSC Order No. 7310 (Nov. 6, 2007), submits the following Report to the Commission.

I. SUMMARY

Chesapeake Utilities Corporation, the Delaware Association of Alternative Energy Providers, the Division of the Public Advocate, and Staff ask the Commission to adopt a settlement agreement that will grant the gas utility a small increase in its base rates, allow it to restructure the customer charge and volumetric components of its delivery service rates, and resolve a bevy of other issues surrounding its operations. I recommend that the Commission grant the request and adopt the Proposed Settlement (and its proposed rates and terms) as a resolution "in the public interest."

II. APPEARANCES

On behalf of Chesapeake Utilities Corporation:

Parkowski, Guerke & Swayze, P.A.
by: William A. Denman, Esq.

On behalf of the Division of the Public Advocate:

G. Arthur Padmore, Public Advocate

On behalf of the Commission Staff:

Ashby & Geddes
by: James McC. Geddes, Esq., Rate Counsel
Brooke E. Leach, Esq.

On behalf of the Intervenor, the Delaware Association of Alternative Energy Providers

Richards, Layton & Finger
by: Glenn C. Kenton, Esq., and Kelly E. Farnan, Esq.

On behalf of the Intervenor, Washington Gas Energy Services, Inc.

Telemac N. Chryssikos, Esq.

On behalf of the Intervenor, Interstate Gas Supply, Inc.

Brian J. McLaughlin, Esq.
Monzack, Mersky, McLaughlin, and Browder

On behalf of the Intervenor, UGI Energy Services, Inc.

Frank H. Markle, Esq.

On behalf of the Intervenor, SouthStar Energy Services, LLC

Jody L. Spencer, Esq.
Rogers and Hardin

III. THE PROCEDURAL TRAIL

1. In July, 2007, the Delaware Division of Chesapeake Utilities Corporation ("Chesapeake" or "the Company") filed an application seeking Commission approval to increase its "base" natural gas rates and to make other proposed changes to its currently effective Tariff. Hearing Exhibit ("HExh.") 20. The new rates advanced by the Company were designed to produce an increase in its annual revenues of approximately $1,895,668, or 3.25% beyond the Company's existing revenues based on a test period ending March 31,

2007. However, Chesapeake's application asked for more than a simple increase in its rates and revenues. In multi-faceted and somewhat wide-ranging requests, the Company also sought: (a) approvals for new service offerings, an expanded number of new rate schedule classifications, and various other rate design changes, including the implementation of an aggregated transportation program that would allow all its commercial and industrial customers to choose a third-party marketer from whom to purchase natural gas supply; (b) approval of a "revenue normalization" mechanism applicable to all customers with annual usage of up to 100,000 Ccf; (c) approval to pursue new conservation and energy efficiency programs targeted at the residential sector in light of the new revenue normalization mechanism; (d) approval to establish and utilize an alternative rate design and rate structure for the Company's expansion of services into areas of eastern Sussex County; (e) authorization to capitalize the costs incurred by the Company in purchasing propane distribution systems based upon market prices and to include those costs in the Company's rate base; (f) authorization to capitalize the costs associated with converting customers formerly utilizing propane to natural gas service; (g) approval of a proposal that would lift from the Company any obligation to reduce its base rates in the future unless its actual return on equity (as reported by the Company on a quarterly basis) exceeds 15 percent; and (h) authorization to make several miscellaneous revisions to its natural gas tariff. HExh. 20.

2. By PSC Order No. 7232 (July 24, 2007), the Commission suspended the proposed effective date of the Company's proposed new

rates and numerous tariff revisions pending further investigation, public proceedings, and a final decision. Thereafter, Chesapeake exercised its statutory right (See 26 Del. C. § 306(c)) and implemented its proposed rate increases (based on the Company's current rate schedules) on an interim basis, with such adjustments subject to refund. Those interim rates were placed into effect on September 4, 2007. See PSC Order No. 7255 (Aug. 21, 2007).

3. Pursuant to its statutory right, the Division of Public Advocate ("DPA") intervened in this docket. In addition, given the range of requests sought in the application, other parties also intervened. The Delaware Association of Alternative Energy Providers ("DAAEP") sought intervention primarily on the issues arising from the Company's proposals related to changes in its main extension policies and the parameters for its expansion of services into eastern Sussex County: At the same time, the Company's proposal for beginning a phased-in unbundled transportation program, first for all its commercial and industrial customers and later for its residential customers, brought intervention requests from several potential commodity gas suppliers and marketers: Washington Gas Energy Services, Inc. ("Washington Gas"), UGI Energy Services, Inc. ("UGI"), SouthStar Energy Services, LLC ("SouthStar"), and Interstate Gas Supply, Inc. ("Interstate"). As the matter progressed, and particularly through the final settlement negotiations and proposal, the "major" players in this matter became Chesapeake, the DPA, and the Commission Staff with

[1] See PSC Order No. 7325 (Dec. 4, 2007) (approving DAAEP intervention without conditions).

DAAEP and Washington Gas focusing on their particular issues. Neither UGI, SouthStar, nor Interstate submitted any testimony on the "merits" nor did they participate in the final hearing on the major parties' Settlement Proposal.

4. Evening public comment sessions were held on the original application in the Commission's office in Dover on November 6, 2007 and at the Delaware Technical and Community College campus in Georgetown two nights later. No member of the public appeared at the Dover session. Two people spoke in Georgetown. In addition, several persons and entities also submitted written comments. Paragraphs 12 and 13 below summarize these comments offered by the public.

5. After extensive pre-hearing data inquiries, Chesapeake's application was scheduled to come under scrutiny at an evidentiary hearing to begin on March 26, 2008. In anticipation of that hearing, Staff and other parties submitted voluminous pre-filed written direct and rebuttal testimonies. Thus, the Company submitted the following pre-filed testimonies: (a) Direct Testimony of Jennifer A. Clausius dated July 6, 2007 (HExh. 4); (b) Rebuttal Testimony of Jennifer A. Clausius dated February 7, 2008 (HExh. 5); (c) Direct Testimony of Jeffrey R. Tietbohl dated July 6, 2007 (HExh. 6); (d) Rebuttal Testimony of Jeffrey R. Tietbohl dated February 7, 2008 (HExh. 7); (e) Direct Testimony of Matthew Dewey dated July 3, 2007 (HExh. 8);(f) Rebuttal Testimony of Matthew Dewey dated February 7, 2008 (HExh. 9); (g) Direct Testimony of Kathryn G. McVay dated July 3, 2007 (HExh. 10); (h) Rebuttal Testimony of Kathryn G. McVay dated February 7, 2008 (HExh. 11); (i) Direct Testimony of Joseph D. Steinmetz dated July 3,

2007 (HExh. 12); (j) Rebuttal Testimony of Joseph D. Steinmetz dated February 7, 2008 (HExh. 13); (k) Direct Testimony of Paul R. Moul dated June 18, 2007 (HExh. 14); (1) Rebuttal Testimony of Paul R. Moul dated February 6, 2008 (HExh. 15); (m) Direct Testimony of Paul M. Normand dated June 21, 2007 (HExh. 16); (n) Rebuttal Testimony of Paul M. Normand dated February 5, 2008 (HExh. 17); (0) Direct Testimony of Jeff Householder dated July 6, 2007 (HExh. 18); and (p) Rebuttal Testimony of Jeff Householder dated February 7, 2008 (HExh. 19).[2]

6. From the DPA came the direct testimonies of Andrea C. Crane (HExh. 33) and James D. Cotton (HExh. 31 (Confidential Version) & HExh. 32 (Redacted Version)), along with later supplemental testimony from Ms. Crane. (HExh. 34). Staff filed the direct testimonies of Susan B Neidig (HExh. 24), Brian Kalcic (HExh. 25), Richard W. LeLash (HExh. 26), Ralph C. Smith (HExh. 27 (Confidential Version) & HExh. 28 (Redacted Version)), Pamela R. Knotts (HExh. 29), and David C. Parcell (HExh. 30). Washington Gas offered the direct testimonies of Harry A. Warren, Jr. (HExh. 21) and Phillip G. Woodyard (HExh. 23), followed by rebuttal testimony from Harry A. Warren, Jr. (HExh. 22). The DAAEP

[2]As explained below, the March hearing was suspended to allow for continued settlement negotiations among the major parties. When a Settlement Proposal was offered by the major parties, the process then shifted to whether the Settlement should be accepted. At the hearing eventually held on July 9, 2008, the major parties agreed to admit into the record the application and each party's pre-filed testimonies in order to provide "context" evidence to judge whether the resolutions endorsed by the settlement agreement are in the public interest. I left the record open for a period to allow the parties to identify the particular pre-filed documents that they wished to have submitted. Counsel for Chesapeake subsequently provided a list of those documents (to which no party objected). I now formally enter the pre-filed documents into the record and adopt the exhibit numbers (4 through 34) used by Chesapeake's counsel.

did not submit any written testimony in this docket nor, as noted earlier, did UGI, Interstate, or SouthStar.

7. Shortly before the beginning of the scheduled March 26th hearing, the major parties notified this Hearing Examiner that they had reached general accord on the "revenue" issues posed in the matter and that they continued to pursue settlement negotiations on the other issues that the pre-filed testimonies had brought into sharper focus. Based on that, I opened the evidentiary hearing for the purposes of taking appearances and providing an opportunity for any member of the public to comment on the Company's original application. No member of the public was present. Then, I suspended the hearing to allow further settlement discussions. Over the course of that day and the next, I was told that the Company, the DPA, the DAAEP, and Staff were close to reaching consensus on some, and maybe all, issues, but needed more time to work through details. I granted the request for more time, adjourned the hearing, and in a series of later directives allowed the parties additional periods to discuss both settlement terms and the specific language and contents for a settlement document. The major parties pursued that process through the end of May.

8. In early June, 2008, Chesapeake submitted the "Proposed Settlement" (HExh. 2) executed by the Company, the DPA, the DAEEP, and the Commission Staff. I was also subsequently informed that while Washington Gas was not a signatory to this "final" settlement agreement, it had offered input during the negotiations into the terms related to unbundled transportation services and would not actively

oppose the Commission accepting the final agreement. The Proposed Settlement document appears to be a comprehensive resolution of this matter, speaking to each of the multi-faceted requests made in the original application. The terms of the Proposed Settlement document are outlined at paragraph 20 below.

9. With the submission of the settlement agreement by the major parties, the focus moved to whether such document should be accepted by the Commission as a final resolution of this matter pursuant to the "settlement" authority granted by 26 Del. C. § 512. By a letter dated June 8, 2008, I notified all of the parties that if any party intended to object to the Proposed Settlement, it had to file a notice of its opposition by June 13, 2008. No party did so.

At the same time, public notices were published announcing that a settlement agreement had been advanced to resolve this matter and that such document would be considered at a public hearing at the Commission's offices on July 9, 2008.[3] No member of the public submitted any written comments concerning the settlement in response to these notices and no member of the public attended or otherwise participated in the July 9 hearing.'

10. At the public hearing on July 9, the Company, the DPA and Staff each presented a witness to support the Commission accepting the Proposed Settlement as a reasonable resolution which would be in the public interest. The DAEEP - a signatory to the Agreement - did not

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[3]HExhs. 1A (publication of notice in The News Journal newspaper on June 12, 2008); 1B (publication of notice in the Delaware State News newspaper on same date).

'Hearing Transcript ("HTr.") at 145-146.

offer any formal testimony, but its counsel urged acceptance of the agreement. Given that no party opposed the agreement, briefing was not thought necessary. Chesapeake did provide to me a proposed Report which the DPA and Staff then commented upon. I have utilized major portions of the Company's submission in creating this Report, especially in describing both the parties' original positions on the various issues and the content (and intent) of the various terms in the Proposed Settlement document.

11. After considering the record compiled, I recommend that the Commission accept the Proposed Settlement in its entirety to resolve this particular docket. I think that from the record developed, the Commission can find, as required by 26 Del. C. § 512(c), that the terms in the Proposed Settlement represent resolutions of the various issues that are "in the public interest." In particular, I think the Commission can consider the timing of the settlement agreement - coming after extensive pre-hearing investigation and the filing of voluminous pre-filed direct and rebuttal testimonies - as "evidence" that its terms represent a reasonable resolution of each of the issues. Moreover, I think the Commission can particularly look to, and rely upon, the conclusions of its Staff as well those of the DPA in assaying whether the settlement's resolutions are reasonable and serve the public interest. Here, both Staff - an arm of the Commission - and the DPA support the resolutions in the Proposed Settlement.

IV. Summary of Public Comments

12. As noted before, two public comment sessions were held in November, 2007: one in Dover and the other at the Delaware Technical Community College in Georgetown. At that time, the matter was proceeding on the basis of the requests made in Chesapeake's original application. No member of the public appeared at the evening session in Dover. Public Comment Transcript ("PCTr.") at 60. At the Georgetown session, two members of the public asked to speak. One, a long-time realtor, endorsed Chesapeake's efforts to expand its gas services in Sussex County for its likely "free market" effect. In his view, natural gas would provide an alternative energy product not just in the case of new construction but also for existing homes, and the resulting competition between alternative fuel supplies would not only give customers more choices but also might impose competitive pressures on price levels and hence price stability.[5] The other speaker was an administrator with the Georgetown campus of the Delaware Technical Community College. He spoke of that institution's interest in becoming a gas service customer of Chesapeake.[6]

13. Comments also came in a number of letters. One development firm reported that it intended to use Chesapeake gas services for its proposed residential development; another development firm confirmed that it was also looking to Chesapeake's natural gas services to serve both residential and industrial projects it planned to move forward

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[5] PCTr. . 80-82 (Dryden) .

[6] PCTr. . 83 (Johnson) .

with in 2008.[7] In two letters, the Town Managers of Georgetown and Millsboro each voiced their municipality's support for Chesapeake's plans to expand its gas services more widely into Sussex County. Such expansion would give residents an alternative energy resource beyond propane, fuel oil, or electricity.[8] Two legislators representing eastern Sussex County districts also offered their endorsements for the Company's expansion into eastern Sussex. In their view, the availability of natural gas services in this rapidly developing area would increase the "heating" choices for both residents and developers of new communities beyond the now prevalent use of propane, fuel oil, or electric heat pumps.[9] Joined by the Secretary of the Department of Agriculture, the two Senators also identified particular benefits for the poultry processing plants and poultry houses found in eastern Sussex. In the case of processing plants, moving to natural gas would reduce environmental impacts - both in terms of actual pollution and attendant regulatory paperwork - that arise with the use of fuel oil. And in the case of poultry houses, the widespread use of gas rather than electricity would relieve pressures on the electric system and prevent the chicken flock losses that sometimes can occur when electricity is lost in brown- or black-outs." The Secretary of the Department of Natural Resources and Environmental Control also

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[7]Public Comment Exhibits ("PCExh.") 2 (Anderson Homes), 4 (Commonwealth Group).

[8]PCExhs. 3 (Town Manager of Georgetown), 11 (Town Manager of Millsboro).

[9]PCExhs. 7 (Senator G. Simpson), 9 (Senator G. Bunting).

[10]PCExhs. 6 (Secretary of Agriculture), 7 (Sen. Simpson), & 9 (Sen. Bunting).

highlighted the environmental and infrastructure benefits that would flow from Chesapeake's expansion into eastern Sussex County. In his view, any switch from fuel oil to natural gas would result in a decrease in the air pollutants linked to the use of oil. Also, the switch to natural gas for year-round heating in lieu of the use of electric heat pumps would lessen the electric demand in an area where electric supply is somewhat constrained* The Director of the State's Economic Development office echoed similar views in the context of the State's ability to attract and retain businesses in the eastern Sussex area. Gas, in lieu of fuel oil, would reduce business facilities' environmental impacts and the regulatory burdens that flow from those impacts. Moreover, the use of gas would reduce the increasing strain on the area's electric system and thus might bring businesses to the area that might not otherwise have considered the region.[12] Finally, the former chair of the Governor's Energy Task Force urged approval of Chesapeake's Sussex County expansion plans as an undertaking consistent with one of the Strategies set forth by that earlier Task Force. Indeed, he saw the availability of natural gas as even more of an imperative now given that development in the area has far exceeded the Task Force's earlier projections:[3]

14. After the major parties submitted the Proposed Settlement, public notices were published offering the opportunity for public comment on the settlement at the July 9, 2008 public hearing. No

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[11]PCExh. 5 (Secretary of DNREC).

[12]PCExh. 8 (Director of DEDO).

[13]PCExh. 10 (W. M. McCabe).

person appeared to speak at the hearing and neither the Commission, the Company, nor the DPA received any written comments related to the settlement agreement or any of its particular terms. HTr. 145-146.

V. INITIAL POSITIONS OF THE PARTIES

15. As explained earlier, as part of the July 9th proceeding scrutinizing whether the resolutions endorsed by the Proposed Settlement would be within the public interest, the parties agreed to submit into the record the various pre-filed testimonies that they would have offered, and challenged, if the matter had proceeded to a litigated hearing on the "merits" of the Company's original application. For the main part, those voluminous filings were offered into the record by the proponents of the Proposed Settlement to put its terms in comparative context: to paint where this matter had started and what each party had earlier advanced as the "right" answers to each of the application's requests. To that end, I summarize the "original" position of the parties. In doing so, I draw extensively on the summaries provided by the Company in the draft Report it provided to me.

16. **The Company**

(a) Rate Increase and Rate of Return. The Company sought a rate of return of 9.68% based on a cost of equity of 11.5%, with no short-term debt included in its capital structure. HExh. 4, page 17. For support, the Company filed the testimony of Paul R. Moul who testified that a rate of return of 9.68% and a cost of equity of 11.5% were appropriate. HExh. 14. The originally claimed rate base totaled $43,419,770. HExh. 4, page 17. The Company claimed a revenue

deficiency of $1,895,668 based upon a test year ending March 31, 2007. HExh. 4, page 17. In addition to changes to the Company's base rates, the Company also sought approval to implement four new miscellaneous charges, including a connection charge, a seasonal reconnection charge, a change of account charge, and a failed trip charge. The Company also requested authorization that the Company not be required to reduce its base rates in the future if the actual rate of return on common equity reported by the Company on its quarterly reports to the Commission did not exceed 15%. This proposal was based on the Company's belief that the Company should be given some incentive to expand its system into eastern Sussex County and to compensate the Company for any increased risk associated with any such expansion. HExh. 6, page 23.

(b) Rate Design. The Company sought approval to make major revisions to the Company's rate design, including: (i) expanding the number of rate classes; (ii) allowing all commercial and industrial customers the opportunity to convert to unbundled transportation service, with associated tariff provisions designed to implement the transportation provisions of the Company's tariff more efficiently (HEx. 6, pages 4-5); and (iii) implementing a separate residential rate and rate design for customers located in eastern Sussex County. With respect to the proposed separate eastern Sussex County rate, the Company stated that the proposed rate would enable the Company to expand its system further and faster into eastern Sussex County. HEx. 6, page 22. According to the Company, the proposed eastern Sussex County rate, while higher than the rate that

might otherwise apply, would still enable residents of eastern Sussex County to purchase natural gas at a charge less than that for alternative fuels such as propane. However, it would enable the Company to extend its approach main approximately four times farther than it could otherwise. HExh. 6, page 21. The Company also requested approval to implement a "revenue normalization rider" which would adjust the rates collected by the Company from its customers (either upward or downward) based on changes in the amount of gas consumed compared to consumption during the test period used for setting rates. HExh. 18, page 91. According to the Company, this rate design mechanism (which the Company represents is similar to the one used by it in Maryland) would reduce the Company's and the customer's sensitivity to changes in the weather, and, in turn, provide the Company with more revenue stability.

(c) Conservation Programs and Recovery Mechanism. The Company sought approval to implement certain conservation and energy efficiency programs and recover the costs of these programs pursuant to a proposed energy conservation cost recovery mechanism. HExh. 18, pages 105-109. As the Company saw it, with the implementation of a revenue normalization rider, prior disincentives that might have restrained the Company from fostering conservation would be eliminated. The Company's proposed conservation programs would include, among other things, a Residential Appliance Program that would encourage homeowners to replace and upgrade gas appliances with new higher efficiency appliances through a rebate program offering dollar allowances for eligible appliances. HExh. 24, page 12. The

Company would also implement a program to encourage builders of new residential construction to install highly efficient gas appliances, again using a rebate program. HExh. 24, page 12.

(d) Propane Conversion Proposals. The Company also sought approval to capitalize (and include in rate base) the costs of converting former propane-use consumers to its natural gas services. The Company also sought a determination by the Commission that when, and if, the Company purchased a "community" propane distribution system (i.e., a residential community served by an underground propane distribution system) then the Company could include in rate base the acquisition costs associated with the purchase.

(e) Main Extension Policy Changes. The Company also proposed making certain changes to its existing main extension policy in an effort to provide the Company with more flexibility in evaluating the merits of a contemplated extension. HExh. 4, pages 1920 and Attachment JAC-3. The changes proposed by the Company included changes in the pre-determined conditions and variables for the Internal Rate of Return Model ("IRRM") used by the Company in evaluating the economics of any proposed extension. HExh. 4, page 20.[14] These changes would give the Company the flexibility to use less than the total number of approved lots in a residential subdivision in the analysis, provide for phase-in periods of up to 15 years, allow the Company to combine more than one sub-division in the same analysis when the sub-divisions can be reached by a common distribution main,

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"The IRRM is used to analyze economic feasibility in the case of main extensions of greater than 500 feet needed to serve new residential developments.

and allow the Company to proceed with certain projects that would not otherwise comply with the IRRM as long as the projected return on equity exceeds 9%. HExh. 4, Attachment JAC-3.

17. **Staff**

(a) Rate Increase and Rate of Return. Staff's pre-filed position recommended a rate of return of 8.30% based on a cost of equity of 10.00%, with short-term debt to be included as a part of the Company's capital structure. HExh. 24, page 5. Staff calculated the Company's rate base to be $42,472,122. HExh. 24, page 6. the Staff's calculation of test period revenues, Staff concluded that the Company had a revenue surplus of $693,245. HExh. 24, page 5. The Staff's test period revenues used a weather normalization based on thirty years, as opposed to the Company's ten year period. Staff did not oppose the proposed implementation of the Miscellaneous Charges. HExh. 25, page 33. Staff objected to the Company's proposal to increase the permitted cost of equity to 15% for quarterly reporting purposes.

(b) Rate Design. Staff further recommended rejecting the Company's proposed rate structure, arguing that it would result in more complexity than was necessary. Staff similarly recommended rejecting the Company's proposal to add 19 new rate classes, 7 of which would be transportation related. HExh. 25, page 10. Staff did recommend establishing separate rate schedules for residential heating and residential non-heating/other customers, on the theory that the annual delivery service cost for non-heating customers is less than the delivery service cost for residential heating customers. HExh.

25, page 13. Staff did not object to the elimination of the Company's cooling rate schedules (GCR and GCO) since the Company did not have any customers taking gas under these schedules. HExh. 25, page 13. Staff agreed to the Company's proposed interruptible service changes (Rate ITS), which would establish a minimum annual usage threshold of 10,000 MCF, with current interruptible customers that fail to meet these requirements being transferred to firm service rate schedules. HExh. 25, page 14. Staff's recommendation with respect to the ITS Rate however was based on the assumption that moving current interruptible service customers to firm service would not have a detrimental impact on the Company's gas acquisition planning or GSR rate. HExh. 25, page 15. Staff recommended that the Company's transportation proposals be rejected, and that no changes be made to the transportation service eligibility requirements in the Company's current Tariff. HExh. 24, page 9. In making that recommendation to not allow expanded unbundled transportation offerings, Staff had particular concerns about the release of Company pipeline capacity entitlements, the utilization of storage assets, and the ability of consumers to select a regulated gas supply option. Staff also expressed concern about the viability of the concept of gas "choice" in Delaware given the relatively small number of customers using natural gas in Delaware. HExh. 24, page 9. Staff also objected to the use of a separate rate for customers in eastern Sussex County. Finally, Staff objected to the Company's revenue normalization rider. Staff noted that issues related to "revenue-decoupling" were being addressed in Regulation Docket No. 59. HExh. 24, page 12. While

Staff agreed that the Company should not have a disincentive to engage in energy conservation programs, Staff suggested that the Company's concerns regarding consumption levels would be better addressed by a rate design that collects a larger portion of the Company's costs to serve through the fixed customer charge, as opposed to the volumetric rates. HExh. 24, page 15.

