BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL OF A CHANGE IN ITS GAS SALES SERVICE RATES ("GSR") TO BE EFFECTIVE NOVEMBER 1, 2007 (FILED SEPTEMBER 10, 2007 AND AMENDED JULY 1, 2008)	)	PSC DOCKET NO. 07-246F

ORDER NO. 7450

AND NOW, this 7th day of October, 2008;

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

AND WHEREAS, the Hearing Examiner recommends that the Gas Sales Service Rates ("GSR") proposed by Chesapeake Utilities Corporation in its September 10, 2007 application and July 1, 2008 Supplemental Application be approved as just and reasonable for service rendered on and after November 1, 2007;

AND WHEREAS, the Hearing Examiner recommends that the Proposed Settlement Agreement dated August 14, 2008, which is endorsed by all the parties, and which is attached to the original hereof as Attachment "B", be approved as reasonable and in the public interest;

AND WHEREAS, subsequent to the issuance of the aforesaid Findings and Recommendations, Chesapeake Utilities Corporation requested permission to extend the deadline for sending out a Request for

Proposal for a new Asset Manager, if necessary, from October 1, 2008 to October 20, 2008, which request has been agreed to by the parties in the above-captioned docket; now, therefore,

IT IS ORDERED:

1. That, by and in accordance with the affirmative vote of a majority of the Commissioners, except as provided for in paragraph 3 below, the Commission hereby adopts the September 18, 2008 Findings and Recommendations of the Hearing Examiner, appended to the original hereof as Attachment "A".

2. That except as provided in paragraph 3 below, the Commission approves the Proposed Settlement, appended to the original hereof as Attachment "B", and Chesapeake Utilities Corporation's proposed GSR rates.

3. That the deadline provided for in the Proposed Settlement for the issuance of a Request for Proposal for a new Asset Manager, to the extent necessary, is extended from October 1, 2008 until October 20, 2008.

4. That Chesapeake Utilities Corporation's proposed rates per Ccf are approved as just and reasonable rates effective as set forth below:

Service	Effective for Service Rendered On and After November 1, 2007 and through July 31, 2008
RS, GS, MVS, LVS	$1.115
GLR, GLO, GCR, GCO	$0.881
HLFS, SFS	$1.044

Firm Balancing Rate (LVS)	$0.049
Firm Balancing Rate	$0.022

Service	Effective for Service Rendered On and After August 1, 2008 Until Further Changed by the Commission
RS, GS, MVS, LVS	$1.217
GLR, GLO, GCR, GCO	$1.001
HLFS, SFS	$1.166
Firm Balancing Rate (LVS)	$0.049
Firm Balancing Rate	$0.022

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

BY ORDER OF THE COMMISSION:

/s/ Arnetta McRae
Chair

/s/ Joann T. Conaway
Commissioner

/s/ Jaymes B. Lester
Commissioner

/s/ Dallas Winslow
Commissioner

/s/ Jeffrey J. Clark
Commissioner

ATTEST