(c) Conservation Programs and Recovery Mechanism. The Staff's filed position was to not support the Company implementing its proposed conservation programs or recovery mechanism in light of the General Assembly's promulgation of legislation creating a "Sustainable Energy Utility. HExh. 24, pages 11-12. However, Mr. Kalcic, on behalf of Staff, recommended approval of the Company's conservation programs and ECCR cost recovery mechanism. HEx. 25, page 31.

(d) Propane Conversion Proposal. The Staff's pre-filed testimony did not appear to address this issue.

(e) Main Extension Policy Changes. Staff expressed concern about the Company's historical use of more conservative assumptions regarding customer additions in the context of the Company's previously approved Main Extension Policy. HExh. 24, page 19. Staff also expressed the need to clarify how common approach
mains are treated in the Company's IRRM formula used to evaluate the economics of a project. HExh. 24, page 19.

18. **DPA**

(a) Rate Increase and Rate of Return. The DPA's filed position recommended a rate of return of 8.32% based on a cost of equity of 9.30%, with no short-term debt included as a part of the

Company's capital structure. HExh. 33, page 8. To the DPA, the Company's cost of equity was in the range of 9.26% and 9.42%. HEx. 33, page 17. The DPA calculated the Company's rate base to be $42,751,827. Based on the DPA's calculation of test period revenues, the DPA initially concluded that the Company had a revenue surplus of $588,670. However, at the July 9th hearing on the Settlement Proposal, Ms. Crane clarified that based on information provided after the filing of the initial pre-filed testimony, the DPA had revised its position on the Company's revenue surplus. With the new information, the DPA calculated a final "net" revenue surplus of approximately $20,000. HTr. 163-164. In calculating test period revenues, the DPA used a weather normalization based on thirty years, as opposed to the Company's ten-year period. The DPA did not oppose the proposed implementation of the miscellaneous charges. The DPA did object to the Company's proposal to increase the allowed cost of equity to 15% for quarterly reporting purposes. HExh. 33, page 35.

(b) Rate Design. The DPA recommended rejecting the Company's proposed rate structure. At the same time, the DPA did support the Company establishing separate rate schedules for residential "heating" and residential "non-heating/other" customers. HExh. 33, page 17. The DPA also recommended that the Company's unbundled transportation proposals be rejected, and that no changes be made to the present transportation service eligibility requirements. Ms. Crane, one of the DPA's consultants, suggested that there was no indication that Chesapeake's smaller customers are demanding, or even want, more competitive options. HExh. 33, page 8. The DPA also

objected to the use of a separate rate for customers in eastern Sussex County, with Ms. Crane offering her opinion that a utility should serve all of its customers under uniform rates for each rate class. HExh. 33, page 31. Finally, the DPA objected to the Company's revenue normalization rider. As Ms. Crane viewed it, if the Company believes that it is entitled to a guaranteed recovery of fixed costs, the Company should have put forth a rate design proposal that recovered all fixed costs through customer charges. HExh. 33, page 27.

(c) Conservation Programs and Recovery Mechanism. The DPA's pre-filed position did not take issue with either the Company's proposed conservation programs or a recovery mechanism. HExh. 33, page 43. However, Ms. Crane recommended that a cap be placed on the dollar amount of such expenditures. HExh. 33, page 43.

(d) Propane Conversion Proposal. The DPA took issue with the Company's proposal to capitalize, and include in rate base, the cost of converting propane customers to natural gas customers. While Ms. Crane was not opposed to the Company including such costs in the Company's economic analysis of the transaction, Ms. Crane recommended that any costs that are included in rate base should be limited to the net book value of the systems acquired. HExh. 33, pages 36-37.

(e) Main Extension Policy Changes. The DPA was not opposed to the Company's proposals that would permit the Company to utilize less than 100% of the approved lots in making its calculations under the IRRM and to combine developments under certain circumstances. HExh. 33, page 39. However, Ms. Crane recommended retaining the current build-out projection periods of six and ten years for purposes

of the IRRM. HExh. 33, page 39. Ms. Crane also objected to the Company's proposal that it be allowed to extend service to a development if the projected return on equity is less than the authorized rate of return. HExh. 33, page 40.

19. Washington Gas

Washington Gas limited its pre-filed testimony to the unbundled transportation program issues. HExhs. 21, 22 & 23. Washington Gas generally supported the Company's proposal to make transportation service available to all commercial and industrial customers. Washington Gas suggested various changes to the transportation tariff provisions that, in Washington Gas's view, would improve the operation of the proposed program. Washington Gas urged the Commission to move promptly in increasing the number of customers that might be eligible for unbundled transportation so that a competitive market could develop quickly in Delaware.[15]

VI. THE PROPOSED SETTLEMENT DOCUMENT

20. By the time of the originally scheduled March 26th evidentiary hearing, there appeared to be little common ground between the Company, on the one hand, and the Staff and the DPA, on the other hand. Significant issues remained about: (a) the appropriate rate of return and associated revenue requirement, including rate base issues; (b) the appropriate number of customer classes and rate design; (c)

[15]As noted earlier, the DAEEP did not pre-file any testimony. However, it participated in the protracted settlement negotiations on the main and area extension issues of concern to it and eventually it signed onto the Proposed Settlement. The other gas supply companies, UGI, Interstate, and SouthStar, did not pre-file any testimony. They offered no comments - one way or the other - on the eventual Proposed Settlement document.

the proper depreciation method for the cost of removal for certain assets; (d) the implementation of a revenue decoupling methodology accompanied by conservation programs and a cost recovery mechanism for any such programs; (e) the appropriate main extension policies; (f) the implementation of a separate residential rate for customers in eastern Sussex County; and (g) the expansion of the Company's unbundled transportation services. The Proposed Settlement agreement speaks to those issues.

(i) Rates and Charges. Under the Proposed Settlement, the Company is allowed a total annual base revenue increase of $325,000. (A copy of the Proposed Settlement (HExh. 2) with its Exhibits A through E is attached to this Report as Exhibit (111). The $325,000 figure represents a substantial decrease from the annual revenue increase originally sought by the Company: $1,570,668. HExh. 2 (Proposed Settlement) at ¶ 7. Moreover, as explained at the July 9th hearing, the major part of the annual increase is projected to be recovered under the four new non-recurring Miscellaneous Charges, with only approximately $86,000 to be collected through increased base rates. HTr. 150 (Clausius). For the most part, the Proposed Settlement maintains most of the Company's existing rate categories and classes. However, the settlement agreement does call for the Company to implement two categories of residential customers (RS-1 or RS-2) with customer assignment to be based on customer consumption levels. The RS-1 customer class is designed to capture, for the most part, non-heating, low-usage residential customers. In comparison, the RS-2 category is for residential customers (primarily heating

ones) with higher consumption levels. The RS-1 class has a lower "fixed" customer charge and differing volumetric-based charges than those that are to be applicable to the RS-2 class customers. HExh. 2, Exhibit A (outlining the rates allowed under the settlement agreement including the rates for the new separate RS-1 and RS-2 residential service categories). Moreover, under the Proposed Settlement, the components of the delivery service rates have been restructured across all rate classifications. In each rate schedule category, the "fixed" customer charge moves upward from the formerly approved charge, while the volumetric-based "per Ccf" delivery rate components move downward from previous levels. Id. The Proposed Settlement also endorses the Company instituting four new miscellaneous charges. HExh. 2 at ¶ 9. As noted, these four charges "new connection," "seasonal reconnection," "change of account," and "failed (service) trip" - are projected to recover close to $240,000 of the $325,000 permitted revenue increase. While the settlement agreement, at least with respect to the revenue requirement, takes a somewhat "black-box" approach, the settling parties have specifically endorsed particular revenue numbers in the agreement. A cost of equity for the Company of 10.25% is said to be reasonable, producing an overall 8.91% rate of return with short-term debt not being included in the capital structure. HExh. 2 at ¶ 10.

(ii) Depreciation Rates. The Proposed Settlement also endorses a series of depreciation rates to be utilized by the Company. HExh. 2 at ¶ 11 and Exh. B. According to the settlement's terms,

these rates reduce the accrual for the removal cost component of certain assets.

(iii) Margin Sharing. In establishing the firm revenue requirement, the Proposed Settlement provides that margins from interruptible sales totaling $574,869 will be imputed or credited against the firm customers' base rates. The settlement agreement provides that the Company shall be entitled to retain 100% of all margins from interruptible transportation customers. Under the Proposed Settlement, existing Interruptible sales customers with a minimum annual usage level of at least 10,000 Mcf will be moved to the ITS (Interruptible Transportation Service) tariff, with all other existing interruptible sales customers being moved to the appropriate firm sales service rate schedule. Eighty percent of margins from upstream capacity release credits and off-system sales margins would be credited to the Company's Gas Sales Service Rate Clause. In addition, capacity release margins associated with Chesapeake's affiliate, Eastern Shore Natural Gas, will continue to be credited 100% to the Company's GSR clause, consistent with current practice. All of the aforesaid margins would be allocated to the RS-1, RS-2, GS, MVS, and LVS customers on a volumetric basis, consistent with the procedure currently followed by the Company in its GSR proceedings. The margins may be reviewed on a prospective basis, after the conclusion of the initial "Determination Period," and are subject to any lawful adjustments that may be implemented in the context of any future regulatory proceeding, if any. HExh. 2 at 11 12-15.

(iv) Outside Contractors. In response to a concern raised by Staff with respect to the bidding process when the Company contracts with outside contractors for construction work, the Proposed Settlement commits the Company to review its bidding processes and to submit a report to the Staff with a set of proposed guidelines. HExh. 2 at ¶ 16. According to the Company, such report is to be provided within six months of the Commission approving the settlement agreement. HTr. 152 (Clausius).

(v) Revenue Normalization, Conservation Programs, and Cost Recovery Mechanism. Under the Proposed Settlement, the Company's originally proposed revenue normalization, conservation programs, and conservation cost recovery mechanism would not now be implemented. Rather, in the case of pursuing a revenue normalization mechanism, the Company will defer to await the outcome of the "revenue decoupling" issues being explored by the Commission in Regulation Docket No. 59. In doing so, the Company reserves the right to possibly later submit to the Commission a revised rate design (on a revenue neutral basis) to reflect the Commission's determinations in Regulation Docket No. 59. HExh. 2 at ¶ 8. In the case of the conservation programs and any attendant cost recovery mechanism, the Company will defer in an effort to minimize the duplication of any conservation programs that may be implemented by the Sustainable Energy Utility or the Delaware Energy Office. Instead, the Company will seek input from these entities
about the nature of any programs each of those entities might propose to implement and the cost recovery mechanism that will be utilized for each such program. HExh. 2 at ¶ 17.

(vi) Main Extension Policy and Area Extension Program. The Proposed Settlement agreement incorporates a revised Main Extension Policy and a new Area Extension Program to be utilized by Chesapeake. HExh. 2 at ¶ 18, Exhs. C & D. While the modified Main Extension Policy is similar to the existing policy, in the case of extensions judged under the IRRM, it does provide for a number of specific build-out periods for new residential developments based on the size of the development. However, the Company is not precluded from using more conservative estimates with respect to customer build-out. Under paragraphs 19 through 20 of the Proposed Settlement, the settling parties agree that in the Company' next base rate proceeding there will be an evaluation of all incremental main extensions of greater than 500 feet initiated by the Company since March, 2007 that the Company then proposes for rate base treatment. Those projects will be evaluated in the aggregate to determine if such projects earned (in the aggregate) the Company's authorized rate of return over the life of the projects. If such an evaluation reveals that the projects did not earn a return equal to or greater that the Company's authorized rate of return on the aggregate amount of investment in such projects, then 50% of the "shortfall" shall be excluded from rate base until the aggregated projects meet or exceed the authorized rate of return requirement. Conversely, if the projects, in the aggregate, earned a return at least equal to the authorized rate of return over the life of the projects, then all the investment associated with the projects can be included in rate base. HExh. 2 at $11 19-20. At the same time, the settlement agreement also specifically speaks to instances where

the Company might look to proceed with a capital extension project that would depart from the parameters set forth in the Main Extension Policy. In such cases, the Company must file with the Staff a copy of the economic analysis showing the conditions and assumptions relied upon by the Company to justify the extension or expansion. Moreover, in the next rate case, if an evaluation reveals a "shortfall" in earned returns, then 100% of the shortfall from such project will be excluded from rate base until the project earns returns equal to, or above, the Company's authorized rate of return over the life of the project. HExh. 2 at 21. The Proposed Settlement does not contain terms related to separate rates and rate designs for the Company's services in eastern Sussex County. Instead, in an effort to address the Company's desire to expand service in that area, the settlement agreement looks to the use of a "deemed" figure in calculating the amount of revenues that might be received by the Company from residential heating customers in eastern Sussex County. Under the Settlement's terms, in applying the IRRM to capital extensions in eastern Sussex County, the average annual non-fuel revenue per residential heating customer deemed received by the Company shall be $375, even if this amount is greater than the revenue that would otherwise be projected.[16] The apparent premise is that this deemed revenue amount will result in more projects in eastern Sussex County qualifying under the IRRM. Moreover, for purposes of any cost-sharing analysis required under the settlement agreement, the Company

[16]The Company offered that the $375 "deemed" amount mirrors the average non-fuel revenues for a residential heating customer in the rest of Chesapeake's service territory. HTr. 158 (Clausius).

is similarly authorized to use the $375 revenue number in that analysis as applied to eastern Sussex projects, again, regardless of what actual consumption levels and revenue amounts may turn out to be. HExh. 2 at ¶ 22. With respect to the Area Extension Program ("AEP"), under the settlement agreement the Company retains the right to implement an AEP, but only once, and then only on an experimental basis. HExh. 2 at Exh. D.

(vii) Propane Conversions. The settlement agreement does not address how the cost of any future acquisition by the Company of a community propane distribution system will be treated for ratemaking purposes. Rather, the issue is left until another day. However, in the case of any future consumers who elect to convert from propane to the Company's natural gas services, the settlement agreement does call for the customer to be responsible for paying the cost of converting any of the customer's appliances or HVAC equipment from propane to natural gas, and that any such costs paid by the customer will not be included in the Company's rate base. HExh. 2 at ¶ 23.

(viii) Transportation Proposal. application, Chesapeake proposed to begin to offer unbundled transportation service to all of its commercial and industrial customers, and thereafter (subject to further proceedings and Commission approval) move, in later phases, to provide similar unbundled transportation services for its residential customers with the eventual goal of having the Company exit the gas commodity merchant business. Under the Proposed Settlement, the Company withdraws, for now, its request to move to greatly expanded unbundled

transportation services. Rather, under the settlement agreement, the Company agrees to limit its transportation services to certain interruptible and non-residential customers that meet the currently-utilized annual volumetric eligibility thresholds. Thus, under the agreement, the eligibility threshold for transportation services for commercial and industrial customers will remain at 3,000 MCF per year. However, for purposes of determining whether or not a customer might satisfy that 3,000 MCF threshold, the settlement agreement will allow a firm customer with multiple contiguous meters in a specific geographical location with a common owner to aggregate usage from each of those contiguous meters. HExh. 2 at ¶ 24.[17]

(ix) Miscellaneous Provisions. Finally, the Proposed Settlement endorses a new revised Tariff to be utilized by Chesapeake. The new Tariff incorporates the changes made under the other provisions of the settlement agreement but it also includes other less substantial modifications to the Company's existing tariff. Those modifications are not specifically identified in the Proposed Settlement or highlighted in the new Tariff. However, during the July 9th hearing, Chesapeake identified those "other" changes to include: (a) the expansion of the Company's Budget Plan to include all residential and small commercial customers; and (b) the elimination of the Gas Cooling rate schedule and Seasonal Firm Service rate schedule. HTr. 155-56 (Clausius). Chesapeake has also agreed to update the

[17]Chesapeake identified Delaware State University as a customer that might qualify under this new aggregation provision and be able to move to transportation services and "shop" for an alternative supplier of gas. HTr. 174.

calculation of the Company's Interruptible Balancing Service Rate in its next GSR proceeding, which is scheduled to be initiated on September 1, 2008. HTr. 154 (Clausius).

VII. TESTIMONY CONCERNING PROPOSED SETTLEMENT AGREEMENT

21. At the public hearing on July 9th, Chesapeake offered Jennifer Clausius, its Manager of Pricing and Regulation, to explain why the Proposed Settlement should be adopted by the Commission. Ms. Clausius summarized the various, and diverse, terms of the Proposed Settlement. HTr. 150-155, 157. She also offered her opinion that the Proposed Settlement is in the public interest and the rates that result from it are just and reasonable. HTr. 149, 156. Additionally, she indicated that the changes in the Main Extension Policy would allow the Company to expand its natural gas system in a manner consistent with the public interest. HTr. 153-54. In particular, such changes in the parameters for judging expansions would allow the Company to serve more customers in Sussex County. HTr. 159.

22. The DPA, which had signed onto the agreement, presented testimony from Andrea Crane, one of the consultants it had retained for this matter. On the rate side, Ms. Crane noted that in the context of the $325,000 annual revenue increase endorsed by the Proposed Settlement, only a small portion of that amount was to be recovered via base rate increases. Given that, Ms. Crane saw the settlement's revenue increase sufficiently close to the DPA's final position - that the Company had a net $20,000 surplus in revenues - to allow her to say the revenue increase would be in the public interest.

HTr. 164-165. She also reported that, in the DPA's view, the Proposed Settlement resolved the originally-posed issues of expanded unbundled transportation services and a "revenue neutrality" mechanism in a satisfactory manner. She noted that the DPA had been a proponent of splitting the present residential rate schedule class into "heating" and "non-heating" customer categories and that the settlement follows that course by using usage amounts as proxies for the "heating" and "non-heating" designations. HTr. 166.

23. Susan Neidig, a Staff public utility analyst with long experience in gas utility proceedings, offered the reasons why Staff endorses the Proposed Settlement. Ms. Neidig outlined how the terms of the agreement compare favorably to the positions that the Staff had advanced on the rate and non-rate issues over the course of the proceeding. HTr. 168-69. In her words, "Staff[] supports the settlement and finds it in the public interest as it relates to the administrative hearing costs and yields a reasonable outcome in light of the Staff's filed position." HTr. 170. To Staff, the settlement results in just and reasonable rates for the Company's ratepayers and balances the interest of all parties. Id. Ms. Neidig also offered Staff's rough calculations about the effect of the new base rates for now-to-be split residential customers. For the new low-usage, "non-heating" customer, using about 200 Ccf of gas annually, total yearly billings can be expected to increase by 3%, or by about $13.90. In comparison, for the higher-volume residential "heating" customer, using 700 Ccf of gas annually, annual billings would increase only by 1 per cent, or by $10. HTr. 172-73. In response to questions,

Ms. Neidig offered more detail about Staff's views on various terms. Staff had been uncomfortable with the Company's original proposal to expand unbundled transportation services, but saw benefit in the aggregation mechanism being added to the Company's present, more limited transportation offering. HTr. 173-74. Similarly, Staff supported the settlement agreement's changes to the margin sharing program in part because the movement of some customers from interruptible to firm service would provide a broader base for spreading the increasingly larger capacity charges arising in the context of the Company's GSR (commodity) rates. HTr. 175. Finally, Ms. Neidig voiced support for the four new miscellaneous charges, noting that such charges reflect the Company's attempt to place costs on cost-causers. Staff was also satisfied that the dollar amounts of the particular charges were reasonable. HTr. 176.

VIII. DISCUSSION AND ANALYSIS

24. The Proposed Settlement is the product of negotiations between Chesapeake, the DPA, the DAEEP, and the Commission Staff. They are the parties to the document. However, the settlement agreement cannot quite be said to truly be a "unanimous" one: the gas supply entities (Washington Gas, UGI, Interstate, and SouthStar) who had intervened as parties have not signed the agreement. At the same time, they have not voiced any objection to the agreement nor to its adoption by the Commission.

25. The statutory command in the Public Utilities Act is for the Commission to "encourage" the use of settlements to resolve matters that might be brought before it. See 26 Del. C. § 512(a).

And to that end, the Act allows the Commission to adopt or accept a resolution achieved by a settlement - even if some of the parties to the docket might not have signed on - if the Commission "finds" such resolution "to be in the public interest." See 26 Del. C. § 512(c).

26. The hard question is always how, or in what manner, is the Commission to determine whether a particular "settled" resolution "is in the public interest?" The difficulty is compounded when, as in this case, a settlement goes beyond simply resolving rate and revenue requests but provides a host of resolutions speaking to a wide range of the utility's practices. On the one hand, I do not believe that the "public interest" criteria utilized in § 512(c) obligates the Commission (or its subordinate Hearing Examiner) to undertake an independent analysis of the "merits" of each issue to see if the resolution expressed in the settlement reflects the optimal "right" result. First of all, the Commission does not have the resources nor time to internally retry all the issues in any particular matter. Second, such a method would undermine one of the main benefits of the settlement process: preserving the resources of the Commission and avoiding litigation costs to the utility and, ultimately, its ratepayers. Finally, it is surely doubtful that any such independent internal evaluation - performed without the benefit of adversarial presentations - would result in any really "right" answers.

27. Instead, I think that in this matter the Commission can look to three things as sufficient bases to "find" that the terms of the multi-faceted Proposed Settlement document reflect resolutions that are "in the public interest." Those three things are: the

context of the settlement; the conclusions reached by Staff and the DPA; and common-sense judgment about the benefits of the agreement's major terms.

28. First, the Proposed Settlement emerged at the end of the process in this matter, not at the beginning. It was crafted after the parties and Staff had filed voluminous pre-filed testimonies (both direct and rebuttal) on the wide range of issues posed by the application. In the subsequent settlement negotiations, the parties came well-informed about all the participant's positions. Each of the major parties had the ability to assay the strength and weaknesses of the others' positions, as well as its own. In such context, the eventual Proposed Settlement can be said to reflect its signatories' views of the "best" result achievable.

29. Second, Staff was a party to the settlement negotiations - if not the primary mover for such discussions. See 26 Del. C. § 512(b) (permitting Staff to participate in settlement discussions). Moreover, Staff is a party to the eventual Proposed Settlement and supports adoption of its rates and other policy-question resolutions. Indeed, a cursory review of the Proposed Settlement suggests to me that its terms, in large part, mirror the positions advanced by Staff in its pre-filed testimonies. See HTr. 168-169 (Ms. Neidig's comparison of Staff's position and settlement agreement's terms on rate and other issues). While in this matter Staff played the role of an advocate, Staff still remains an arm of the Commission. The Commission is not bound by Staff's advice. But, at the same time, the Commission can surely presume that Staff acts with due consideration

for furthering the "public interest" when it agrees to particular terms in a settlement agreement. Indeed, such deference to Staff - in evaluating whether a particular resolution reflects the public interest - is particularly appropriate when the settlement's terms involve complex issues. In cases of complexity, Staff is likely to have a keener perspective than individual Commissioners (or a Hearing Examiner) about the ramifications of particular issues and the "public" benefits that might be achieved by adopting a particular answer to an issue.[18]

30. Somewhat similarly, the Public Advocate here supports adoption of the Proposed Settlement. The DPA is under a statutory obligation to represent the interests of consumers and, in doing so, to seek the lowest possible rates consistent with continued adequate utility service. See 29 Del. C. § 8716(d)(1), (2). I think the Commission can presume that when the DPA assents to a settlement it is mindful of, and pursuing, that statutory charge.

31. Here, both Staff and the DPA urge approval of the Proposed Settlement. Both represent that the resolutions contained within that document are in the public interest. I think those views, in themselves, provide a solid basis for the Commission "finding" the settlement's terms to be in the public interest.

32. Finally, common-sense appraisals support a conclusion that the Proposed Settlement's resolutions are "in the public interest."

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[18] lndeed, the General Assembly implicitly spoke to according deference to Staff's conclusions whether a particular resolution is in the public interest when it specifically authorized the Commission's Staff to participate in reaching resolutions achieved by settlement or stipulation. See 26 Del. C. § 512(b).

The Proposed Settlement does allow Chesapeake an annual revenue increase of $325,000. But once the revenues from the new Miscellaneous Charges are stripped out of that amount, the base rate increase of approximately $86,000 falls within the ballpark of a revenue requirement amount that might have been expected if the case had proceeded to litigation. See HTr. 164-165 (Crane); 168-169 (Neidig). The Proposed Settlement also restructures delivery rates by increasing the fixed customer charge amounts while lowering the "per Ccf" volumetric-based charges. Higher monthly fixed customer charges may engender some complaints from customers. But it was Staff and the DPA that offered this type of shift - to recover more of the Company's fixed costs from the customer charge - as a better rate design approach than a revenue neutrality mechanism as originally proposed by Chesapeake. See paras. 17 and 18 above. In addition, the Proposed Settlement's terms that relate to revisions to the main extension policies appear to offer both some additional clarity and, in the Company's view, greater flexibility. However, the Settlement's terms are not one-sided. They also provide via the two "short-fall" evaluation mechanisms that are to be applied in the next base rate case a check on how the Company's expansion decisions play out.

33. In public comments, several individuals and companies, two legislators, and several governmental agencies supported the Company's plan for expanding its natural gas services in eastern Sussex County. The Proposed Settlement responds somewhat indirectly to these "public" calls by providing a "deemed" customer revenue amount to be used in contemplated main extensions in eastern Sussex County. The Company

believes that - to some degree - this provision and the other changes in main extension parameters will allow it to more easily meet the relevant main extension criteria in that area and enable it to serve more customers in Sussex County. HTr. 159 (Clausius). Finally, it is reasonable for the Proposed Settlement to defer to a later time questions of a revenue neutrality mechanism, Company-offered conservation programs, and an expanded unbundled transportation service program. Any answers to revenue neutrality issues will likely be easier found once the Commission concludes its revenue decoupling investigation in Regulation Docket No. 59. And the need for utility-sponsored conservation programs can better be weighed once the Sustainable Energy Utility identifies what conservation programs it might plan to pursue. Also, it is surely a better use of the Commission's and the utility's resources to postpone a costly, and possibly complicated, process to implement expanded unbundled transportation services until such time as there might emerge a clearer call from Chesapeake's customers for such services.

34. I believe that the above reasons - of context, Staff and DPA endorsement, and common-sense evaluation - provide the Commission with sufficient reasons for it to find that adoption of the Proposed Settlement is in the public interest as called for by § 512(c). Accordingly, I recommend that the Commission adopt that document and approve the revised Tariff which implements its terms.

IX. RECOMMENDATIONS

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

A. That the Commission find, under 26 Del. C. § 512, that the Proposed Settlement document (attached hereto as Exhibit "1") tendered by Chesapeake Utilities Corporation, the Division of Public Advocate, the Delaware Association of Alternative Energy Providers, and the Commission Staff represents resolutions of the matters raised in this proceeding that are in the public interest.

B. That the Commission, consistent with the above finding, adopt the Proposed Settlement document.

C. That the Commission, pursuant to 26 Del. C. § 313 and consistent with the Proposed Settlement, adopt the depreciation rates set forth in Exhibit B of the Proposed Settlement with such rates to be the governing depreciation rates for Chesapeake Utilities Corporation.

D. That the Commission, consistent with the Proposed Settlement, approve the Main Extension Policy and Area Extension Plan policies attached as Exhibits C and D respectively to the Proposed Settlement with such policies to govern, along with relevant tariff provisions, expansion of services by Chesapeake Utilities Corporation.

E. That the Commission, consistent with the Proposed Settlement, approve the revised Tariff (attached as Exhibit E to the Proposed Settlement) and the revised rates and rate structure set forth in such tariff to govern the gas services offered by Chesapeake Utilities Corporation.

F. That the Commission, consistent with the consensus of Chesapeake Utilities Corporation, the Division of the Public Advocate, and the Commission Staff, implement the changes under the Proposed Settlement pursuant to the following timetable for effective dates:

(1) except as outlined below, the revised Tariff (attached as Exhibit E to the Proposed Settlement) shall become effective for services rendered by the utility beginning on the day following the Commission's final action on this Report;

(2) the four new miscellaneous charges endorsed by the Proposed Settlement shall become effective, and shall govern for all customers, beginning on the day following the Commission's final action on this Report;

(3) the new delivery rate charges contained in the new Tariff shall become effective beginning on the day following the Commission's final action on this Report for all new customers initially obtaining services after the date of the Commission's action; and

(4) the new delivery rate charges contained in the new Tariff shall become effective, and govern rates for service, for existing customers (those having service on the date of the Commission's action on this Report) on the first day of each customer's next billing cycle period after the date of the Commission action. Until such initial day of the next billing cycle, the interim rates previously approved shall continue for those existing customers, but such continued interim rates shall be subject to the refund obligation for interim rates recommended in paragraph G below.

G. That the Commission direct Chesapeake Utilities Corporation, the Division of Public Advocate, and Staff to confer to determine the amount of any refund amounts that might be due in this matter and how such refunds (or refund credits) are to be made.

recommendations, is attached hereto.

Respectfully submitted,

Gary A Myers
Hearin• Examiner

Dated: August 25, 2008

E X H I B I T "1"

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR A GENERAL INCREASE IN ITS NATURAL GAS RATES AND FOR APPROVAL OF CERTAIN CHANGES TO ITS NATURAL GAS TARIFF	* * * * * *	**PSC Docket No. 07-186**

PROPOSED SETTLEMENT

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On this •- day of May, 2008, 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 July 6, 2007, Chesapeake filed with the Delaware Public Service Commission (the "Commission") an application for a general increase in its natural gas rates and for certain miscellaneous changes to its tariff.

2. On the 21st day of August, 2007, the Commission entered Order No. 7255 pursuant to which Chesapeake was authorized to place into effect on September 4, 2007 the entire proposed increase, under bond, and subject to refund as permitted under 26 Del. C. §306(c).

3. On or about December 14, 2007, the Commission Staff (the "Staff") and the Division of the Public Advocate ("DPA"), and certain Intervenors filed their respective testimony.

4. Subsequently, on February 7, 2008, Chesapeake filed its rebuttal testimony.

5. During the course of this docket, the parties have conducted substantial written discovery in the form of both informal and formal data requests. Evidentiary hearings were scheduled to be conducted at the Commission's office in Dover, Delaware, on March 26, 2008 to address the issues in this docket.

6. The Settling Parties have conferred in an effort to resolve all of the issues raised in this Docket. 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

Rates and Charges

7. The total base rate revenue increase, including the increase in miscellaneous revenues, should be $325,000.00. This is an incremental decrease of $1,570,668.00 below the level of rates that became effective on an interim basis on September 4, 2007.

8. The Settling Parties agree that the rates and rate design set forth in Exhibit A

attached hereto and incorporated herein by reference are just and reasonable and in the public interest. Exhibit A also reflects the Settling Parties agreement on the allocation of non-gas costs and the rate design to collect such costs. Upon approval of this Settlement by the Commission, Chesapeake shall file with the Commission tariff sheets that incorporate the terms and conditions

of this Settlement. As part of this Proposed Settlement, the Company will not implement its revenue normalization proposal at this time. The parties acknowledge that issues relating to revenue decoupling are being addressed in Delaware PSC Regulation Docket 59. The Company reserves the right to submit a revised rate design, on a revenue neutral basis, for Commission approval, to reflect any Commission decisions made in Regulation Docket 59.

9. The Company is authorized to implement the following new Miscellaneous Charges on a prospective basis:

a. A Connection Charge of $35.00

b. A Seasonal Reconnection Charge equal to the applicable monthly customer charge multiplied by the number of months of inactivity.

c. A Change of Account Charge of $17.00.

d. A Failed Trip Charge of $35.00

10. A cost of equity of 10.25 % for the Company is reasonable and should be adopted for this proceeding. This produces an overall rate of return of 8.91 % with no short-term debt in the capital structure.

Depreciation Rates

11. The Parties agree to the depreciation rates shown on **Exhibit B.** These depreciation rates greatly reduce the accrual for the removal cost component for certain assets, but this Settlement does not prohibit the Parties or the Commission from re-examining this issue in a future base rate case.

Margin Sharing

12. For purposes of establishing the Company's firm revenue requirements in this proceeding, margins from interruptible sales totaling $574,869 shall be imputed or credited

against the firm customers' base rates. As a result, the firm revenue requirement has been reduced by this amount and the Company shall retain one hundred percent (100%) of all margins from interruptible transportation customers. Existing Interruptible sales customers with a minimum annual usage level of at least 10,000 MCF will be moved to the ITS (Interruptible Transportation Service) tariff and all existing interruptible sales customers with less than the aforesaid minimum usage will be moved to the appropriate firm sales service rate schedule.

13. During the Determination Period, as defined herein, eighty percent (80%) of the margins from upstream capacity release credits and eighty percent (80%) of any off system sales margins shall be credited to the Company's Gas Sales Service Rate Clause, with the Company retaining twenty percent (20%). The capacity release margins associated with the Company's affiliate, Eastern Shore Natural Gas, will continue to be credited 100% to the Company's Gas Sales Service Rate Clause. The parties hereto reserve the right to review these margins, on a prospective basis, after the conclusion of the initial Determination Period (as defined below), subject nevertheless to any lawful adjustments that may be implemented in the context of any future regulatory proceeding, if any.

14. All capacity release credits and off-system revenue margin credits, if any, shall, for purposes of calculating the Company's Gas Sales Service Rate, be allocated among the RS-1, RS-2, GS, MVS, and LVS customers on a volumetric basis and shall not be allocated among the HLFS and Gas Lighting Customers, consistent with the procedures currently followed by the Company.

15. As used herein, "Determination Period" means the twelve-month period November 1 through October 31. This change to the Margin Sharing mechanism shall be effective as of the date of a final Order issued by the Commission.

Outside Contractors

16. The Company agrees to review its Outside Construction Contractor bidding processes and within six (6) months of the final Commission order in this Docket, the Company shall submit a report to the Commission Staff with proposed guidelines.

Conservation Programs and Recovery Mechanism

17. In this docket, the Company sought approval to implement certain conservation and energy efficiency programs and recover the cost of said programs pursuant to an energy conservation cost recovery mechanism. In an effort to minimize duplication of any natural gas programs that may be offered by the Sustainable Energy Utility ("SEU") and the Delaware Energy Office in the future, the Company will request, in writing, input with respect to any programs each entity proposes to implement, and the associated cost recovery. Chesapeake will provide the parties in this proceeding with written confirmation of the requests and responses within 10 business days of receipt of the response. The Company reserves the right to file with the Commission a new application for approval to implement a recovery mechanism that would allow the Company to recover from ratepayers the costs incurred by the Company relating to conservation and energy efficiency programs offered by the Company.

Main Extension Policy and Area Extension Program

18. The Company's Main Extension Policy shall be as described in Exhibit C attached hereto, and the Company's Area Extension Program shall be as described in Exhibit D. When and if the Company seeks to make any changes to either the Main Extension Policy or Area Extension Program, the Company shall make application to the Commission and provide Staff, the DPA, and DAAEP with notice of said application.

19 With respect to capital projects undertaken by the Company in accordance with the terms and conditions of the Company's Commission approved main extension policies, the Parties hereto acknowledge that the actual economic results of each particular project will differ from the projections relied upon by the Company in making its determination that each project will provide the Company with a return equal to or greater than the Company's authorized rate of return over the life of the project. The Parties -agree that in the Company's. next base rate proceeding all such incremental capital projects for main extensions in excess of 500 feet proposed for rate base treatment and initiated subsequent to March 31, 2007 (the "Aggregated Projects") will be evaluated in the aggregate to determine if said capital projects earned (in the aggregate) the Company's authorized rate of return over the life of the project. If, in the evaluation of the Aggregated Projects the Commission determines that the Company did not earn a return equal to or greater than the Company's authorized rate of return on the aggregate amount of investment associated with the Aggregated Projects over the life of the project, then fifty percent (50%) of the shortfall (as determined in accordance with Paragraph 21 below) shall be excluded from rate base until such time that the Aggregated Projects meet or exceed the authorized rate of return over the life of the project. If in the evaluation of the Aggregated Projects the Commission concludes that the Company has earned a return equal to or greater than the Company's authorized rate of return over the life of the project, then all of the capital investment associated with the Aggregated Projects shall be included in rate base.

20. The evaluation of the Aggregated Projects shall be based on an internal rate of return model summarizing all incremental main extension capital projects initiated by the Company subsequent to March 31, 2007. Actual information, to the extent available (such as customer build-out and capital costs) shall be substituted for the original estimates. For example,

if the Company files its next base rate proceeding in 2010, a capital project started in 2008 would have two years of actual data substituted for the original estimates. For the remaining years, the original estimates would be included. If the results of this aggregated internal rate of return model demonstrate that the Company earned a rate of return on the Aggregated Projects equal to or greater than the Company's authorized rate of return over the life of the project, there is no shortfall. If the results of this internal rate of return model indicate that the Company did not earn a return equal to or greater than the Company's authorized rate of return over the life of the project, a shortfall will be deemed to exist. The amount of the shortfall, under such circumstances, shall be equal to the amount of the contribution in aid of construction that would otherwise be necessary in order for the Company to have earned its authorized rate of return on the Aggregated Projects. Under such circumstances, fifty percent (50%) of the shortfall would be deducted from rate base.

21. If, with respect to any initial evaluation of any main extension project, the Company departs from the parameters contained in Exhibit C, before proceeding with the project the Company shall file with the Commission Staff (for informational purposes only) a copy of the economic analysis prepared by the Company showing the conditions and assumptions relied upon by the Company. With respect to each such project, at the time of the Company's next base rate case, such projects shall be evaluated in accordance with Paragraph 20 above. However, for these projects, 100% of any such shortfall shall be excluded from rate base until such time as the project shall have earned a return equal to or greater than the Company's authorized rate of return over the life of the project.

22. For purposes of calculating the amount of revenues received by the Company from residential heating customers located in eastern Sussex County, Delaware, as defined in the

Company's natural gas tariff, in any rate of return analysis performed pursuant to the Company's approved internal rate of return model or pursuant to Paragraphs 19 through 21 hereof, the average annual non-fuel revenue per residential heating customer deemed received by the Company shall be equal to $375 until changed by further order of the Commission.

23. Except as otherwise provided under the Company's tariff, with respect to any future customers who elect to convert from propane to natural- gas,- the Company agrees that the customer shall be responsible for paying the cost of converting any of the customer's appliances or HVAC equipment from propane to natural gas (including costs related to the internal piping located with the customer's residence or building or costs associated with the replacement of appliances), and any costs paid by the customer shall not be included in the Company's rate base.

Transportation Proposal

24. In this Docket, the Company submitted a proposal to make transportation service available to all commercial and industrial customers (the "Transportation Proposal"). The Company also signaled its intent to pursue, through a multiple phase-in process in subsequent filings, the transition of all residential consumers to transportation service and the exit of the merchant function. The Company's current Transportation Proposal included only Phase One of its unbundling program (the elimination of the current 3,000 annual MCF eligibility threshold for non-residential consumers). The Company presented a general transition outline but did not attempt to design or propose in any detail the subsequent phases of its intended unbundling process. One retail supplier, Washington Gas Energy Services, submitted testimony in support of the Company's Transportation Proposal but suggested certain operational modifications which it believed would improve the Proposal. Commission Staff and the DPA indicated concerns over the Company's full unbundling objective. Given that the Company's rate filing only addressed

Phase One, Commission Staffs principal concern was the inability to review Phase One in the context of a full unbundling program. Of particular concern was the release of Company pipeline capacity entitlements, the utilization of storage assets and the ability of consumers to select a regulated gas supply option. As part of the overall settlement agreement, the Company has agreed to limit expansion of its current transportation service program to certain interruptible and non-residential consumers within the existing eligibility threshold: While the Company remains committed to expanding its transportation service program with a more comprehensive proposal in the future, the Parties agree that for now, except as provided for below, the current usage thresh-holds for transportation service by commercial and industrial customers shall remain at 3,000 MCF per year. The Parties do agree that for purposes of determining whether or not a customer satisfies the aforesaid 3,000 MCF thresh-hold, firm customers with multiple contiguous meters in a specific geographic location with a common owner shall have the right to aggregate the usage for each meter serving the customer. By way of example, an apartment complex (owned by a single owner) with separate buildings or a college campus with separate buildings, with multiple meters connected throughout the apartment complex or college campus in an unbroken sequence, would be eligible to aggregate the usage for each meter serving separate buildings located within the apartment complex or college campus.

<u>Tariff Modifications</u>

25. In its Application, the Company sought approval for various modifications to its existing Tariff. The Parties agree that the Company shall be permitted to amend its existing Tariff in the manner set forth in Exhibit E.

Interruptible Balancine Service Rate

26. The calculation of the Interruptible Balancing Service Rate will be updated and addressed prospectively as part of the Company's upcoming Gas Sales Service Rate application to be filed on September 1,2008.

II. STANDARD PROVISIONS AND RESERVATIONS

27. The provisions of this Proposed Settlement are not severable:

28. 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.

29. 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.

30. 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.

31. 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.

32. 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.

33. 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.

34. 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, non-appealable 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.

35. 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.

36. 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.

THE REMAINING PORTION OF THIS PAGE IS INTENTIONALLY LEFT BLANK

III. CONCLUSION

IN WITNESS WHEREOF, 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: 08-21-08

By: _____

Delaware Public Service Commission Staff

Dated: 9/2/08

By: Bruce H. Burcat

Division of the Public Advocate

Dated: 9/2/08

By: _____

Delaware Association of Alternative Energy Providers

Dated: 9/2/08

By: [illegible] Esq.
Counsel

WAD\CHESAPE\ChesSett.doc

CHESAPEAKE UTILITIES CORPORATION
DELAWARE DIVISION
PSC DOCKET NO. 07-186

SUMMARY OF PROPOSED SETTLEMENT RATES

Rate Schedule	Rate Blocks	Pre Filing Rates	Proposed Settlement Rates
"RS - 1" Residential Service	Customer Charge	$9.50	$10.50
	First 2 Mcf	$6.07	$6.07
	Next 3 Mcf	$4.22	$2.80
	Over 5 Mcf	$1.78	$1.70
"RS - 2" Residential Service	Customer Charge	$9.50	$13.00
	First 2 Mcf	$6.07	$5.78
	Next 3 Mcf	$4.22	$3.19
	Over 5 Mcf	$1.78	$1.32
"GS" General Service	Customer Charge	$17.50	$26.00
	First 2 Mcf	$6.57	$4.47
	Next 3 Mcf	$4.47	$2.78
	Over 5 Mcf	$1.97	$1.40
"MVS" Medium Volume Service	Customer Charge	$40.00	$65.00
	First 20 Mcf	$3.16	$2.27
	Over 20 Mcf	$1.44	$1.15
"LVS" Large Volume Service	Customer Charge	$60.00	$125.00
	First 100 Mcf	$3.72	$3.26
	Over 100 Mcf	$0.92	$0.83
"HLFS" High Load Factor Service	Customer Charge	$40.00	$75.00
	All Gas Consumed	$1.02	$0.87
"GLR" 8, "GLO" Gas Lighting	Customer Charge	$11.50	$11.75

Exhibit C

EXHIBIT

CHESAPEAKE UTILI71ES CORPORATION
DELAWARE DIVISION
PSC DOCKET NO. 07486

DEPRECIATION RATES

Acct /	Description of Property	Test Pedod Balance- March 31, 2007	Depreciadon Rate -Asset	Cost of Removal Rate	Total Depreciation Rate	Projected Depreciation and Retirement Expense
301	Organization Expense	$6,732	0.00%	0.00%	0.00%	$0
302	Frond*. & Consent	410	0.00%	0.00%	0.00%	$0
303	Miscellaneous intangible Plant	3.000	0.00%	0.00%	0.00%	$0
303.28	UtiliCIS (customer billing soitsvare)	1,200,000	6.67%	0.00%	e87%	$80,040
303.28	Uti6C4S (modifications)	46,760	13.04%	0.00%	13.04%	$6,098
	Total Intangible Plant	$1,258,903				$86,138
	Production Plant					
304	Land & Land Rights	1139,111	0.00%	0.00%	0.00%	$0
304.1	Depreciable Land Rights	$0	4.14%	0.00%	4.14%	SO
305	Strucbses & improvements	258,887	1.26%	0.00%	1.26%	$3,262
311	Liquid Petro. Gas Equipment	2,977522	3.17%	0.03%	3.20%	$95,281
	Total Intangible Plant	83,373,520				$98,543
	Distribution Plant					
376	Mains	33,931204	1.54%	0.07%	1.61%	546,292
378	M & R Stations - General	167,231	3.77%	0.00%	3.77%	6,305
379	*M* & R Stations - City Gate	1534,688	3.46%	0.35%	3.81%	30,658
380	Services	16.198,380	1.82%	0.26%	2.08%	378, 526
381	Meters	5,135,397	2.29%	0.00%	2.29%	117,601
382	Meter installations	3,136,851	2.14%	0.04%	2.18%	68,383
383	Regulating Equipment	1,501,270	1.77%	0.00%	1.77%	26,572
385	M & R Stations - industrial	676,184	4.14%	0.02%	4.16%	38,449
387	Other Equipment	236,635	3.92%	0.00%	3.92%	9,354
	Total Distribution Plant	163,989,820				$1,220,141
	General Plant					
390	Structures & Improvements		20.00%	0.00%	20.00%	
391	Office Equipment	532,052	3.99%	0.00%	3.99%	21,229
392	Transportation Equipment	1,104,704	15.11%	-0.74%	14.37%	158,746
394	Tools & Work Equipment	292,507	2.44%	0.00%	2.44%	7,137
395	Laboratory Equipment	1,658	ears	0.00%	0.00%	
396	Power Operated Equipment	583,188	7.20%	-0.58%	8.62%	38,607
397	Communication Equipment		3.85%	0.00%	3.65%	
398	Miscellaneous Equipment	289236	4.44%	0.00%	4.44%	12,842
399	Other Tangible Property	475	0,00%	0.00%	0.00%	
	Total General Plant	52.803.820				$238,581
	Total Plant in Service	871,426,063				$1,843,383
	Less Depredation on Transportation Equipment	1,104.704				158,748
	Less Depreciation on Communications Equipment charged to Dept.					
	Deprecietion Exclusive of Transportation Equipment & Communications	$70,321,359				$1,484,637

Exhibit C

EXHIBIT

CHESAPEAKE UTILITIES CORPORATION
DELAWARE DIVISION
PSC DOCKET NO. 07-186

MAIN EXTENSION POLICIES

1

1. **Type of Economic Analysis**

The Company will utilize a six times net revenue test (annual base tariff revenue excluding fuel costs) in the economic analysis of main extensions of less than 500 feet in length to serve new residential developments, existing residential developments, and commercial and industrial main extensions. The Company will utilize an Internal Rate of Return Model ("IRRM") in the economic analysis of main extensions of greater than 500 feet to serve new residential developments.

2. Parameters of the Net Revenue Test

A. Number of Customers

For either main extensions of less than 500 feet or main extensions to serve commercial and industrial customers, the number of customers to be included in the economic analysis is the number of customers estimated to be connected during the first year. For main extensions to serve existing residential developments, the number of customers to be included in the economic analysis is the number of customers intending to convert to natural gas service within ninety (90) days and who have signed an application for natural gas service with the Company.

3. Parameters of the IRRM

A. Number of Customers

The estimated number of residential heating customers will be based on the number of lots in a new residential subdivision that have been approved for development by the appropriate local, county, or state government authority responsible for approving such residential subdivision projects. At its discretion, the Company may include more conservative estimates by including in the model less than the total number of approved lots in such residential subdivision. The estimated number of customers will be phased-in over periods of no less than the following:

MAIN EXTENSION POLICIES

Potential Customers	Buildout Period
0 — 50	1 year
51 —100	2 years
101 — 200	3 years
201 — 400	4 years
401 — 800	5 years
801 +	6 years

When more than one residential subdivision has been approved for development and can be reached by the Company through a common distribution approach main installation, the Company shall perform a separate analysis for each subdivision. However, under such circumstances, the cost of the distribution approach main installation shall be allocated, for IRRM purposes, to each subdivision based on the size of the subdivision.

B. Annual Non-Fuel Revenue Per Customer

The estimated annual average non-fuel revenue per residential customer will be based on the margin per customer approved by the Commission in PSC Docket No. 07-186, depending upon the estimated rate schedule for the customers in the residential subdivision(s).

D. Distribution Main Installation

The estimated construction costs relative to the distribution main line extension and the new residential development main will be determined based upon the specific cost estimates for these particular mains on a project-by-project basis. The entire cost of the distribution approach main for a project will be included in the first year of the project; however the development main for a given residential subdivision(s) will be included consistent with the Company's estimate of the timing of the expense.

F. Service Installation and Meter Installation

The estimated construction costs relative to the installation of the service line and the meter set will be established based upon the Company's current cost of an average size service line and meter set for a typical residential service. The Company will provide the Commission Staff with any updated cost information

relative to a typical service installation and meter installation to be used in the 1RRM by March 1 of each year.

E. Operations and Maintenance Expenses

The estimated operations and maintenance expenses contained in the IRRM for a particular main line extension project will be based on a 3-year average of variable costs on a per customer basis for the most recent three calendar years unless the 3-year average is inconsistent with the particular extension project, in which case the most current year variable cost per customer will be utilized. The Company will provide the Commission Staff with any updated cost information relative to the operations and maintenance expenses per customer to be used in the IRRM by March 1 of each year.

F. Book Depreciation Life for Mains

The book depreciation life for mains for proposes of the IRRM will be based on the most recent Commission approved depreciation rate at the time of the economic analysis.

G. Capital Structure

The capital structure and associated rate of return for a given capital project will be based on the Company's capital structure, cost of equity capital, and the cost of long term debt approved in the Company's most recent base rate proceeding before the Commission.

EXHIBIT D

Exhibit

CHESAPEAKE UTILITIES CORPORATION
DELAWARE DIVISION
PSC DOCKET NO. 07-186

AREA EXTENSION PROGRAM

For residential facilities that are to be extended to one discrete geographic area and require a CIAC, the Company may establish one Area Extension Program ("AEP") on an experimental basis to recover these costs plus interest at a rate equal to the Company's cost of capital. The AEP amount will be billed to customers served by the extension providing that the CIAC can reasonably be expected to be collected over an amortization period not to exceed ten years.

1. **The AEP, which shall be stated on a per Ccf basis, shall apply with respect to all natural gas sold or transported to Company customers located within the applicable discrete geographic area during the amortization period.**

2. **The AEP rate will be calculated by dividing (1) the amount of additional revenue required in excess of the Company's applicable tariff rates, including any taxes calculated on gross revenue, by (2) the volume of gas reasonably forecast to be sold or transported to customers within the applicable discrete geographic area during the amortization period. The additional revenue required is the amount determined necessary to recover the excess cost of the facilities, including the Company's allowed cost of capital as determined in accordance with the Company's internal rate of return model on file with the Public Service Commission.**

3. **AEP amounts collected shall be used specifically to amortize the cost of the project facilities within the applicable discrete geographic area requiring a CIAC. If the AEP collected is sufficient before the expiration of the amortization period to fully amortize the excess costs, including the provision for the accumulated cost of capital, the AEP for said discrete geographic area shall terminate immediately, and the Company shall promptly credit the affected customers for amounts over collected, if any. The Company will absorb any under recovery in existence at the end of the amortization period.**

4. **The Company shall have the right to reassess the amount of revenue available to recover the unamortized excess cost of the facilities on an ongoing basis and recalculate the AEP rate as needed, provided however, to the extent that any change in the AEP rate is required, the Company shall only have the right to change the rate once during the amortization period, subject to the maximum rate limitations set forth above.**

5. **The initial AEP rate computation and any further change to the established**

Exhibit

CHESAPEAKE UTILITIES CORPORATION
DELAWARE DIVISION
PSC DOCKET NO. 07-186

AREA EXTENSION PROGRAM

rate will be submitted to the Public Service Commission for review and approval prior to the effective date of the surcharge. The AEP rate will then appear on Rate Schedule "AEP" in the Company's tariff. The Experimental Area Extension Program will be evaluated by the Commission at the expiration of 18 months after the filing of the one trial AEP application.

EXHIBIT E

P.S.C. DEL. NO. 4

CHESA

DELAWARE DIVISION

RULES AND REGULATIONS

GOVERNING THE DISTRIBUTION

AND SALE OF GAS

OF

CHESAPEAKE UTILITIES CORPORATION

IN

NEW CASTLE, KENT & SUSSEX COUNTIES, DELAWARE

Issue Date: April 17, 2002
Effective Date: For Service Rendered on and after May 1, 2002
Authorization: Order No. 5932 dated April 16, 2002 in PSC Docket No. 01-307

CHESAPEAKE UTILITIES CORPORATION
DELAWARE DIVISION

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Issue Date: April 17, 2002
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Authorization: Order No. 5932 dated April 16, 2002 in PSC Docket No. 01-307

CHESAPEAKE UTILITIES CORPORATION
DELAWARE DIVISION

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DELAWARE DIVISION

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RULES AND REGULATIONS

SECTION I - GENERAL

1.1 FILING AND POSTING

A copy of this Tariff, which is the rates, rules and regulations under which gas service will be supplied by Chesapeake Utilities Corporation to its Customers, is on file with the Public Service Commission of Delaware, and is posted and open for inspection at the offices of the Company. The Tariff is supplementary to any Regulations of that Commission.

1.2 REVISIONS

This Tariff may be revised, amended, supplemented and otherwise changed from time to time in accordance with the Public Service Commission Law of Delaware, and such changes, when effective, shall have the same force and effect as the present Tariff.

1.3 APPLICATION OF TARIFF

The Tariff provisions apply to any party or parties receiving gas service from the Company, or to its successors and assigns, under the rates set forth therein, and the receipt of gas shall constitute the receiver a Customer of the Company as the term is used herein.

1.4 RULES AND REGULATIONS

The Rules and Regulations, filed as a part of this Tariff, are a part of every contract or agreement for service, whether written, oral or implied, made by the Company and govern all classes of service where applicable. Subject to the approval of the Commission, the Company shall have the right to interpret and determine the applicability of such rules and regulations.

1.5 STATEMENT OF AGENTS

No agent or employee of the Company has authority to make any promise, agreement or representation inconsistent with the provisions of this Tariff.

RULES AND REGULATIONS

SECTION II - CURTAILMENT

2.1 GENERAL

In the event that the Company determines that there is insufficient gas supply to meet the demands of Customers on its distribution system, the Company may, at its sole discretion, curtail service to Customers. Curtailments will be made to maintain supply to its firm sales customers in the priorities set forth below. When curtailment is necessary, sufficient gas will be available to maintain a temperature which will keep the building pipes from freezing and other plant protection use, if possible. Prior to, or in conjunction with curtailment the Company may call for voluntary usage reductions on the part of all customers.

2.2 DEFINITIONS

Essential Human Needs: Includes residences, apartments, hotels, motels, dormitories, hospitals, nursing homes, police and other institutions essential to the public welfare.

Plant protection use: Minimum volumes of natural gas required to prevent physical harm to the plant facilities' processes or danger to plant personnel when such protection cannot be afforded through the use of an alternative fuel. Plant protection requirements include volumes necessary for the protection of such material in process as would otherwise be destroyed, but does not include deliveries required to maintain production.

2.3 CURTAILMENT PRIORITIES

Curtailment to the extent necessary as determined by the Company, up to and including complete curtailment shall be done in accordance with the following list of priorities, starting with the lowest priority, priority 6.

RULES AND REGULATIONS

SECTION II
(Continued)

2.3 CURTAILMENT PRIORITIES (continued)

Priority 1: Essential humans needs customers.

Priority 2: All other customers other than priority 1 customers will be curtailed to the extent necessary as determined by the Company.

Priority **3:** Firm commercial and industrial customers using above 4,000 Ccf per year.

Priority 4: Firm commercial and industrial customers using above 15,000 Ccf per year.

Priority 5: Firm commercial and industrial customers using above 100,000 Ccf per year.

Priority 6: All interruptible transportation and IBE customers.

2.4 CURTAILMENT OF CUSTOMEROWNED GAS

If adequate supply to priority essential human needs customers is threatened in the Company's judgment, Customer-owned transportation gas may be curtailed in addition to system supply and in the same order of priorities. In the event that Customer-owned gas is diverted for use by higher priority customers, the Company will reimburse the Customer by paying the cost of the Customers alternative fuel or, if the Customer has no alternative fuel, reimbursement will be at a price equivalent to No. 2 fuel oil. In lieu of this provision, the Company may enter into contractual or informal arrangements with transportation Customers or any other parties to obtain supplies to avoid curtailments.

2.5 LIABILITY

The Company shall not be liable for any damages, loss of product, or other business losses suffered by Customers as a result of curtailed gas service, other than the compensation provided in paragraph 2.4 above. The Company shall not be liable for curtailment as a result of any action by any governmental agency with jurisdiction to regulate, allocate, or control gas supplies or the rendition of service, and regardless of any defect in such law, regulation, or order.

RULES AND REGULATIONS

SECTION II
(Continued)

2.6 ADDITIONAL LOADS

In the event that additional gas supply becomes limited for any reason, the Company reserves the right to defer supplying gas for new loads in such manner as to cause the least hardship to present or prospective customers, taking into consideration the volume of natural gas available and the capacities of local mains and facilities. In each of the listed classes, present customers will be allowed to increase loads before new customers will be allowed to begin service.

During any period when gas supply is expected to be limited the Company will maintain a Register of New Loads applied for, but not already being served by the Company, in order to assist the Company in forecasting peak demands for its service, and to afford a basis of priority in supplying additional loads to existing as well as to new or prospective customers.

During any period of restricted gas supply the Company will not supply gas for any equipment unless application for such load was registered with the Company prior to the connection of such equipment, and approval thereof was given by the Company.

The priority in which additional loads will be accepted is:

	DESCRIPTION	TYPE
(1)	Non-space heating load Peak day less than 1,000 cu. ft.	Residential
(2)	Non-space heating load Peak day less than 1,000 cu. ft	Commercial Industrial
(3)	Space heating load Peak day less than 2,000 cu. ft.	Residential Commercial Industrial
(4)	Dwelling Units - Home or Apartments Individually Billed Not to exceed 25 units at one location.	Residential

RULES AND REGULATIONS

SECTION II
(Continued)

.6 ADDITIONAL 2 LOADS (continued)

DESCRIPTION	TYPE
Dwelling Units - Home or Apartments Master Metered Not to exceed 25 units at one location	Commercial
Non-space heating load	Commercial
Peak day not to exceed 10,000 cu ft	Industrial
Space Heating Load	Commercial
Peak day less than 10,000 cu. ft.	Industrial
Same as (4) above except in increments of 26 to 100 units at one location.	
Same as (5) above except in increments of 26 to 100 units at one location.	
Same as (4) above except in increments of over 100 units at one location.	
Same as (5) above except in increments of over 100 units at one location.	
All other commercial and industrial loads.	

Company reserves the right to establish priority of loads in accordance with volume within each category above.

Company reserves the right to allocate gas to various priority categories listed above based on estimated gas sales and gas supply and to make adjustments as actual figures vary from the estimate.

RULES AND REGULATIONS

SECTION II
(Continued)

2.6 ADDITIONAL LOADS (continued)

When anticipated gas supplies are not sufficient to service all new loads applied for in one of the above categories, priority will be given in the order in which application was registered with the Company, provided the new load is connected within a reasonable time after notice from the Company that it may be served.

When the evidence available to the Company reasonably indicates that a customer has connected additional load without registering same or in violation of the Company's notice that it may not be connected, the Company will discontinue all service to such customer, upon ten days written notice, until such additional load has been disconnected.

RULES AND REGULATIONS

SECTION III - APPLICATION FOR SERVICE

3.1 APPLICATION

Application for gas service may be made through the local office of the Company or authorized agent, by:

A. Verbal or telephonic request to a business office of the Company, or
B. Electronic request to the Company's web site (www.chpkgas.com), or
C. if required by the Company, by submission to the Company a completed Gas Delivery Service Application (certain Applicants may be required to execute a Transportation Service Agreement).

The Company reserves the right to require the applicant before any gas is delivered, to execute an application at the local office with proper identification. The application does not constitute a commitment by the Company to serve the applicant.

3.2 RIGHT TO REJECT

The Company may place limitations on the amount or character of service it will supply, or may reject applications for any of the following reasons:

(a) Until the Customer has complied with the state and municipal regulations governing gas service.

(b) If the Company does not have adequate facilities to render the service desired.

(c) If such service is of a character that it is likely to unfavorably affect service to other Customers.

(d) If, in the judgment of the Company, the applicant's installation of piping or gas equipment is hazardous, or of such a character that satisfactory and safe service cannot be rendered.

(e) If an extension of street main, except as set forth under Section 6 - Extensions, is required to furnish such service.

RULES AND REGULATIONS

SECTION III
(Continued)

3.2 RIGHT TO REJECT (Continued)

(f) When it is necessary to conserve the supply of gas (See Section 11-2.3 Curtailment Priorities and 2.6 Additional Loads.)

(g) Customer's failure to provide a deposit to insure payment of bills, where requested by the Company under the provisions of Section 13.2.

(h) Customer's failure to make such payment as may be required under Section 6 as a condition of extension of supply facilities.

(i) Customer's failure to pay the Connection . Charge, Reconnection Charge or Seasonal Customer Charge.

(l) Service at new location will be rendered only when all bills for gas service to the Customer at any other locations have been paid.

(j) Non-compliance with provisions of this tariff.

3.3 ACCEPTANCE

Acceptance of gas service by the Customer shall constitute an agreement to accept service under these Rules, Regulations and Rates as amended from time to time, the Orders or Rules of the Public Service Commission of Delaware, the Laws of the State of Delaware and the Laws of the United States of America.

RULES AND REGULATIONS

SECTION III
(Continued)

3.4 CUSTOMER TO SPECIFY TIME WHEN SERVICE IS CONNECTED

A Customer shall give two (2) business days notice to the Company for gas service to be connected during normal business hours, under normal operating conditions. As a safety precaution, the Customer, or an adult representative of the Customer, shall be present at the premises for gas service to be connected. If, due to unforeseen or emergency circumstances, the Company is not able to meet the two (2) business day connection schedule, the Customer shall be informed, and a new arrangement made. .The Connection Charge provided on Sheet No. 46 (Miscellaneous Customer Charges) shall apply to all gas service connections. If necessary for the Customer's convenience, and if he so directs, that the connection be made after normal working hours, the After Hours Connection Charge provided on Sheet No. 46 (Miscellaneous Customer Charges) shall apply.

3.5 POINT OF DELIVERY

(a) The point of delivery of gas to a Customer shall be at the outlet side of the meter connection at which point title to the gas shall pass to the Customer. The use of Service on two or more separate meters will not be combined for billing purposes.

(b) (Exception) Combined billings for registrations of multiple meters installed on a customer's premises is permitted only where such multiple meters are installed for the convenience of the Company.

3.6 CHARACTER OF GAS

The gas to be served will be natural gas with a specific gravity of approximately .60, a minimum value per cubic foot of 1,000 BTU, and that is in conformance with the quality specifications of transporters delivering such gas to the Company's Delivery Points, or such other gas as may *be* approved by the Public Service Commission. The Company shall have the right to supply stand-by or peak shaving gas of similar characteristics when necessary.

RULES AND REGULATIONS

SECTION IV - CUSTOMER'S INSTALLATIONS

4.1 INFORMATION FROM CUSTOMER

Anyone desiring to equip his premises for the use of gas shall communicate with the Company personally, or through his contractor or other authorized agent, giving the exact location of the premises and details of all gas consuming equipment to be installed.

4.2 POINT OF CONNECTION

The Company will designate the point where the Applicant would, if served, be required to terminate his piping for connection to the lines of the Company. The furnishing of such information does not constitute an agreement, or obligation, on the part of the Company to render service.

4.3 METER SPACE

The Applicant shall provide, free of expense to the Company, a space satisfactory to the Company for meters, regulators or other equipment of the Company which is necessary for the rendering of adequate and safe service. The Company reserves the right to establish the standard as to the location of such space in accordance with pressure conditions, volumes, and other pertinent factors.

4.4 METER LOCATION

The Company shall have the right to determine the location of its meters, which must be placed where they will be easily accessible, and the Customer or Owner of the building shall provide at all times, maintain free of expense to this Company, proper space for this Company's meters. Likewise, the Customer is warned not to permit materials of any character to be piled up or heaped around the meter location. The Customer shall reimburse this Company for the loss of, or any damage to its meters and meter connections, or other property of the Company while located on the Customer's premises, arising out of or caused by Customer's negligence, carelessness; or that of his servants, agents, employees, members of his household, or any person upon his premises under or by authority of his consent or sufferance.

RULES AND REGULATIONS

SECTION IV
(Continued)

4.5 METER CONNECTIONS

This Company will own, furnish, and maintain the meter, regulator, meter connection, electronics, remote reading device, if any, and all other appurtenant equipment required to measure the gas supplied to the Customer, and will supply gas only through a meter furnished and owned by the Company. This Company must be notified when the Customer desires to have the meter installed, changed or removed.

4.6 TEMPORARY SERVICE

The Customer shall pay the cost for all material, labor and all other necessary expense incurred

1 by the Company in supplying gas service to the Customer for any temporary purpose or use, and shall pay the cost of removing material after service is discontinued, in addition to the regular payments for gas used. The Company will credit the Customer with the reasonable salvage value of any material recovered.

4.7 SERVICE LINES

designated by the Company. (See 6.1 Service Connections).

4.8 HOUSE PIPING

Prior to the installation of house piping by the Customer in new or altered premises, inquiry should be made of the Company to determine the requirements, sizes of pipe, quality and other specifications.

Customer's installation shall be installed at the Customer's expense and shall be maintained by Customer in compliance with applicable codes.

RULES AND REGULATIONS

SECTION IV
(Continued)

4.9 INTERFERENCE WITH COMPANY FACILITIES

The Customer shall not open, tamper or interfere with, in any manner, the service line, regulators, or safety appliances installed in connection with service provided to the Customer. The Company's main, service line, service cock, curb box and meter shall not be tampered or interfered with at any time. In the event of the Company's meters or other property being tampered or interfered with, the Customer being supplied through such equipment shall pay the amount which may be reasonably estimated to be due for service used but not registered on the Company's meter, and for any repairs, replacements or changes in facilities required, as well as for costs of inspections, investigations and protective installations.

4.10 RESPONSIBILITY OF CUSTOMER

This Company's ownership and responsibility terminates at the meter outlet. Customer is warned of the risk of damage to property and the possibility of fire or personal injury resulting from improper house piping and manner of attachment or use and maintenance of gas appliances, fixtures, and apparatus, and is advised to permit no one except experienced and capable pipe fitters to install or to make any changes, alterations, additions or repairs to any part of Customer's installation. This Company will not be liable for any injury or damage or loss of gas caused by reason of defects in any portion whereof.

RULES AND REGULATIONS

SECTION V - TESTING AND INSPECTION OF CUSTOMER'S PIPING

5.1 REQUIREMENT

Prior to providing gas service, the Customer's facilities and appliances must be in accordance with the National and Local Code requirements.

5.2 COMPANY'S RIGHT TO INSPECT

The Company shall have the right, but shall not be obliged, to inspect any installation before gas is introduced or at any later time, and reserves the right to reject any piping or appliances not in accordance with the Company's standard requirements, or with any national and local code requirements; but such inspection, or failure to inspect, or to reject, shall not render the Company liable or responsible for any loss or damage, resulting from defects in the Customer's installation, piping or appliances, or from violation of company rules, or from accidents which may occur upon the premises of the Customer.

RULES AND REGULATIONS

SECTION VI — SERVICE INSTALLATIONS AND MAIN EXTENSIONS

6.1 SERVICE INSTALLATIONS

The Company will install the service line from its existing distribution main to the Customer's meter_ location at its expense. However, if the service line exceeds seventy-five (75) feet in length, the Company's initial investment in the entire service installation shall be limited to six (6) times the related estimated annual base tariff revenue excluding all fuel costs ("net revenue") from the Customer. The amount of the investment that exceeds the six (6) times net revenue test for the service installation shall be paid by the Customer in accordance with the terms of Section 6.3.

Service Installations, as used in this section for purposes of the six (6) times net revenue test, refers to the costs associated with the service line piping, meter installation and associated materials from the tap on the Company's gas distribution main system up to and including the Customer's meter.

6.2 MAIN EXTENSIONS

Main extensions to the Company's gas system shall be provided, owned and maintained under the terms and conditions stated herein. Main extensions, as used in this section for purposes of the economic evaluation criteria, refers to the cost of gas distribution mains and associated materials that must be constructed along public streets, roads and highways, or on private property from the Company's existing gas distribution main system to the initiation of the service line. The Company will make extensions to existing mains of one hundred (100) feet per Customer without charge. Main extensions beyond one hundred (100) feet per Customer from existing mains are limited to the extent of new investment warranted by the anticipated revenues as stated in this Section VI.

New Residential Development - Main Extensions Less Than 500 Feet

If a main extension to serve a new residential development is less than 500 feet in length, the Company will construct the facilities at no charge if the Company's estimated investment in both the main extension and service installation is equal to, or less than six (6) times the annual base tariff revenue, excluding all fuel costs ("net revenue") from Customers to be initially served from the main extension during the first year of the development. If the estimated investment exceeds the six (6) times net revenue test, the Customer(s) shall provide a financial guarantee in accordance with the terms of Section 6.3.

RULES AND REGULATIONS

SECTION VI — SERVICE INSTALLATIONS AND MAIN EXTENSIONS (Continued)

6.2 MAIN EXTENSIONS (Continued)

New Residential Development - Main Extensions Over 500 Feet

If a main extension to serve a new residential development is greater than 500 feet in length, the economic evaluation criteria for installing natural gas service to the new residential development will be based on an Internal Rate of Return Model ("IRRM") with certain predetermined conditions and guidelines. The applicable procedures and guidelines in the implementation of the IRRM are on file with and have been approved by the Delaware Public Service Commission. The procedure used to determine whether a financial guarantee will be required from a Customer(s) is part of the IRRM methodology on file with the Commission.

Existing Residential Developments

If the estimated investment in the facilities necessary to provide gas service to existing residential developments exceeds six (6) times the related annual net revenue from the respective Customer(s), the Customer(s) shall provide a financial guarantee in accordance with the terms of Section 6.3.

For purposes of existing residential developments, the number of customers to be used in the evaluation criteria will be based on the actual number of customers intending to convert to natural gas service within ninety (90) days and who have signed an application for natural gas service with the Company.

Commercial and Industrial Main Extensions

The economic evaluation criteria for installing natural gas service to commercial and industrial customers, including transportation and non-firm customers, will be the six (6) times net revenue test based on the commercial and industrial customers' estimated level of annual non-fuel revenue. The estimated annual non-fuel revenue is defined as the estimated annual base tariff revenue or delivery service revenue excluding all fuel related costs for the respective customer. If the estimated investment in the facilities necessary to provide gas service exceeds six (6) times the related annual non-fuel revenue from the respective Customer(s), the Customer(s) shall provide a financial guarantee in accordance with the terms of Section 6.3.

RULES AND REGULATIONS

SECTION VI — SERVICE INSTALLATIONS AND MAIN EXTENSIONS (Continued)

6.3 FINANCIAL GUARANTEES

Financial Guarantees may be made by a Contribution in Aid of Construction ("CIAC"), a Customer Advance, a Letter of Credit, or other financial guarantee at the Company's discretion.

Should the Customer provide a Customer Advance, the Company will provide, in a written agreement with the Customer, for refunds (without interest) of all, or part, of the monies advanced by the Customer in connection with the extension and the applicable economic evaluation criteria. Refunds to the Customer shall extend over a term of years, not to exceed six years, upon such basis or conditions as may be mutually agreeable to the Company and the Customer, and specified in the written agreement. In no case shall the total refund be greater than the Customer's deposit. Any portion of the deposit remaining after the expiration of the term as specified in the written agreement shall be retained by the Company and credited as a Contribution In Aid of Construction.

Should the Customer provide a Letter of Credit or other financial guarantee, the estimated revenue attributable to the extension shall be examined prior to the expiration of the Letter of Credit or other financial guarantee. The Company may either draw on the Letter of Credit or other financial guarantee or require that it be renewed, where a continued financial guarantee is still required.

6.4 EXPERIMENTAL AREA EXTENSION PROGRAM

For residential facilities that are to be extended to one discrete geographic area and require a CIAC, the Company may establish an Area Extension Program ("AEP") on an experimental basis to recover these costs plus interest at a rate equal to the Company's cost of capital. The AEP amount will be billed to customers served by the extension providing that the CIAC can reasonably be expected to be collected over an amortization period not to exceed ten years.

The AEP, which shall be stated on a per Ccf basis, shall apply with respect to all natural gas sold or transported to Company customers located within the applicable discrete geographic area during the amortization period.

RULES AND REGULATIONS

SECTION VI — SERVICE INSTALLATIONS AND MAIN EXTENSIONS (Continued)

6.4 EXPERIMENTAL AREA EXTENSION PROGRAM (Continued)

The AEP rate will be calculated by dividing (1) the amount of additional revenue required in excess of the Company's applicable tariff rates, including any taxes calculated on gross revenue, by (2) the volume of gas reasonably forecast to be sold or transported to customers within the applicable discrete geographic area during the amortization period. The additional revenue required is the amount determined necessary to recover the excess cost of the facilities, including the Company's allowed cost of capital as determined in accordance with the Company's internal rate of return model on file with the Public Service Commission.

AEP amounts collected shall be used specifically to amortize the cost of the project facilities within the applicable discrete geographic area requiring a CIAC. If the AEP collected is sufficient before the expiration of the amortization period to fully amortize the excess costs, including the provision for the accumulated cost of capital, the AEP for said discrete geographic area shall terminate immediately, and the Company shall promptly credit the affected customers for amounts over collected, if any. The Company will absorb any under recovery in existence at the end of the amortization period.

The Company shall have the right to reassess the amount of revenue available to recover the unamortized excess cost of the facilities on an ongoing basis and recalculate the AEP rate as needed, provided however, to the extent that any change in the AEP rate is required, the Company shall only have the right to change the rate once during the amortization period, subject to the maximum rate limitations set forth above.

The initial AEP rate computation and any further change to the established rate will be submitted to the Public Service Commission for review and approval prior to the effective date of the surcharge. The AEP rate will then appear on Rate Schedule "AEP" in the Company's tariff. The Experimental Area Extension Program will be evaluated by the Commission at the expiration of 18 months after the filing of the one trial AEP application.

6.5 RIGHT TO DETERMINATION

In each and every situation where the Company and the prospective Customer cannot agree as to the necessity for a financial guarantee to be borne by the prospective Customer, the prospective Customer will be advised by the Company of the right to have the matter determined by the Public Service Commission under 26 Del Code, Section 203.

RULES AND REGULATIONS

SECTION VI — SERVICE INSTALLATIONS AND MAIN EXTENSIONS (Continued)

6.6 OWNERSHIP AND MAINTENANCE

The Company shall own, maintain and renew all its equipment, between the main and the outlet side of the meter connection.

RULES AND REGULATIONS

SECTION VII - RIGHTS-OF-WAY/OR EASEMENTS

7.1 RIGHTS-OF-WAY AND/OR EASEMENTS

The applicant or applicants requesting service shall furnish, without expense to the Company, and to the Company's satisfaction, rights-of-way and/or easements necessary for the supply of service or shall agree to reimburse the Company for expense incurred in the procurement of the necessary rights-of-way and/or easements. The Company shall first exercise reasonable efforts to procure any necessary rights-of-way and/or easements from the land owner for nominal consideration or without charge to the Company and the applicant or applicants requesting service.

7.2 TERM AND RENTALS

When, to serve a Customer, it is necessary to extend the Company's facilities over the property of another, the Customer shall accept service for such term as is provided in the permit or agreement covering the location and maintenance of such facilities on the land or property of others. The Customer may be required to reimburse the Company for any and all special, or rental, charges that may *be* made for such rights by said permit or agreement.

7.3 GRADING

Rights-of-way, easements and service routes must be cleared and graded to within 6 inches of final grade by the applicant including certification by the applicant that such grade has been achieved before the utility will commence construction. Such clearing and grading must be maintained by the applicant during construction by the utility.

7.4 CHANGE IN GRADE

If subsequent to any agreement to construct by the Company, the clearance or grade is changed in such a manner as to require relocation of pipelines or other facilities, the cost of such relocation shall be borne by the applicant, or his executor, administrator, heir or successor.

7.5 DELAYS

Application for service from an extension to be constructed where a right-of-way and/or easement is not owned by the Company, will only be accepted subject to delays incident to obtaining a satisfactory right-of-way and/or easement.

RULES AND REGULATIONS

SECTION VIII - COMPANY EQUIPMENT ON CUSTOMER'S PREMISES

8.1 MAINTENANCE

The Company shall keep in repair and.maintain its own property installed on the premises of the Customer.

8.2 RESPONSIBILITY OF CUSTOMER

The Customer shall not cause damage to the equipment of the Company on his premises, and shall not permit any person, except a Company employee having proper Company identification, to break any seals upon, or do any work on any meter, service pipe or other equipment of the Company located on the Customer's premises.

8.3 TAMPERING

In the event of the Company's meters or other property being tampered or interfered with, the Customer being supplied through such equipment shall pay the amount which may be reasonably estimated to be due for service used but not registered on the Company's meter, and for any repairs, replacements or changes in facilities required, as well as for costs of inspections, investigations and protective installations.

8.4 ACCESS TO PREMISES

The Company, or its authorized agents, shall have access at all reasonable times to the property or premises in or on which gas is used to determine if the gas is being carried, distributed and burned in a proper and safe manner and in accordance with these Rules and Regulations, or to read, inspect and test the meter or house lines and other appliances, equipment or facilities. Refusal on the part of the Customer to allow access to his premises shall constitute sufficient cause for turning off the gas supply to such premises. (See Section 14.1).

8.5 RELOCATION OR ALTERATION OF COMPANY-OWNED FACILITIES

Any relocation or alteration of Company-owned facilities to furnish gas service to Customers for the convenience and benefit of the Company shall be paid for by the Company; however, any such changes occasioned or necessitated by any action of Customer, or owner of the property if Customer is a lessee, may be made only after prior approval of the Company, and shall be at the expense of the Customer or owner.

RULES AND REGULATIONS

SECTION IX - SERVICE CONTINUITY 9.1

REGULARITY OF SUPPLY

The Company will use reasonable diligence to provide a continuous, regular and uninterrupted supply of gas service; but does not and cannot guarantee a constant supply and should the supply be interrupted by the Company for the reasons set forth in Section II, entitled "Curtailment" or for the purpose of making repairs, changes, or improvements, in any part of its system for the general good of the service or the safety of the public, or should the supply of service be interrupted, or fail, by reason of accident, strike, legal process, State or Municipal interference, lack of sufficient gas supply, mechanical failure, or any cause whatsoever, beyond its control, the Company shall not be liable for damages, direct or consequential, resulting from such interruption or failure.

9.2 NOTICE OF TROUBLE

The Customer shall notify the Company, immediately, should the service be unsatisfactory for any reason, or should there be any defects, leaks, trouble, or accident, affecting or resulting from the supply of gas.

9.3 PREARRANGED INTERRUPTION OF SERVICE

Whenever it is necessary to interrupt service for work on mains or other equipment, such work shall be done, as far as practicable, at a time that will cause the least inconvenience to the Customer. The Customer(s) to be affected by such interruption shall, if practicable, be notified in advance.

RULES AND REGULATIONS

SECTION X - CUSTOMER'S USE OF SERVICE

10.1 PRECAUTIONS TO BE TAKEN BY CUSTOMER

The responsibility of detection of defects and leaks on the Customer's premises is upon the Customer; defects among other things, shall mean failure or deficiency of gas, irregular supply, leakage and excessive pressure. In case of detection of a leak within his premises, the Customer should immediately extinguish all flames, or fires within the premises, open all doors and windows to permit the escape of gas, avoid the use of any electrical switches, and at once notify the Company by telephone or messenger, so that the conditions existing may receive prompt and proper attention. When gas has been shut off because of a leak in the house lines or fixtures or other hazardous conditions of service, it shall not be turned on again until such leak or other hazardous conditions have been repaired and made safe either by a competent plumber or gas fitter. In the event of failure or deficiency of gas or excessive pressure, the Customer shall notify the Company and be governed by instructions or assistance received from the Company.

10.2 PRUDENT USES OF GAS

A Customer should always make prudent use of gas.

Upon notice by the Customer, the Company will investigate reports of suspected gas leakage and improper functioning of gas appliances.

In the event that gas passes through the meter as a result of the Customer's negligence or malfunctioning of the Customer's piping or appliances, no credit will be issued, unless such use is a result of fault or neglect of agents of the Company.

10.3 SALES OF GAS BY CUSTOMER

The Customer shall not directly or indirectly sell, sublet, assign or otherwise dispose of the gas or any part thereof. Purchase of gas for use by tenants located on the Customer's property, when the cost to the tenant of such gas is included in the normal rental charge for occupancy of the premises, shall not be considered as resale.

RULES AND REGULATIONS

SECTION X
(Continued)

10.4 SERVICE TO CUSTOMER'S APPLIANCES

The Company shall investigate complaints of gas leaks or odors at any time without charge. The Company shall have the right, but shall not be obliged, to inspect any installation before Gas is introduced or at any later time, and reserves the right to reject any piping or appliances not in accordance with the Company's standard requirements, or with any national and local code requirements; but such inspection, or failure to inspect, or to reject, shall not render the Company liable or responsible for any loss or damage, resulting from defects in the Customer's installation, piping or appliances, or from violation of Company rules, or from accidents which may occur upon the premises of the Customer.

10.5 FLUCTUATIONS

Gas service must not be used in such a manner as to cause unusual fluctuations or disturbances in the Company's supply system, and in the case of a violation of this rule, the Company may discontinue service, or require the Customer to modify his installation and/or equip it with approved controlling devices.

10.6 LIABILITY FOR DAMAGES

The Company shall not be liable for any injury to persons or damage to property arising or occurring in any manner whatsoever from the misuse of gas.

RULES AND REGULATIONS

SECTION XI - MEASUREMENT

11.1 DEFINITION OF A CUBIC FOOT

a. Low Pressure Sales - Standard delivery to the Customer is at low pressure, and for those meters not having temperature correcting devices which correct to a temperature of 60 degrees Fahrenheit, a cubic foot of gas shall be that amount of gas which occupies a volume of one cubic foot at the time metered and under the conditions existing at the Customer's meter.

b. Other Than Low Pressure Sales As Under (a) Above - When at the discretion of the Company, gas is supplied at higher than standard delivery pressure, measurement may be by a meter equipped with a base pressure corrector and the metering is continuously, automatically, and uniformly corrected from the absolute delivery pressure (14.73 atmospheric pressure) in pounds per square inch, to a pressure base of 14.95 lbs. per square inch, at the temperature existing at the meter. Meters may be equipped with a base pressure and temperature corrector and the metering is continuously, automatically and uniformly corrected from the absolute delivery pressure of 14.73 absolute pressure in pounds per square inch to a pressure base of 14.95 lbs. per square inch, and to a temperature of 60 degrees Fahrenheit.

11.2 MEASUREMENT OF GAS

Except as herein otherwise provided, the measurement of gas service shall be by meters furnished and installed by the Company. The Company will furnish each Customer with a meter of such size and type as the Company may determine will adequately serve the Customer's service requirements, and may from time to time, change or alter the equipment to provide for accurate measurement.

Each meter shall be calibrated to serve gas within the tolerance as specified by the Delaware Public Service Commission. Registration shall be in cubic feet or multiples thereof depending on service classification.

If any correction factor is applied to any meter, this factor shall be marked on such meter.

RULES AND REGULATIONS

SECTION XI MEASUREMENT
(Continued)

11.2 MEASUREMENT OF GAS (Continued)

The Company shall install, at Company's expense, a remote reading device_ on all Customer's served under the LVH, HLFS or Interruptible Transportation Service Rate Schedules with annual consumption of at least 100,000 Ccf annually. All remote reading devices shall be owned, installed and maintained by the Company. When requested by a Customer below the annual consumption level above, and approved by the Company, a remote reading device may be installed at a cost payable by the Customer. In all cases the Customer shall, at Customer's expense, provide and maintain electrical power and telephone service to the remote reading device location.

A periodic verification reading shall be taken on the meter and the remote reading device. The Company shall notify the Customer when the periodic verification is required. The Company shall determine the frequency of such verification based on the technical characteristics of the installed equipment and its in-service performance.

In cases of a measurement dispute related to the remote reading device, the Company's meter may be used as the final determinant in measuring consumption.

11.3 METERS NOT AVAILABLE

In cases where meters are not available due to circumstances beyond the control of the Company, and the necessity for rendering gas service to the Customer is urgent, the Company may, after proper authorization by the Commission and by written agreement with the Customer, commence service and render bills temporarily on the basis of estimated gas consumption.

11.4 METER READING INTERVALS

The Company will endeavor to make its regular meter reading and/or estimated meter reading as nearly as reasonably possible at scheduled monthly intervals.

RULES AND REGULATIONS

SECTION XI MEASUREMENT
(Continued)

11.5 ESTIMATED USAGE

The Company may render estimated bills when (1) no meter is installed, as_provided above, or (2) when a meter is installed but the scheduled meter reading cannot be obtained due to the inability of the Company's agent or representative to gain access to the meter location at the time scheduled, or (3) in case any meter or measuring device for any reason fails to register for any period of time the full consumption by a Customer, (See Meter Tests - 12), or (4) the Company is unable to obtain a meter reading for causes beyond its control.

Estimated readings shall be based upon prior consumption at the particular location for a similar period of time and may be adjusted for current conditions. The Customer shall be obligated to pay the bill based on the estimated consumption as though the same was based on an actual meter reading, and failure to so pay shall subject the Customer and his service to the penalties herein provided. Bills based on estimated readings shall be subject to adjustment for any unusual circumstances found to have affected the quantity of gas used, or for obvious errors in estimates, which adjustments shall be made not later than the next subsequent bill rendered the Customer, or that period of time when an actual reading can be obtained.

The Company will cooperate with the Customer to schedule meter readings; however, in those instances where the Company's agent or representative is unable to gain access to the Customer's premises, during the regular scheduled working hours, to obtain a meter reading, the number of estimated readings shall be limited to three consecutive months, and the Customer's service thereafter, is subject to discontinuance.

RULES AND REGULATIONS

SECTION XII - METER TESTS

12.1 METER TESTS

All meters shall be tested periodically by the Company in compliance with the. Rules of the Commission and at the Company's expense.

12.2 ACCURACY OF GAS METERS

When any test of a meter by the Company or by the Commission shows such meter to have an average error of more than 2 percent, and no meter tampering has occurred, the following provisions for the adjustment of bills shall be observed:

Fast Meters

Unless the date of the beginning of inaccuracy shall be known, it shall be assumed that the over-registration existed for a period of 3 years or a period equal to one-half of the time since the meter was last tested, whichever is less.

If the meter is found to be over-registering, the Company shall make a refund to the last Customer of record receiving service through the meter for the amount which shall have been charged in excess of that which would have been charged had the meter registered with 100 percent accuracy, provided the refund exceeds one dollar. The refund will be computed upon the assumption that the meter was registering 100 percent prior to the beginning of the period of inaccuracy or the period of adjustment defined in the preceding paragraph. The refund shall be for the period that the last Customer received service through the meter, but for not more than the periods referred to in this section.

Slow Meters

If the meter is found to under-register, or is slow, the Company may bill the Customer one-half of the unbilled undercharge for a period of twelve months, unless the meter has been tested within that twelve month period, in which event the Company may bill the Customer one-half of the unbilled undercharge for the period since the meter was last tested. If the amount of under-registration is less than $5.00, the bill will not be adjusted. Installment payments will be arranged equal to the number of months the account was billed in error in the event additional charges are due the Company, and the installment payments are due and payable in addition to the customers regular monthly natural gas service bill.

RULES AND REGULATIONS

SECTION XII
(Continued)

12.2 ACCURACY OF GAS METERS (Continued)

Non-Registering Meters

If the meter is found to be not registering, or is stopped, the Company may estimate, and bill the Customer the proper charge for the unregistered service by reference to the Customer's consumption during similar periods. Except in the case of tampering, theft, or unauthorized use, the estimate shall cover a period of not more than six months. Installment payments will be arranged equal to the number of months the account was billed in error in the event additional charges are due the Company, and the installment payments are due and payable in addition to the customers regular monthly natural gas service bill.

12.3 REQUEST TESTS

Upon request by a customer and at no charge the utility shall make a test of the accuracy of registration of the meter serving him, providing that such tests need not be made more frequently than once in 18 months.

RULES AND REGULATIONS

SECTION XIII - PAYMENT TERMS

13.1 INITIAL RATE SCHEDULE ASSIGNMENT

Subsequent to receiving an application for Gas Delivery Service and prior to activating such service, the Company shall estimate the annual usage of Customer (based upon the connected gas consuming appliances or equipment) for the purpose of the initial assignment of a Rate Schedule. Where selection of the most favorable schedule is difficult to predetermine, the Company shall, at the request of the customer, assist the customer in selecting a Rate Schedule.. Subsequent to service activation, the customer shall be given reasonable opportunity to change to another Rate Schedule, but the Company shall not be required to make refunds for any previous billing under any Rate Schedules selected by the customer prior to the time of receipt of a written notice from the customer requesting to change to another Rate Schedule.

13.2 ESTABLISHMENT OF CUSTOMER CREDIT

The Company may require a prospective Customer to satisfactorily establish credit before gas Delivery Service will be initiated. Such establishment of credit shall not relieve the prospective Customer from complying with the Company's provisions herein for prompt payment of bills. Credit will be deemed so established, and no deposit required, if any one of the following criteria is satisfied:

(a) Customer has been a Customer of the Company or other similar Delaware utility in the past two (2) years and;
  (1) paid the final bill when due, and
  (2) did not on more than two occasions during the last twelve consecutive months have a bill unpaid after a reasonable period of time after the due date, and
  (3) did not have service discontinued for non-payment, and
  (4) can provide the Company with a letter from the last utility substantiating a good payment history; or

(b) Customer owns or is purchasing the residence for which the gas service is requested; or,

(c) Customer can provide a guarantor satisfactory to the Company. This guarantee shall be in writing and must continue in full force and effect for one (1) year from installation date of the service or until Customer's credit is otherwise established, or

(d) Non-residential Customer possesses and maintains an Experian Intelliscore of 60 or above, or

RULES AND REGULATIONS

SECTION XIII
(Continued)

13.2 ESTABLISHMENT OF CUSTOMER CREDIT (Continued)

(e) Non-residential Customer possesses and maintains at least an investment grade bond/long-term debt rating from either Standard and Poor's or Moody's. Comparable ratings may be considered from other nationally recognized rating organizations acceptable to the Company. In the event a Customer, whose annual gas consumption exceeds 100,000 Ccf, does not possess a debt rating or the rating is below investment grade, credit may be established, at the sole discretion of the Company, by the Customer's demonstration of adequate financial strength and stability. The Company may evaluate the Customer's creditworthiness by review of at least two (2) years audited financial statements, accompanied by the opinion of an independent certified public accountant or chartered accountants of recognized national or regional standing, and such other known or discovered factors relating to the Customer's creditworthiness.

(f) Customers for which credit is established pursuant to this Section 13.2 are subject to periodic review by the Company to assure that no material changes adversely affecting the Customer's creditworthiness have occurred. In the event a material change has occurred, or Customer has paid its account with a check dishonored by a bank, the Company may request that credit be established by (i) cash deposit, or (ii) irrevocable letter of credit from a bank, or (iii) surety bond.

(g) Notwithstanding anything stated herein to the contrary, a Security Deposit shall be required if the customer has been disconnected by the Company for non-payment within the nine (9) months prior to the customer's application for service.

When none of the above conditions are met or service has been discontinued (see Section 14.1-b) the customer shall make a deposit with the Company subject to the following:

(a) Amount of Deposit required may not be more than two-twelfths of the estimated charges for the ensuing 12 months, nor less than five dollars ($5.00). Residential deposits in excess of $100.00 may be made with an initial deposit of $100.00 with the remainder to be paid over the ensuing four-week period.

(b) Interest on a deposit shall be 6 per cent per annum, except that no interest will be paid on deposits held less than 90 days. Interest will be paid at the time the deposit is returned. The deposit ceases to draw interest on the date service is terminated, or in the case of good credit, the date the deposit is processed for refund.

RULES AND REGULATIONS

SECTION XIII
(Continued)

13.2 ESTABLISHMENT OF CUSTOMER CREDIT (Continued)

(c) Deposits will be refunded to residential customers following payment of 12 consecutive bills without arrears.

(d) Refund of Deposit upon discontinuance of service will occur promptly and automatically for the deposit and accrued interest less the customers final outstanding balance. A transfer of service from one premise to another within the service area may not be deemed a discontinuance of service.

(e) At the option of the Company a deposit plus accrued interest may be refunded in whole or in part, at any time earlier than the times prescribed in this document.

(f) Commercial deposits will be returned when, in the Company's judgement, such deposit is no longer required.

13.3 BILLING PERIOD

Rates are stated on a monthly basis and bills are rendered monthly following the supply of service based on meter readings to the nearest 100 or 1,000 cubic feet, depending on the applicable Rate Schedule, scheduled at approximate monthly intervals of 28 to 34 days.

An initial period of less than ten (10) days is included in the next month's billing. If the period is more than ten (10) days, a bill is rendered at the regular billing date. A final period, consisting of the number of days from the most recent meter reading to turn off, will be billed as one month.

13.4 PAYMENT PERIOD

Bills are due upon presentation. The rates are contingent upon prompt payment. The final date for payment will not fall on any Saturday, Sunday or holiday, and will be due within 10 days of their date of presentation. Failure to receive the bill will not excuse Customer from payment obligations.

RULES AND REGULATIONS

SECTION XIII
(Continued)

13.5 BUDGET PLAN

The Budget Plan is designed for customers under Rate Schedules RS-1, RS-2, and GS.. Seasonal heating bills are spread over the budget plan period with equal monthly payments. Customer's higher monthly bills during the heating season are distributed over a ten-month period.

If a RS-1, RS-2, or GS customer elects to use the budget plan, the estimated gas bills for the budget plan period will be totaled and divided by the respective number of months to produce the approximate budget payment, which will then be rounded off to the nearest $1.00. Adjustments may be made by the Company for temperature and/or rate changes if necessary.

If a Customer has no past history of gas use, the Company will estimate the gas consumption and the projected billing amount for the budget plan period and divide by the respective number of months to produce the budget payments. The Company shall require the Customer to provide information on the number, type and size of all gas consuming appliances, along with information on the premises size and type to aid the Company in estimating gas consumption. The Company may adjust the budget payment, with the Customer receiving immediate notification of any adjustment.

To remain on the budget plan, a customer must pay the current budget payment by the due date each month and pay all balances due as they appear on the bill at the end of the budget plan period.

The Company will normally require that the Customer begin the budget plan in September of each year.

13.6 DISPUTED BILLS

Upon receipt of Customer's initial complaint prior to due date, the Company will extend to Customer an additional 5 days to allow for investigation and review of complaint. During time allotted for investigation and review of the complaint, the Company will not discontinue service or require customer to provide a security deposit. The final date when payment is due after settlement of complaint shall be 10 days.

RULES AND REGULATIONS

SECTION XIII
(Continued)

13.7 UNAUTHORIZED USE

The use of service obtained from the Company without authority may be terminated by the Company without notice. The use of service without notifying the Company and enabling it to read its meter, will render the user liable for any amount due for service supplied to the premises from the time of the last reading of the meter, immediately preceding his occupancy, as shown by the books of the Company.

13.8 RETURNED PAYMENT CHARGE

Payment for Services provided under this Tariff, Customer deposits, or other Tariff charges which are returned unpaid by the Customer's bank or other financial institution shall result in a charge included on Sheet No. 46 (Miscellaneous Customer Charges, and will be charged against the customer's account. Failure to pay the full amount of the bill including the Returned Payment Charge may result in a discontinuance of the Customer's service. After the second returned payment the Company reserves the right to notify the customer that an alternate payment method (other than a personal check or bank debit) will be required for payment of the Company's bill statements.

13.9 ADJUSTMENTS FOR INCORRECT BILLINGS

Incorrect billings resulting from clerical error or improper service classifications shall be corrected immediately upon discovery and correct billings rendered to the customer; however, in no case may additional charges due from the customer be collected for more than three (3) years prior to the month of discovery. In the event a customer is overcharged, the overbilling will be refunded to the date the error was made, not to exceed five (5) years, such refund shall be paid to the customer within sixty (60) days after the error is discovered. Installment payments will be arranged equal to the number of months the account was billed in error in the event additional charges are due the Company, and the installment payments are due and payable in addition to the customers regular monthly natural gas service bill.

RULES AND REGULATIONS

SECTION XIV - DISCONNECTION BY THE COMPANY

14.1 DISCONNECTION BY THE COMPANY

The Company may discontinue service and remove its property without being liable to the Customer, or to tenants or occupants of the premises served, for any loss, cost, damage or expense occasioned by such refusal, discontinuance or removal, for any of the following reasons:

(a) Customer's failure to comply with any of the provisions of the contract, or any applicable regulations of the Commission, or any of the Company's applicable rules or practices currently in effect.

(b) Customer's non-payment of bill at present or former location. A written notice shall set forth the date service will be discontinued, which shall not be less than five days from the date of mailing of such notice.

(c) Customer's failure to provide a deposit to insure payment of bills, when requested by the Company under the provisions of section 13.2.

(d) After a reasonable request for access to its meter or meters is refused, or if access thereto is obstructed or hazardous.

(e) Customer's failure to maintain his equipment in safe condition, in the judgement of the Company.

(f) Customer's abuse, fraud, or tampering with the connections, meters or other equipment of the Company.

(g) Customer's equipment or use thereof might injuriously affect the equipment of the Company, or the Company's service to other customers.

The notice provided for in this Section shall consist of five (5) days' written notice sent by first class prepaid mail deposited in a United States mailbox and addressed to the Customer at his last known mailing address appearing on the records of the Company.

The Company may discontinue service without notice for reasons (e), (f), or (g) above; but, except in emergency situations, in no event shall such termination occur between 12:00 noon on any Friday and 12:00 noon on the succeeding Monday. Should Friday be a legal, state or national holiday, the last preceding business day shall be substituted for Friday. Should Monday be a state or national, legal holiday, the next succeeding business day shall be substituted for Monday.

RULES AND REGULATIONS

SECTION XIV
(Continued)

14.1 DISCONNECTION BY THE COMPANY (Continued)

The Company may discontinue service without prior notice if an invalid check is used to restore service or to satisfy a disconnect notice.

The Company will comply with the Commission rules regarding weather conditions or medical conditions for disconnections. Except in case of emergency situations, in no event shall such termination occur for non-payment if any occupant of any dwelling unit shall be so ill that the termination of such sale or service shall adversely affect his health or recovery, which has been so certified by a statement from any duly licensed physician of this State or any accredited Christian Science. practitioner and received by any authorized agent of the Company, prior to the due date of the bill. The Company's medical waiver of discontinuance of service shall not extend beyond one hundred twenty (120) days unless the need for such extension is certified by a statement from any duly licensed physician of this State or any accredited Christian Science practitioner and received by an authorized agent of the Company.

14.2 SEASONAL RECONNECTION AND RECONNECTION CHARGES

Whenever a residential customer's gas is turned off or Customer's meter disconnected by the Company at the customer's request, and the account placed on inactive status, and such account is reactivated by the same customer no less than thirty (30) days and not more than one hundred eighty (180) days from the state of the disconnect, a Seasonal Reconnection Charge equal to the monthly Customer Charge in the Customer's applicable Rate Schedule for each month the account was inactive, plus the Reconnection Charge shall be paid. Such payment, along with other satisfactory arrangements for reconnection, shall be made with the Company for reconnection by the end of the next business day. Details of the charges are contained on Sheet No. 46 (Miscellaneous Customer Charges).

Whenever a customer's gas shall be turned off or his meter disconnected by reason of non-compliance with these Rules and Regulations or orders of the Public Service Commission of Delaware, a reconnection charge must be paid and other satisfactory arrangements made with the Company prior to 3 p.m. of a normal business day before the gas will be turned on again. Details of the charge are contained on Sheet No. 46 (Miscellaneous Customer Charges).

RULES AND REGULATIONS

SECTION XIV
(Continued)

If the customer desires that the initial gas service connection or gas service reconnection following disconnection by the Company for any reason, be completed on the same day as the request is received by the Company or outside the Company's normal business hours, such After Hours Reconnection may be performed, subject to the availability of Company personnel. The After Hours Connection or Reconnection Charge must be paid. Details of the charges are contained on Sheet No. 46 (Miscellaneous Customer Charges).

Service interruptions may be avoided by paying the overdue amount prior to the past due date of the gas bill, or by paying the overdue amount plus a collection fee to the Company or an authorized agent of the Company. Details of the charge are contained on Sheet No. 46 (Miscellaneous Customer Charges).

14.3 NONCOMPLIANCE BY COMPANY

Failure on part of the Company to enforce any of its rights at any time shall not be deemed a waiver of any of its rights.

RULES AND REGULATIONS

SECTION XV - TERMINATION OF SERVICE

15.1 TERMINATION BY COMPANY

The Company's obligation to serve a particular premise shall, at the option of the Company cease and terminate (1) in case the property served is vacated or a change of occupancy occurs; (2) in case of an assignment for the benefit of creditors; (3) in case of the illegal use of gas.

15.2 TERMINATION BY CUSTOMER

A Customer who intends to vacate a premise, discontinue the use of Gas, or terminate the liability to pay for gas delivered to the premises, shall give at least five (5) days' notice to the Company prior to the date of service termination. The Company shall take its final read of the terminating customer's meter, within normal business hours, on the date designated by the Customer as the termination date, but shall have no obligation to read the meter before the fifth day following receipt of the Customer's termination notice. If such notice is not given, the Customer shall be liable for Gas registered by the meter until the meter is read by the Company and the account terminated. Receipt of a notice to discontinue gas service from a Customer with a contract term of service shall not relieve such Customer from any minimum or guaranteed payment under such contract.

15.3 FINAL BILL

The Customer is liable for service taken after notice to terminate his service until the meter is read and gas shut off. The final bill for service is due and payable upon presentation.

RULES AND REGULATIONS

SECTION XVI - APPLICATION OF RATES

16.1 DEFINITION OF THE TERM "CUSTOMER"

For the purpose of applying rate schedules in this natural gas tariff, the term "customer" is defined as any individual, firm, or organization purchasing natural gas delivery service and gas sales service or transportation and balancing service in any one month at one location for one classification of service through one meter. Each individual customer shall be properly accounted for and identified in the Company's billing system through the combination of a Customer Account number and a Service Identification and Extension number. The schedule of rates is based on delivering and billing service to the end user for retail service only and does not permit resale or redistribution, unless otherwise specified in the tariff.

A "month" does not refer to a calendar month, but shall mean the period between any two scheduled consecutive readings of the meters by the Company.

In those cases where, at the Company's election, two or more meters are installed at a single metering location on the same premises for the same customer for the same class of service, the amount of gas supplied through all such meters will be combined in arriving at the total charge, and the customer charge will be the same as though one meter was installed.

Where a single commercial, industrial, or institutional customer occupies more than one unit of space in the conduct of the same business, each separate unit will be metered separately and considered a distinct customer, unless the customer makes the necessary provisions to permit metering of all gas used for each class of service in the various units at a single metering location. This rule shall apply only where the units are located on contiguous property with no intervening public property or private property controlled by others. Only one service connection will be provided for each class of service furnished, and the metering location shall be as dose as possible to the point of service entrance.

RATE SCHEDULE "RS -1"

RESIDENTIAL SERVICE -1

AVAILABILITY

This rate schedule is available to any individually metered customer using gas in a residential dwelling or unit for space heating, cooking, water heating, or other domestic purpose with an annual consumption of 240 Ccf or less. The Company will annually review those customers receiving service under this rate schedule in order to determine the appropriate fimi residential rate schedule should their annual consumption warrant such a change. This annual review process will be based on the twelve months ended August. Customers will not be shifted between rate schedules due to changes in annual consumption other than at the annual review time.

DELIVERY SERVICE RATES

The following rates for delivering gas to the customer's location apply to all customers served under this rate schedule.

Customer Charge:	$10.50 per month
First 20 Ccf	$0.607 ***per*** Ccf
Next 30 Ccf	$0.280 per Ccf
Over 50 Ccf	$0.170 per Ccf

GAS SALES SERVICE

In addition to the above Delivery Service rates, customers served under this rate schedule are subject to the gas cost rate applicable to Rate Schedule "RS-1" provided on Sheet No. 42.

PAYMENT TERMS

Bills are due within ten (10) days of their date.

MINIMUM BILL

The minimum monthly bill under this rate schedule is the customer charge.

RATE SCHEDULE "RS - 1"

RESIDENTIAL SERVICE —1
(Continued)

SPECIAL TERMS AND CONDITIONS OF SERVICE

(1) Service under this rate schedule is subject to the standard terms and conditions of service as in effect from time to time under authority of the Public Service Commission of Delaware. It is also subject to the limitations stated under the "Availability" clause above.

(2) Natural gas purchased hereunder is for the use of the customer in one location only and is not to be shared or sold to others.

(3) In addition to the above Delivery Service rates, customers served under this rate schedule may be subject to one or more riders containing additional charges applicable to the service received, such as ER and any applicable franchise fees.

RATE SCHEDULE "RS - 2"

RESIDENTIAL SERVICE — 2

AVAILABILITY

This rate schedule is available to any individually metered customer using gas in a residential dwelling or unit for space heating, cooking, water heating, or other domestic purpose with annual consumption of greater than 240 Ccf. The Company will annually review those customers receiving service under this rate schedule in order to determine the appropriate firm residential rate schedule should their annual consumption warrant such a change. A Customer on RS-1 Service will be moved to this rate schedule with annual consumption equal to or greater than 264 Ccf. A Customer on this rate schedule will be moved to RS-1 Service with annual consumption less than 216 Ccf. This annual review process will be based on the twelve months ended August. Customers will not be shifted between rate schedules due to changes in annual consumption other than at the annual review time.

DELIVERY SERVICE RATES

The following rates for delivering gas to the customer's location apply to all customers served under this rate schedule.

Customer Charge:	$13.00 per month
First 20 Ccf	$0.578 per Ccf
Next 30 Ccf	$0.319 per Ccf
Over 50 Ccf	$0.132 per Ccf

GAS SALES SERVICE

In addition to the above Delivery Service rates, customers served under this rate schedule are subject to the gas cost rate applicable to Rate Schedule "RS-2" provided on Sheet No. 42.

PAYMENT TERMS

Bills are due within ten (10) days of their date.

MINIMUM BILL

The minimum monthly bill under this rate schedule is the customer charge.

RATE SCHEDULE "RS - 2"

RESIDENTIAL SERVICE — 2
(Continued)

SPECIAL TERMS AND CONDITIONS OF SERVICE

(1) Service under this rate schedule is subject to the standard terms and conditions of service as in effect from time to time under authority of the Public Service Commission of Delaware. It is also subject to the limitations stated under the "Availability" clause above.

(2) Natural gas purchased hereunder is for the use of the customer in one location only and is not to be shared or sold to others.

(3) In addition to the above Delivery Service rates, customers served under this rate schedule may be subject to one or more riders containing additional charges applicable to the service received, such as ER and any applicable franchise fees.

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D e l a w a r e D i v i s i o n

RATE SCHEDULE "GS"

GENERAL SERVICE

AVAILABILITY

This rate schedule is available to any customer using gas for commercial and/or industrial purposes with an annual consumption of less than 4,000 Ccf. The Company will annually review those customers receiving service under this rate schedule in order to determine the appropriate firm commercial and/or industrial rate schedule should their annual consumption warrant such a change. This annual review process will be based on the twelve months ended August. Customers will not be shifted between rate schedules due to changes in annual consumption other than at the annual review time.

DELIVERY SERVICE RATES

The following rates for delivering gas to the customers location apply to all customers served under this rate schedule.

1

Customer Charge:	$26.00 per month
First 20 Ccf	$0.447 per Ccf
Next 30 Ccf	
Over 50 Ccf	$0.278 per Ccf
	$0.140 per Ccf

GAS SALES SERVICE

In addition to the above Delivery Service rates, customers served under this rate schedule are subject to the gas cost rate applicable to Rate Schedule "GS" provided on Sheet No. 42.

PUBLIC UTILITIES TAX

The Delivery Service, Gas Sates Service, and any other applicable rates or charges are subject to the Delaware Public Utilities Tax unless the customer is exempt from such tax.

PAYMENT TERMS

Bills are due within ten (10) days of their date.

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RATE SCHEDULE "GS"

GENERAL SERVICE
(Continued)

MINIMUM BILL

The minimum monthly bill under this rate schedule is the customer charge.

SPECIAL TERMS AND CONDITIONS OF SERVICE

(1) Service under this rate schedule is subject to the standard terms and conditions of service as in effect from time to time under authority of the Public Service Commission of Delaware. It is also subject to the limitations stated under the "Availability" clause above.

(2) Natural gas purchased hereunder is for the use of the customer in one location only and is not to be shared or sold to others except for retail sale as a fuel to natural gas vehicles.

(3) A firm customer that transfers from Gas Sales Service to Transportation and Balancing Service or to Interruptible Sales Service, as authorized under the Company's tariff, will be billed for or receive credit for any under or over collection of gas costs from prior periods.

(4) In addition to the above Delivery Service rates, customers served under this rate schedule may be subject to one or more riders containing additional charges applicable to the service received, such as ER and any applicable franchise fees.

RATE SCHEDULE "MVS"

MEDIUM VOLUME SERVICE

1

AVAILABILITY

This rate schedule is available to any customer using gas for commercial and/or industrial purposes with an annual consumption generally equal to or greater than 4,000 Ccf and less than 15,000 Ccf. The Company will annually review those Customers receiving service under this rate schedule in order to determine the appropriate firm commercial and/or industrial rate schedule should their annual consumption warrant such a change. A Customer on General Service will be moved to this rate schedule with annual consumption equal to or greater than 4,400 Ccf. A Customer on this rate schedule will be moved to General Service with annual consumption less than 3,600 Ccf. The annual review process will be based on the twelve months ended August. Customers will not be shifted between rate schedules due to changes in annual consumption other than at the annual review time.

DELIVERY SERVICE RATES

The following rates for delivering gas to the customer's location apply to all customers served under this rate schedule.

Customer Charge:	$65.00 per month
First 200 Ccf	**$0.227 per** Ccf
Over 200 Ccf	$0.115 per Ccf

GAS SALES SERVICE

In addition to the above Delivery Service rates, customers served under this rate schedule are

1 subject to the gas cost rate applicable to Rate Schedule "MVS" provided on Sheet No. 42.

PUBLIC UTILITIES TAX

The Delivery Service, Gas Sales Service, and any other applicable rates or charges are subject to the Delaware Public Utilities Tax unless the customer is exempt from such tax.

PAYMENT TERMS

Bills are due within ten (10) days of their date.

Issue Date:
Effective Date:
Authorization:

RATE SCHEDULE "MVS"

MEDIUM VOLUME SERVICE
(Continued)

MINIMUM BILL

The minimum monthly bill under this rate schedule is the customer charge.

SPECIAL TERMS AND CONDITIONS OF SERVICE

(1) Service under this rate schedule is subject to the standard terms and conditions of service as in effect from time to time under authority of the Public Service Commission of Delaware. It is also subject to the limitations stated under the "Availability" clause above.

(2) Natural gas purchased hereunder is for the use of the customer in one location only and is not to be shared or sold to others except for retail sale as a fuel to natural gas vehicles.

(3) A firm customer that transfers from Gas Sales Service to Transportation and Balancing Service or Interruptible Sales Service, as authorized under the Company's tariff, will be billed for or receive credit for any under or over collection of gas costs from prior periods.

(4) In addition to the above Delivery Service rates, customers served under this rate schedule may be subject to one or more riders containing additional charges applicable to the service received, such as ER and any applicable franchise fees.

RATE SCHEDULE "LVS"

LARGE VOLUME SERVICE

AVAILABILITY

This rate schedule is available to any customer using gas for commercial and/or industrial purposes with an annual consumption generally equal to or greater than 15,000 Ccf. The Company will annually review those customers receiving service under this rate schedule in order to determine the appropriate firm commercial and/or industrial rate schedule should their annual consumption warrant such a change. A Customer on Medium Volume Service will be moved to this rate schedule with annual consumption equal to or greater than 16,500 Ccf. A Customer on this rate schedule will be moved to Medium Volume Service with annual consumption less than 13,500 Ccf. The annual review process will be based on the twelve months ended August. Customers will not be shifted between rate schedules due to changes in annual consumption other than at the annual review time.

DELIVERY SERVICE RATES

The following rates for delivering gas to the customer's location apply to all customers served under this rate schedule.

Customer charge:	$125.00 per month
First 1000 Ccf	$0.326 per Ccf
Over 1000 Ccf	$0.083 per Ccf

GAS SALES SERVICE

In addition to the above Delivery Service rates, customers purchasing their natural gas supply from the Company are subject to the gas cost rate applicable to Rate Schedule "LVS" provided on Sheet No. 42.

RATE SCHEDULE "LVS"

LARGE VOLUME SERVICE
(Continued)

TRANSPORTATION AND BALANCING SERVICE

Transportation service is available to commercial and industrial customers with annual consumption through one or more contiguous meters in a specific geographic location equal to, or greater than, 30,000 Ccf per year that choose to have their own gas transported through the Company's distribution system. Customers purchasing natural gas from a supplier, other than the Company, must have the natural gas delivered to the Company's city gate in accordance with the Transportation and Balancing General Terms and Conditions provided on Sheet No. 43. In addition to the above Delivery Service rates, the Customer is subject to the following Firm Balancing Service rate applied to all gas consumption.

Firm Balancing Service Rate: $0.049 per Ccf of gas consumed

PUBLIC UTILITIES TAX

The Delivery Service, Gas Sales Service, Firm Balancing Service, and any other applicable rates or charges are subject to the Delaware Public Utilities Tax unless the customer is exempt from such tax.

PAYMENT TERMS

Bills are due within ten (10) days of their date.

MINIMUM BILL

The minimum monthly bill under this rate schedule is the customer charge.

SPECIAL TERMS AND CONDITIONS OF SERVICE

(1) Service under this rate schedule is subject to the standard terms and conditions of service as in effect from time to time under authority of the Public Service Commission of Delaware. It is also subject to the limitations stated under the "Availability" clause above.

(2) Natural gas purchased hereunder is for the use of the customer in one location only and is not to be shared or sold to others except for retail sale as a fuel to natural gas vehicles.

Issue Date:
Effective Date:
Authorization:

RATE SCHEDULE "LVS"

LARGE VOLUME SERVICE
(Continued)

SPECIAL TERMS AND CONDITIONS OF SERVICE (Continued)

(3) A firm customer that transfers from Gas Sales Service to Transportation and Balancing Service, as authorized under the Company's tariff, may be required to pay a transition charge in the future to prevent the remaining firm Gas Sales Service customers from having to absorb stranded fixed gas supply costs which would otherwise be collected from the firm Gas Sales Service customers switching to Transportation and Balancing Service.

(4) A firm customer that transfers from Gas Sales Service to Transportation and Balancing Service or to Interruptible Sales Service, as authorized under the Company's tariff, will be billed for or receive credit for any under or over collection of gas costs from prior periods.

(5) In addition to the above Delivery Service rates, customers served under this rate schedule may be subject to one or more riders containing additional charges applicable to the service received, such as ER and any applicable franchise fees.

RATE SCHEDULE "HLFS"

HIGH LOAD FACTOR SERVICE

AVAILABILITY

This rate schedule is available to any customer using gas for commercial and/or industrial purposes that would otherwise qualify for Medium Volume Service or Large Volume Service and with winter months' consumption, defined as the months of January through March, being less than thirty-five percent (35%) of their annual consumption. In addition, the customer must use natural gas in at least eleven of the twelve months under review and usage must be fairly evenly distributed throughout the review period. The Company will annually review those Customers receiving service under this rate schedule in order to determine the appropriate firm commercial and/or industrial rate schedule should their annual consumption or winter months consumption warrant such a change. A Customer will remain on this rate schedule as long as winter months' consumption is less than thirty-seven percent (37%) of their annual consumption and the Customer qualifies for Medium Volume Service or Large Volume Service. The annual review process will be based on the twelve months ended August. Customers will not be shifted between rate schedules due to changes in annual consumption or winter months' consumption other than after the annual review.

DELIVERY SERVICE RATES

The following rates for delivering gas to the customer's location apply to all customers served under this rate schedule.

Customer Charge:	$75.000 per month
All gas consumed	$0.087 per Ccf

GAS SALES SERVICE

In addition to the above Delivery Service rates, customers purchasing their natural gas supply from the Company are subject to the gas cost rate applicable to Rate Schedule "HLFS" provided on Sheet No. 42.

RATE SCHEDULE "HLFS"

HIGH LOAD FACTOR SERVICE
(Continued)

TRANSPORTATION AND BALANCING SERVICE

Transportation service is available to commercial and industrial customers with annual consumption through one or more contiguous meters in a specific geographic location equal to, or greater than, 30,000 Ccf per year that choose to have their own gas transported through the Company's distribution system. Customers purchasing natural gas from a supplier, other than the Company, must have the natural gas delivered to the Company's city gate in accordance with the Transportation and Balancing General Terms and Conditions provided on Sheet No. 43. In addition to the above Delivery Service rates, the customer is subject to the following Firm Balancing Service rate applied to all gas consumption

Firm Balancing Service Rate: $0.022 per Ccf of gas consumed

PUBLIC UTILITIES TAX

The Delivery Service, Gas Sales Service, Firm Balancing Service, and any other applicable rates or charges are subject to the Delaware Public Utilities Tax unless the customer is exempt from such tax.

PAYMENT TERMS

Bills are due within ten (10) days of their date.

MINIMUM BILL

The minimum monthly bill under this rate schedule is the customer charge.

SPECIAL TERMS AND CONDITIONS OF SERVICE

(1) Service under this rate is subject to the standard terms and conditions of service as in effect from time to time under authority of the Public Service Commission of Delaware. It is also subject to the limitations stated under the "Availability" clause above.

(2) Natural gas purchased hereunder is for the use of the customer in one location only and is not to be shared or sold to others except for retail sale as a fuel to natural gas vehicles.

RATE SCHEDULE "HLFS"

HIGH LOAD FACTOR SERVICE
(Continued)

SPECIAL TERMS AND CONDITIONS OF SERVICE (Continued)

(3) A firm customer that transfers from Gas Sales Service to Transportation and Balancing Service, as authorized under the Company's tariff, may be required to pay a transition charge in the future to prevent the remaining firm Gas Sales Service customers from having to absorb stranded fixed gas supply costs which would otherwise be collected from the firm Gas Sales Service customers switching to Transportation and Balancing Service.

(4) A firm customer that transfers from Gas Sales Service to Transportation and Balancing Service or to Interruptible Sales Service, as authorized under the Company's tariff, will be billed for or receive credit for any under or over collection of gas costs from prior periods.

(5) In addition to the above Delivery Service rates, customers served under this rate schedule may be subject to one or more riders containing additional charges applicable to the service received, such as ER and any applicable franchise fees.

RATE SCHEDULE "NGV"

NATURAL GAS VEHICLE SERVICE

AVAILABILITY

This rate schedule is available to any customer operating a motor vehicle that is capable of using compressed natural gas ("CNG") as a fuel if the equipment installed on the vehicle meets industry recognized standards and if the operator is authorized by the Company to fuel a motor vehicle with the CNG as the result of completing the Company's training program or a program determined by the Company, in its sole discretion, to be an equivalent training program.

This gas service will be available at Chesapeake Utilities Corporation, 350 South Queen Street, Dover, Delaware 19904. Service hereunder is subject to availability of the Company's gas supply, adequate distribution system capabilities and other resources available to and as determined by the Company.

This gas service is subject to interruption, at the Company's option, at any time during the year without notice and for an indefinite period of time. The Company has no obligation whatsoever to make CNG available to any customer and may interrupt service at any time without notice.

TERM

Service under this contract will terminate, with 90 days notice, at the discretion of the Company or the Commission. This notice shall be given by registered letter.

COMMODITY CHARGE (Posted Price)

The price per Ccf of CNG will be posted at the CNG Station on the first day of each month and will be set at the Ccf-equivalent price of a gallon of unleaded regular gasoline at self-service pumps as published by the Energy Information Administration, plus any applicable tax imposed by any governmental entity on natural gas sales or CNG sales.

The price charged to any customer will be reduced from the posted price to the extent the posted price includes a tax or taxes imposed by any governmental entity on natural gas sales or CNG sales and the customer is exempt from such tax or taxes.

If the customer is exempt from federal or state taxes imposed with respect to sales of gasoline for motor vehicle use, the price charged to the customer will be reduced from the posted price by the Ccf-equivalent of the tax or taxes on gasoline from which the customer is exempt.

In no event will CNG be sold if the price as determines above is below the price level established for Company-Use Gas.

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RATE SCHEDULE "GLR"

GAS LIGHTING SERVICE

AVAILABILITY

This rate schedule is available for unmetered residential outdoor gas lights as herein specified where the Company's existing distribution mains and services are suitable to supply such service.

DELIVERY SERVICE RATE

The following rate for delivering gas to the customers location applies to all customers served under this rate schedule.

Each 2 cu. ft./hr. or less $11.75 per month.

GAS SALES SERVICE

In addition to the above Delivery Service rates, customers served under this rate schedule are subject to the gas cost rate applicable to Rate Schedule "GLR" provided on Sheet No. 42.

PAYMENT TERMS

Bills are due within ten (10) days of their date.

SPECIAL TERMS AND CONDITIONS OF SERVICE

(1) Service under this rate schedule is subject to the standard terms and conditions of service as in effect from time to time under authority of the Public Service Commission of Delaware. It is also subject to the limitations stated under the "Availability" clause above.

(2) The Customer shall install and own the lighting devices.

(3) In addition to the above Delivery Service rates, customers served under this rate schedule may be subject to one or more riders containing additional charges applicable to the service received, such as ER and any applicable franchise fees.

RATE SCHEDULE "GLO"

GAS LIGHTING SERVICE

AVAILABILITY

This rate schedule is available for unmetered outdoor gas lights for other than residential use as herein specified where the Company's existing distribution mains and services are suitable to supply such service.

DELIVERY SERVICE RATE

The following rate for delivering gas to the customer's location applies to all customers served under this rate schedule.

Each 2 cu. ft./hr. or less $11.75 per month.

GAS SALES SERVICE

In addition to the above Delivery Service rates, customers served under this rate schedule are subject to the gas cost rate applicable to Rate Schedule "GLO" provided on Sheet No. 42.

PUBLIC UTILITIES TAX

The Delivery Service, Gas Sales Service, and any other applicable rates or charges are subject to the Delaware Public Utilities Tax unless the customer is exempt from such tax.

PAYMENT TERMS

Bills are due within ten (10) days of their date.

SPECIAL TERMS AND CONDITIONS OF SERVICE

(1) Service under this rate schedule is subject to the standard terms and conditions of service as in effect from time to time under authority of the Public Service Commission of Delaware. It is also subject to the limitations stated under the "Availability" clause above.

(2) The Customer shall install and own the lighting devices.

(3) In addition to the above Delivery Service rates, customers served under this rate schedule may be subject to one or more riders containing additional charges applicable to the service received, such as ER and any applicable franchise fees.

RATE SCHEDULE "NCR"

NEGOTIATED CONTRACT RATE

AVAILABILITY

This negotiated contract tariff provision enables the Company to respond to Customers competitive options in the energy services market. The Company shall use this negotiated contract tariff to compete with alternate pricing situations resulting from but not limited to fuel switching, facility relocation or expansion, partial or complete plant production shifting, potential physical bypass, or other options available to the Customer. The Company shall use the provisions of this tariff only after a determination by the Company and the Customer that other existing tariff options will not meet the Customer's needs.

ELIGIBILITY

This contract tariff is available to any qualifying Customer as specified herein. Customer qualification shall be based upon meeting each of the following criteria as determined solely by the Company:

(1) The Customer has an economic competitive alternative to full or partial service from the Company's standard tariff rates, as determined by the Company;

(2) The Customer is likely to select said alternative if the Company does not provide a negotiated contract rate; and

(3) The price to the Customer will provide net revenues above the incremental costs to provide service under this negotiated contract rate.

(4) The Customer desires fixed pricing for a term of one year or more which requires a gas supply tailored to the specified term and pricing conditions.

The Company shall determine eligibility.on a case-by-case basis based upon information supplied by the Customer and in accordance with the Company's internal pricing guidelines. The Company's decision on the application shall consider the economics of the competitive alternative, as well as the practical aspects of securing that alternative (e.g., ability to secure environmental permitting, feasibility studies, switching ability, ability to secure required capital).

RATE SCHEDULE "NCR"

NEGOTIATED CONTRACT RATE
(Continued)

SERVICE OPTIONS

If the Company concludes that the Customer meets all the eligibility requirements listed above, the Company shall enter into negotiations with the Customer for the purpose of offering such services as are believed to meet the Customer's requirements. Competitive offers may be made in a manner which provides the Customer with numerous choices for service. A menu of service options differentiated by contract term, quantity, pricing options, and service attributes may be made available to the qualifying Customer.

RATE

Pricing for delivery service only, a combination of delivery service and gas supply, and balancing service shall be determined on a case-by-case basis according to the nature of the competitive situation. The final arrangements between the Company and the Customer shall be included in the Contract.

PUBLIC UTILITES TAX

All rates and charges under this rate schedule, including gas cost if applicable, are subject to the Delaware Public Utilities Tax unless the Customer is exempt from such tax.

CONTRACT TERM

The contract term shall be specified in a contract between the Customer and the Company. The minimum term of any contract will be one year and the maximum term three years.

SPECIAL TERMS AND PROVISIONS

(1) Upon agreement on service options, the Customer and the Company shall enter into a contract which specifies the services and the terms and conditions of providing the services. The Customer must sign the Contract prior to commencement of this service and any investment by the Company. Service under the contractual agreement will commence on the date specified in the contract.

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RATE SCHEDULE "NCR"

NEGOTIATED CONTRACT RATE
(Continued)

SPECIAL TERMS AND PROVISIONS (Continued)

(2) The contract shall be considered a confidential document between the Company and Customer. By signing the contract, the Customer and the Company agree not to share the contract or information contained within the contract with anyone except the parties to the contract, the Delaware Public Service Commission and the Office of the Public Advocate, unless given written consent from the other party. Violations by the Customer of the confidentiality agreement shall permit the Company to immediately terminate the contract with the Customer and serve the Customer under another rate schedule for which the Customer qualifies. The Customer shall also be responsible for the penalty provision described below and additional damages or prejudices to any other existing or potential contracts resulting from the breach of confidentiality.

(3) The contract between the Company and the Customer shall include penalty provisions for early contract cancellation. If at any time prior to the end of the contract term the Customer elects to terminate the contractual agreement with the Company without exercising a re-contracting option for continuing service, the Customer shall be obligated to the terms for cancellation as specified within the contract.

(4) The Company may offer value-added services in conjunction with the contract. All service attributes agreed to between the Company and the Customer shall be included in the contract.

(5) The Company shall file all required information with the Delaware Public Service Commission within 30 days of the executed Contract.

RATE SCHEDULE "ITS"

INTERRUPTIBLE TRANSPORTATION SERVICE

AVAILABILITY

This rate schedule is available to any non-residential customer with annual consumption of at least 100,000 Ccf with facilities in operating condition capable of utilizing an alternative fuel due to the fact gas service provided is subject to complete interruption at any time during the year at the Company's option. The definition of an alternative fuel under this rate schedule shall be propane, fuel oil, or electricity. When applying for service under this Rate Schedule, the Customer is required to provide the Company, in writing, with the type and specific grade of alternative fuel utilized by the Customer. The Customer shall submit, within 30 days of any change in operations, written notification when such change affects its alternate fuel capability. Customer must also purchase all of its gas from or through a supplier of natural gas

DELIVERY SERVICE RATE

Customer charge:	$935.00 per month

The rate per Ccf of consumption shall be determined on an individual customer basis according to the nature of the interruptible service to be provided. This rate can be adjusted upon one (1) days notice to the Customer.

TRANSPORTATION AND BALANCING SERVICE

Customers must have the natural gas delivered to the Company's city gate in accordance with the Transportation and Balancing Rider General Terms and Conditions provided on Sheet No. 43. In addition to the above Delivery Service rate, the Customer is subject to the following Interruptible Balancing Service rate applied to all gas consumption.

Interruptible Balancing Service Rate:	$.005 per Ccf of gas consumed

RATE SCHEDULE "ITS"

INTERRUPTIBLE TRANSPORTATION SERVICE
(Continued)

PUBLIC UTILITIES TAX

The Delivery Service, Interruptible Balancing Service, and any other applicable rates or charges are subject to the Delaware Public Utilities Tax unless the customer is exempt from such tax.

1 PAYMENT TERMS

Bills are due within ten (10) days of their date.

MINIMUM BILL

The minimum monthly bill under this rate schedule is the customer charge.

CONTRACT TERMS

The contract term shall be specified in a contract between the Customer and the Company. The minimum term of any contract will be one year.

SERVICE INTERRUPTION

The Company will endeavor to provide as much notice as possible to Customers prior to any interruption of curtailment of gas delivery service. Customer agrees to accept complete interruption of service upon at least four (4) hours advance notice from any hour of the day. If the Customer fails to interrupt service, the Customer shall pay a penalty rate of $5 per Ccf in addition to the currently effective rate. The Penalty Rate, which shall be credited to firm customers through the GSR mechanism, shall remain in effect until such time as the Company, in its sole discretion, determines that normal service can be restored. The Customer agrees to hold the Company harmless from any loss, cost or damage occasioned by the interruption of service resulting from the Company's enforcement of this provision. In the event the Customer has an emergency that would cause the Customer great hardship if gas service is interrupted, the Company may, at its sole discretion based on available gas supply, waive interruption for a specified period of time. If the Customer fails to interrupt by the end of the specified period, the Customer shall pay the penalty shown above.

RATE SCHEDULE "ITS"

INTERRUPTIBLE TRANSPORTATION SERVICE
(Continued)

SPECIAL TERMS AND CONDITIONS OF SERVICE

(1) Service under this rate schedule is subject to the standard terms and conditions of service as in effect from time to time under authority of the Public Service Commission of Delaware. It is also subject to the limitations stated under the "Availability" clause above.

(2) Service purchased hereunder is for the use of the Customer in one location only and is not to be shared or sold to others.

(3) Service hereunder will be interrupted at the sole discretion of the Company.

(4) Service hereunder will not be supplied from the Company's peaking facilities unless the Company waives the interruption of service due to an emergency.

(5) In addition to the above Delivery Service rates, customers served under this rate schedule may be subject to one or more riders containing additional charges applicable to the service received, such as ER and any applicable franchise fees.

RATE SCHEDULE "IBE"

INTERRUPTIBLE BEST EFFORTS SALES SERVICE

AVAILABILITY

This rate schedule is available to any commercial or industrial transportation customer or supplier for use as an interruptible gas supply for deliveries to or upstream of the distribution system or to any entity for off-system deliveries to replace third-party gas for any reason or to serve incremental loads. This service is available only on a best efforts basis subject to the ability of the Company to obtain gas supply and subject to interruption for any reason determined by the Company. Service under this rate schedule must be scheduled no later than 7:00 a.m. of the day before service is to begin. Transportation Customers that have a third-party supply interrupted will be subject to any applicable penalties that accrue before this service is scheduled.

DELIVERY SERVICE RATE

The rate for delivering gas to the Customer's location through the Company's distribution system will be at the Delivery Service rate set forth in the rate schedule under which the Customer normally receives service.

GAS SERVICE RATE

The gas rate for natural gas service shall be a negotiated, market-based rate. Any margins received under this rate shall be credited 80% to the firm customers through the GSR mechanism with 20% being retained by the Company.

PUBLIC UTILITIES TAX

The Delivery Service, Gas Sales Service, and any other applicable rates or charges are subject to the Delaware Public Utilities Tax unless the customer is exempt from such tax.

PAYMENT TERMS

Bills are due within ten (10) days of their date.

CONTRACT TERMS

The contract term shall be specified in a contract between the Customer and the Company. The minimum term of any contract is one day.

RATE SCHEDULE "IBE"

INTERRUPTIBLE BEST EFFORTS SALES SERVICE
(Continued)

SERVICE INTERRUPTION

The customer agrees to accept complete interruption of service upon at least four (4) hour advance notice from any hour of the day. If the customer fails to interrupt service, the customer shall pay a penalty rate of $5 per Ccf in addition to the currently effective rates. The Penalty Rate, which shall be credited to firm customers through the GSR mechanism, shall remain in effect until such time as the Company, in its sole discretion, determines that normal service can be restored. The customer agrees to hold the Company harmless from any loss, cost or damage occasioned by the interruption of service resulting from the Company's enforcement of this provision. In the event the customer has an emergency that would cause the customer great hardship if gas service is interrupted, the Company may, at its sole discretion based on available gas supply, waive interruption for a specified period of time. If the customer fails to interrupt by the end of the specified period, the customer shall pay the penalty shown above.

SPECIAL TERMS AND CONDITIONS OF SERVICE

(1) Service under this rate schedule is subject to the standard terms and conditions of service as in effect from time to time under authority of the Public Service Commission of Delaware. It is also subject to the limitations stated under the "Availability" clause above.

(2) Service purchased hereunder is for the use of the customer in one location only and is not to be shared or sold to others.

(3) Service hereunder will be interrupted at the sole discretion of the Company.

(4) Service hereunder will not be supplied from the Company's peaking facilities unless the Company waives the interruption of service due to an emergency.

RATE SCHEDULE "GSR"

GAS SALES SERVICE RATES FIRM SALES

RATE SCHEDULES

The Gas Sales Service Rates applicable to the respective firm rate schedule, as listed below, will be applied to all customers served on that schedule based on a volumetric charge per Ccf (100 cubic feet). The Gas Sales Service Rates only apply to the respective firm rate schedules listed below and do not apply to the Interruptible Transportation Service, Transportation Service, Negotiated Contract Rate, and Interruptible Best Efforts Sales Service. The Gas Sales Service Rates will be calculated to the nearest tenth of a cent (.10).

The following lists the applicable Gas Sales Service Rates for the respective firm rate schedules as defined in this tariff:

RATE SCHEDULE	GAS SALES SERVICE RATES	
RS, GS, MVS, LVS	$1.115	per Ccf
HLFS, SFS	$1.044	per Ccf
GLR, GLO, GCR, GCO	$0.881	per Ccf

These rates are subject to change based on actual and estimated gas costs. The Company will file with the Commission a copy of these Gas Sales Service Rates at least sixty (60) days prior to the regularly scheduled adjustment date, which shall be each November 1.

The November 1 rates will be based on a projected twelve-month period of November through October (projected period). The rates computed under this rate schedule shall remain in effect for the projected period provided the latest estimated over collection does not exceed 4%% or the latest estimated under collection does not exceed 6% of the actual firm gas costs incurred to date along with the Company's latest firm gas cost estimates for the remainder of the over/under collection period (over/under period). The twelve-month period used for the calculation of the over/under period will be based on the actual nine months ended July 31 of each year and the projected three months ended October 31 of each year. If it appears that the use of these rates for the twelve-month over/under period will result in an over or under collection exceeding these limits, the Company shall apply to the Commission for revised rates to be effective until the next annual adjustment in the rates.

RATE SCHEDULE "GSR"

GAS SALES SERVICE RATES
(Continued)

OVERALL METHODOLOGY

The overall projected firm gas costs for the twelve-month projected period shall include:

(1) Natural gas purchased from any supplier; plus

(2) Liquefied petroleum gas (LPG); plus

(3) Liquefied natural gas (LNG); plus

(4) Other hydrocarbons distributed to customers or used as feedstock for production of substitute natural gas (SNG); plus

(5) Storage, transportation, and any other gas related costs; plus

(6) Charges paid to the Company's suppliers for past periods unless disallowed by Delaware Public Service Commission; less

(7) The projected commodity gas costs for Interruptible Service; less

(8) The demand and commodity gas costs for Negotiated Contract Rate customers who are not charged the gas sales service rate associated with a firm rate schedule; less

(9) The commodity gas costs for Interruptible Best Efforts Sales Service; less

(10) All demand and commodity supplier refunds received from the Company's suppliers; less

(11) The firm sales customers receipt of 100 % of the firm and interruptible transportation balancing service margins which will be a demand related gas cost; less or plus

(12) The over or under collection for the prior over/under period of the actual nine months ended July 31 and the projected three months ended October 31. Interest will be calculated on the actual monthly over or under collection balances net of deferred income taxes at the rate of 1/12th the annual refund interest rate issued by the Federal Energy Regulatory Commission on a quarterly basis; less or plus

(13) Any other applicable gas cost adjustments.

RATE SCHEDULE "GSR"

GAS SALES SERVICE RATES
(Continued)

OVERALL METHODOLOGY (Continued)

A Demand Rate will be determined by dividing the total firm fixed cost components by the firm peak day capacity requirements. A Commodity Rate will be determined by dividing the total firm commodity cost components by total firm consumption for the respective determination period.

ALLOCATION TO RESPECTIVE FIRM RATE SCHEDULES

Rate Schedule HLFS - High Load Factor Service will be charged a single gas cost rate per Ccf based on the combination of a weighted average Demand and Commodity Rate developed on an overall sixty-five percent (65%) load factor for the customer class with the overall system weighted average gas cost rate. The purchased gas costs will be allocated to this Rate Schedule based on its annual consumption for the projected period.

Rate Schedule GLO, GLR - The Gas Lighting Services will be charged the weighted average Demand and Commodity Rates through a single gas cost rate per Ccf based on a 100% load factor. The purchased gas costs will be allocated to this Rate Schedule based on its annual consumption for the projected period.

Rate Schedule RS-1, RS-2, GS, MVS. LVS - These rate schedules will be assigned the remaining firm purchased gas costs after the firm purchased gas costs have been allocated to the above mentioned Rate Schedules less the portion of any shared margins resulting from capacity release, or off-system sales. These Rate Schedules will be charged a single gas cost rate per Ccf. This rate will reflect the sum of the projected demand and commodity costs for these classes divided by the sum of their annual consumption for the projected period.

MARGIN SHARING

Margins as used herein for off system sales means revenues less: (a) associated gas costs and (b) any applicable taxes based on gross receipts. Margins as used herein for capacity release means revenues less any applicable taxes based on gross receipts. As used in this tariff, the term "Shared Margins" means off system sales margins, and capacity release margins.

RATE SCHEDULE "GSR"

GAS SALES SERVICE RATES
(Continued)

MARGIN SHARING (Continued)

During the over/under period, the Company shall retain twenty percent (20%) and the firm customers, as described above, will receive eighty percent (80%) of all Shared Margins.

UNACCOUNTED FOR GAS INCENTIVE MECHANISM

The Unaccounted For Gas Incentive Mechanism was originally approved by the Commission on an experimental basis for the following three consecutive twelve month ending periods: August 31, 1993, 1994 and 1995. The Commission reviewed the Incentive Mechanism and determined it should be continued beyond the initial three year period by Order No. 4189 in PSC Docket No. 95-206F.

DEFINITIONS

The terms utilized in the Unaccounted For Gas Incentive Mechanism shall have the following meanings:

1. Unaccounted For Gas shall be defined as the difference between total gas sales, billed and unbilled, and total gas sendout, exclusive of company use gas and pressure compensated gas volumes.

2. The Unaccounted For Gas Target (UFG-T) shall be 3.20 percent of total gas sendout or total gas requirements.

3. The Dead Band shall mean +/- 0.5% points around the 3.20% UFG-T. Unaccounted For Gas volumes which are within 2.70% to 3.70% of total gas sendout will be considered to be within the "dead band". Unaccounted For Gas volumes within the dead band will be regarded as meeting the objectives of this mechanism.

RATE SCHEDULE "GSR"

GAS SALES SERVICE RATES
(Continued)

PROCESS

The Company, as part of its annual Gas Sales Service Rate filing in September, will provide the actual Unaccounted For Gas volumes and total gas sendout for the preceding twelve month period, ended July 31, in order that the Unaccounted For Gas can be expressed as a percentage of total gas sendout. This percentage will be compared to the target percentage of 3.20% with a range of plus or minus one-half percent (+1-0.5%) by the Delaware Public Service Commission Staff. The Staff will review the actual Unaccounted For Gas volumes on an annual basis and review the Delaware Division's performance under this mechanism in the next base rate proceeding.

TRANSPORTATION AND BALANCING RIDER

GENERAL TERMS AND CONDITIONS

1 GENERAL

1.1 Transportation service is available to commercial and industrial customers with one or more contiguous meters in a specific geographic location equal to, or greater than, 30,000 Ccf per year that choose to have their own gas transported through the Company's distribution system. Transportation service is made up of several components with associated charges. Components of transportation service include delivery of gas to the Customers metering point, balancing the difference between the volume of gas supplied and the volume of gas actually consumed by the Customer on a daily basis, and resolving imbalances that exist at the end of a billing month. Customers utilizing transportation service will be billed for delivery service, balancing, and other charges applicable for the rate schedule under which they are served.

1.2 In order to be eligible to transport gas it is necessary for the Customer to contract with a supplier of natural gas. Firm Customers must have firm transportation to the Company's distribution system as well as a reliable gas supply. The Customer is required to notify the Company of the name of its supplier prior to the tenth (10th) of the month preceding the month for which transportation will commence.

2 DEFINITIONS

Customer: For the purposes of this rate schedule, Customer shall mean an individual Customer as defined in the Section XVI of this tariff or the aggregation of Customer accounts of one or more contiguous meters in a specific geographic location for the purpose of transporting their own gas through the Company's distribution system.

Daily Contract Quantity (DCQ): The amount of Customer-owned gas, as determined by the Company for each calendar month that is scheduled by the Customer to be delivered to the Company's distribution system each day of the month net of the shrinkage factor.

Decatherm (Dt) conversion to Mcf: Dt divided by the thermal factor equals Mcf.

Flowing Gas: Means gas flowing from a supplier through the pipeline system to the city gate and does not include gas taken out of storage.

TRANSPORTATION AND BALANCING RIDER

GENERAL TERMS AND CONDITIONS
(Continued)

2 DEFINITIONS (continued)

Gas Day. The 24 consecutive hours beginning at nine o'clock (9:00) a.m. Central Clock Time.

Imbalance: Any difference between the amount supplied by the Customer and the volume consumed. Nominations are adjusted for thermal content and shrinkage to determine the volume supplied by the Customer.

Nomination: The volume of gas, including shrinkage that the Customer is having delivered on its behalf to a delivery point on the Company's system.

Shrinkage Factor. A percentage applied to nominated volumes for Company use, losses and unaccounted-for gas to determine the quantity actually delivered to the Customer. The shrinkage factor shall be determined annually and will be the five-year average.

Thermal Factor. The amount of BTU's in one Mcf of natural gas divided by one million. The thermal factor for converting between Dt and Mcf shall be 1.035 unless otherwise specified by the Company.

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3 REQUEST FOR TRANSPORTATION SERVICE

Each prospective transportation Customer must submit a written application in a form acceptable to the Company. Service will be provided by the Company based on available capacity and the Customer delivering suitable gas into the Company's distribution system.

4 CONTRACT FOR SERVICE

A Service Agreement with a minimum term of one year must be executed by each applicant as a condition to receiving transportation service. The Service Agreement shall specify the date on which service is to begin, receipt and delivery points, the rate schedule(s) under which service is to be provided and other conditions of receipt by the Company and delivery to the Customer. Transportation of gas will not begin until a fully executed Service Agreement is completed.

TRANSPORTATION AND BALANCING RIDER

GENERAL TERMS AND CONDITIONS
(Continued)

5 GAS TO BE TRANSPORTED BY THE COMPANY

The Customer is responsible for making all arrangements necessary for getting the gas to a delivery point on the Company's distribution system in compliance with pressure requirements established by the Company or any upstream pipeline for the delivery point. Gas received for one Customer will be commingled with the gas of other customers and suppliers. Gas transported by the Company shall be and remain the property of the Customer.

6 QUALITY OF GAS

Gas received by the Company for the account of the Customer shall be natural gas conforming to the quality specifications as provided for in the General Terms and Conditions of the tariff of the pipeline that is interconnected to the Company's distribution system. Any gas entering the Company's system at a receipt point that is not an interconnection with an interstate pipeline must also meet the "pipeline quality" standard set forth above.

7 TITLE TO GAS

The Customer must have good title to all the gas delivered to the Company for transportation free and clear of all liens, encumbrances, and claims whatsoever. The Customer agrees to indemnify and hold the Company harmless against any loss of cost incurred by the Company on account of liens, encumbrances or claims resulting from any possession or transportation by the Company.

8 LIABILITY

The Company shall not be liable for any loss to the Customer arising from or out of transportation service under any rate schedule, including loss of gas in the possession of the Company. The Company makes no guarantee against and assumes no liability for interruptions of service.

TRANSPORTATION AND BALANCING RIDER

GENERAL TERMS AND CONDITIONS
(Continued)

9 METERING AND ASSOCIATED EQUIPMENT

Transportation service utilizing the DCQ for delivery of Customer-owned gas to the Company's distribution system is not expected to require any special metering or communication equipment in excess of what would be needed to provide regular delivery and standard gas sales service. However, there may be situations such as knowledge of daily usage by interruptible Transportation Customers that will require additional equipment. If any additional metering or communication equipment is required to provide transportation service, the Customer will reimburse the Company for such equipment and its installation. The Customer shall provide any electrical supply or phone line needed for the operation of the additional equipment. As referenced in section 11.2, remote reading will be utilized for customers with consumption greater than 100,000 annual Ccf.

10 AGENTS ACTING ON BEHALF OF THE CUSTOMER

A Customer using an agent, such as brokers, marketers, or producers, to act on behalf of the Customer for the delivery of gas to the Company's system must notify the Company in advance in writing the identity of the Agent and what responsibilities have been delegated to the Agent. Notification to the Company must clearly state Customer and/or Agent responsibilities for nominations, deliveries, and scheduling of gas. Any notices provided to a Customer's Agent shall be deemed to have been provided to the Customer and the Company shall be held harmless from any actions taken by the Agent.

11 COMPANY AS AGENT

The Company may act as agent for a Customer in securing gas supply, storage, transportation on transmission pipeline, or other services required to meet the Customer's needs. The Company shall not be responsible for charges incurred on behalf of the Customer, nor for the performance, non-performance or continued availability of any pipeline or other services. The charges for this service shall be determined by negotiation between the Company and the Customer.

TRANSPORTATION AND BALANCING RIDER

GENERAL TERMS AND CONDITIONS
(Continued)

12 DETERMINATION OF DAILY CONTRACT QUANTITY

12.1 A Daily Contract Quantity (DCQ) for each calendar month shall be calculated annually by the Company for a twelve-month period based on usage during a previous twelve-month period, if available. Previous usage shall be adjusted for normal weather in a matter determined by the Company. The Company may adjust monthly DCQ's on an ongoing basis due to changes in a Customer's gas equipment, pattern of usage, or any other information supplied by the Customer. If previous usage is not available, the Company may estimate a DCQ for as many months as necessary based on information supplied by the Customer and/or inspection of utilization equipment. As soon as possible actual usage will be used to calculate the DCQ for future months. The Customer, or Customer's Agent, will be obligated to deliver the Customer's DCQ each day of the month to the agreed upon delivery point on the Company's distribution system.

12.2 The DCQ determined in 12.1 in Ccf will be grossed up for shrinkage and converted to Dt using the thermal factor. The result will be rounded to the nearest Dt which will be the customer's nomination quantity. This DCQ in Dt will then be reduced by the shrinkage factor and converted to Ccf using the thermal factor. The result will be the monthly DCQ expressed in Ccf.

13 NOMINATIONS AND SCHEDULING

13.1 The Company shall deliver a Customer's gas only upon receipt from the Customer, or Customer's Agent, a properly completed and executed nomination form specified by the Company. The nomination form shall, among other things, specify the nomination quantity required during the requested period measured in Mcf and the location at which the gas is to be delivered. A nomination form must be submitted at the time specified below for each calendar month that transportation service is desired.

13.2 The nomination given to the Company will be in Decatherms (Dt).

TRANSPORTATION AND BALANCING RIDER

GENERAL TERMS AND CONDITIONS
(Continued)

13 NOMINATIONS AND SCHEDULING (Continued)

13.3 Nominated quantities shall be reduced by the shrinkage factor and converted to Ccf to determine the quantity actually delivered to the Customer's meter, which must be equal to the Customer's DCQ in Ccf for the month.

13.4 Customers or their Agents shall provide the Company daily nominations for the calendar month by 9:00 a.m. on the sixth business day prior to the beginning of each month via mail or facsimile. If the nomination cannot be confirmed with the delivering pipeline(s) or other source(s), the nomination will be rejected.

14 FIRM BALANCING SERVICE

14.1 Balancing between the Customer's DCQ and the volume of gas consumed by the Customer is performed daily by the Company on a firm basis. Imbalances between the volume of gas supplied by the Customer and the volume of gas consumed by the Customer for a billing month will be cashed-out at the Company's weighted average cost at the city gate for flowing gas, including gas cost, variable transportation, and fuel for the calendar month in which most of the billing month occurs. Estimated costs will be used based on nominations made by the Company when the applicable calendar month is not completed before billing the Customer.

14.2 If the DCQ volume is not supplied by the Customer in any gas day, the Customer shall be billed a fee of $30.00 per Dt for the difference between the DCQ nomination, which is in Dt, and the volume actually supplied by the Customer. Such penalty shall be paid by the Customer in addition to the cost of gas supply used to serve the customer.

TRANSPORTATION AND BALANCING RIDER

GENERAL TERMS AND CONDITIONS
(Continued)

15 INTERRUPTIBLE BALANCING SERVICE

15.1 Balancing between the Customer's DCQ and the volume of gas consumed by the Customer is performed daily by the Company on an interruptible basis. Imbalances between the volume of gas supplied by the Customer and the volume of gas consumed by the Customer for a billing month will be cashed-out at the Company's weighted average cost at the city gate for flowing gas, including gas cost, transportation at the 100% load factor rate, and fuel for the calendar month in which most of the billing month occurs. Estimated costs will be used based on nominations made by the Company when the applicable calendar month is not completed before billing the Customer.

15.2 The Customer is expected to cease using gas if the Customer's supply is interrupted. When a supply interruption occurs the Customer must notify the Company immediately upon interruption and upon resumption of supply. During the interruption period the Customer's DCQ will be set to zero for purposes of calculating daily shortfalls and monthly imbalances. Using gas during a period of supply interruption will subject the Customer to the same penalty rate specified in the interruptible rate schedule for failure to interrupt service unless the Company is not interrupting customers and has gas supply available. In the later case, the fee specified in 15.3, below, will apply to gas used during the Customer's supply interruption unless the Customer schedules another service from the Company.

15.3 If the Customer, or the Customer's supplier, fails to supply the DCQ on any gas day the Customer shall be billed a fee of $30.00 per Dt for the difference between the DCQ nomination, which is in Dt, and the volume actually supplied by the Customer. Such penalty is in addition to any cash-out price paid by the Customer for monthly imbalances.

15.4 On a daily basis, the Company, in its sole discretion, may limit Customer usage to the volume of Customer-owned gas that is delivered to the Company's distribution system.

15.5 Where the Company interrupts the Customer's transportation gas for distribution system reasons any monthly imbalance up to the total DCQ volumes delivered to the Company's distribution system during the period of interruption will be purchased by the Company at the Customer's cost or the otherwise effective cash-out price, whichever is greater.

TRANSPORTATION AND BALANCING RIDER

GENERAL TERMS AND CONDITIONS
(Continued)

16 OPERATIONAL FLOW ORDER

At any time that transportation gas results, in the sole judgement of the Company, adverse operating impacts of the Company's distribution system or its ability to serve firm Customers, the Company may refuse delivery of Customer's gas or require the Customer to adjust its nominations up or down. Operational Flow orders will be issued by the Company eight (8) hours in advance of implementation, unless exigent circumstances dictate a shorter notice period.

RATE SCHEDULE "SUP"

GAS SUPPLIER REQUIREMENTS

AVAILABILITY

For Qualified gas suppliers that contract with a Customer to deliver the Customer's Daily Contract Quantity (DCQ) under the General Terms and Conditions for transportation and balancing. A supplier must submit an application to the Company to provide service to customers under this Schedule and satisfy the Company's credit requirements set forth below.

RESPONSIBILITY FOR GAS DELIVERY

The supplier shall make nominations and deliver, or arrange to have delivered, the Customer's DCQ in accordance with the Transportation and Balancing General Terms and Conditions. If the Supplier has more than one Customer, a nomination which is the sum for more than one Customer may be made on interstate pipelines but the amount for each Customer must be identified on the nomination to the Company. Failure to deliver the required amount of gas will make the Supplier subject to penalties as stated in the Transportation and Balancing General Terms and Conditions. If the Supplier fails to pay any penalties, the Customer for whom the Supplier is delivering gas shall be responsible for payment.

CREDITWORTHINESS

To become a qualified supplier, the Supplier must demonstrate to the Company's satisfaction that it has met and continues to meet the credit worthiness criteria of at least one non-affiliated interstate pipeline that delivers natural gas to the Company's city gate or to an interstate pipeline that is connected to Eastern Shore Natural Gas. Upon notification by the Company that the Supplier no longer satisfies the credit criteria or has failed to timely pay any bill rendered under this schedule, the Supplier is disqualified until such time as satisfactory evidence is provided by the Supplier that the Supplier's overall financial condition again meets the Company's credit criteria or an acceptable credit enhancement, including but not limited to a cash deposit, letters of credit or surety bonds, is furnished to the Company.

TAXES

Any applicable taxes including, but not limited to, the Public Utilities Tax will be added to all charges.

PAYMENT TERMS

Bills are due within ten (10) days of their date.

RATE SCHEDULE "SUP"

GAS SUPPLIER REQUIREMENTS
(Continued)

LIABILITY LIMITS

The Company shall not be liable for any loss, cost, damage or expense occasioned by the calculation of the DCQ. The Supplier shall warrant that, at the time of delivery of gas to the customer, it will have good title to deliver all gas volumes. The Company shall have no liability with respect to all gas delivered prior to it physical delivery to the Company or after its redelivery to the Customer.

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RATE SCHEDULE "ER"

ENVIRONMENTAL RIDER

PURPOSE

The purpose of this rider is to recover reasonable environmental costs associated with cleaning up former manufactured gas plants (MGP). Applicable environmental costs are those incurred as a result of, but not limited to, 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 and/or decommissioning of MGPs. Environmental costs expended will be offset by any payments related to these costs received by the Company from insurance proceeds or from another party. Environmental costs shall not include expenses incurred in connection with litigation by third parties claiming personal injury or by third parties claiming damage to their property as a result of the operation or decommissioning of MGPs or as a result of the migration of materials from MGP sites.

APPLICABILITY

The environmental rider will be applicable to all firm Delivery Service customers.

OPERATION OF THE RIDER

The Company will file with the Commission a copy of the environmental rider computation at least 30 days prior to the proposed effective date, which will be each December 1.

The calculation filed will be supported by all bills and receipts relating to the amount of any environmental costs incurred in the preceding Environmental Cost Year for which the Company seeks to begin recovery. In the same filing, the Company shall include similar material and information to support any expenses and/or recoveries resulting from Third Party claims. The Company shall also submit in its annual filing a projection of environmental costs for the following Environmental Cost Year based on the best information available at the time of filing.

RATE

The rate for the rider effective December 1, 2007 is ($0.0053) per Ccf.

RATE SCHEDULE "ER"

ENVIRONMENTAL RIDER
(Continued)

DETERMINATION OF RATE

The rider shall be comprised of an amortization factor and a reconciliation factor as follows:

(1) Amortization Factor: Recovery of net environmental costs incurred during an Environmental Cost Year will be accomplished through a five year amortization, offset by the tax benefit associated with those environmental costs as defined below. A net annual amortization amount will be calculated for each of the five years of amortization scheduled for the Environmental Cost Year. The amortization factor for any year will be comprised of the total net annual amount scheduled for that year.

(2) Reconciliation Factor: The reconciliation factor shall be equal to the over/under collection of the environmental cost rider. Over/under collection is the accumulated experienced net over or under recovery of the environmental costs during the twelve-month period ending with the month of August immediately preceding the beginning of the next Recovery Year.

(3) Rider Rate: The rider rate shall be equal to the sum of the amortization and reconciliation factors divided by projected firm sales over the next recovery period of December 1 through November 30. The rate shall be rounded to four decimal places per Ccf.

DEFINITIONS

(1) Environmental Cost Year is the time period over which environmental costs are incurred and any payments from other parties are netted against the costs. For purposes of this rider, the Environmental Cost Year will be from October 1 through September 30. The Environmental Cost Year will include actual data recorded for the year. Recovery of environmental costs for an Environmental Cost Year will begin with the Recovery Year that starts immediately following the end of the Environmental Cost Year.

(2) Recovery Year is each December 1 through November 30 and is the time period over which the annually calculated environmental rider rate will be billed to firm customers.

RATE SCHEDULE "ER"

ENVIRONMENTAL RIDER
(Continued)

DEFINITIONS (Continued)

([3]) Tax benefit (TB) associated with environmental expenditures shall be calculated as follows:

Tbn	AECn * [5-x)/5] * .1306 * .39742

where:

AECn	Actual Environmental Costs incurred in Environmental Cost Year "n"
	The number of years that the Actual Environmental Costs (AEC) incurred in Year "n" have been subject to amortization (x = 1, 2, 3, and 4)
.1306	Before Tax Cost Rate
.39742	Effective Combined Federal and State Income Tax Rate.

The Before Tax Cost Rate of .1306 and the Effective Combined Federal and State Income Tax Rate of .39742 are the rates at the time of implementation of this rider and are subject to change. Any change in the Before Tax Cost Rate will be implemented starting when the next Rider Rate is calculated for the next Recovery Year. Any change in the Effective Combined Federal and State Income Tax Rate will be implemented starting with the recovery calculation for next Environmental Cost Year that ends after the rate changes.

MISCELLANEOUS CUSTOMER CHARGES

1 CONNECTION CHARGE

Each Applicant for gas service shall pay to the Company a Connection Charge of thirty-five dollars ($35) before gas service is activated by the Company at the Customer's premises. Such Connection Charge shall not be collected from builders or other contractors activating gas service during the construction of a premise prior to occupation by the Company's customer of record.

2 RECONNECTION CHARGE

Whenever a Customer's gas is turned off at Customer's request, or Customer's meter disconnected by reason of non-compliance with these Rules and Regulations or orders of the Public Service Commission of Delaware, a Reconnection Charge of thirty five dollars ($35) must be paid and other satisfactory arrangements made with the Company prior to 3 p.m. of a normal business day before the account is reactivated and gas service reconnected by the end of the next business day.

3 AFTER HOURS SERVICE CONNECTION OR RECONNECTION CHARGE

If the Customer desires that the initial gas service connection or gas service reconnection following disconnection by the Company for any reason, be completed on the same day as the request is received by Company or outside the Company's normal business hours, such After Hours Reconnection may be performed, subject to the availability of Company personnel. The After Hours Connection or Reconnection Charge shall be sixty dollars ($60).

4 SEASONAL RECONNECTION CHARGE

Whenever a residential Customer's gas is turned off or Customer's meter disconnected by the Company at Customer's request and the account placed on inactive status, and such account is reactivated by the same Customer no less than thirty (30) days and no more than one hundred eighty (180) days from the date of the disconnect, a Seasonal Reconnection Charge equal to the monthly Customer Charge in the Customer's applicable Rate Schedule for each month the account was inactive, plus the Reconnection Charge provided in 2, shall be paid. Such payment, along with other satisfactory arrangements for reconnection, shall be made with the Company for reconnection the following normal business day.

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MISCELLANEOUS CUSTOMER CHARGES (Continued)

5 FIELD COLLECTION CHARGE

Service interruptions may be avoided by paying the overdue amount prior to the past due date of the gas bill, or by paying the overdue amount plus a collection fee of seventeen dollars ($17) to the Company or an authorized agent of the Company.

6 RETURNED PAYMENT CHARGE

Payment for Services provided under this Tariff, Customer deposits, or other Tariff charges which are returned unpaid by the Customer's bank or other financial institution shall result in an additional charge of twenty dollars ($20) per occurrence, and will be charged against the Customer's account. Failure to pay the full amount of the bill including the Returned Payment Charge may result in discontinuance of the Customer's service. After the second returned payment the Company reserves the right to notify the Customer that an alternate payment method (other than a personal check or bank debit) will be required for payment of the Company's bill statements.

7 CHANGE OF ACCOUNT CHARGE

If the change of occupants in a premise with existing gas service occurs without a physical service disconnection, a Change of Account may occur. The Company shall bill to the Applicant a Change of Account Charge in the amount of seventeen dollars ($17).

FAILED TRIP CHARGE

In the event a Customer, or other entity, requesting service from the Company that requires a field visit to a premise, fails to keep a scheduled appointment with the Company's employee at said premises to provide a service requested by the Customer, the Customer shall pay a Failed Trip Charge of thirty-five dollars ($35).

RATE SCHEDULE "TSFF"

TOWN OF SMYRNA FRANCHISE FEE RIDER

PURPOSE

The purpose of this rider is to recover the Town of Smyrna franchise fee, from all customers within the limits of the Town of Smyma in accordance with the Franchise Agreement between the Company and the Town of Smyrna. This franchise fee will be in effect until December 31, 2014.

APPLICABILITY

The Town of Smyrna Franchise Fee Rider will be applicable to all firm and interruptible Delivery Service customers within the limits of the Town of Smyrna.

RATE

The rate applicable to all Delivery Service throughput is $.0181 per Ccf.

Issue Date: December 14, 2004
Effective Date: For Bills Rendered on and after February 14, 2005
Authorization: Order No. 6570 dated February 8, 2005 in PSC Docket No. 04-466

RATE SCHEDULE "CMFF"

CITY OF MILFORD FRANCHISE FEE RIDER

PURPOSE

The purpose of this rider is to recover the City of Milford franchise fee, from all customers within the limits of the City of Milford in accordance with the Franchise Agreement between.the Company and the City of Milford. This franchise fee will be in effect until June 27, 2019.

APPLICABILITY

The City of Milford Franchise Fee Rider will be applicable to all firm and interruptible Delivery Service customers within the limits of the City of Milford, excluding those customers from whom the Company is prohibited by law from collecting said surcharge.

RATE

The rate applicable to all Delivery Service throughput is $0.010 per Ccf.

RATE SCHEDULE "TGFF"

TOWN OF GEORGETOWN FRANCHISE FEE RIDER

PURPOSE

The purpose of this rider is to recover the Town of Georgetown franchise fee, from all customers within the limits of the Town of Georgetown in accordance with the Franchise Agreement between the Company and the Town of Georgetown. This franchise fee will be in effect until June 27, 2021.

APPLICABILITY

The Town of Georgetown Franchise Fee Rider will be applicable to all firm and interruptible Delivery Service customers within the limits of the Town of Georgetown, excluding those customers from whom the Company is prohibited by law from collecting said surcharge.

RATE

The rate applicable to all Delivery Service throughput is $0.010 per Ccf.

RATE SCHEDULE "MBFF"

TOWN OF MILLSBORO FRANCHISE FEE RIDER

PURPOSE

The purpose of this rider is to recover the Town of Millsboro franchise fee, from all customers within the limits of the Town of Millsboro in accordance with the Franchise Agreement between the Company and the Town of Millsboro. This franchise fee will be in effect until September 4, 2021.

APPLICABILITY

The Town of Millsboro Franchise Fee Rider will be applicable to all firm and interruptible Delivery Service customers within the limits of the Town of Millsboro, excluding those customers from whom the Company is prohibited by law from collecting said surcharge.

RATE

The rate applicable to all Delivery Service throughput is $0.0181 per Ccf.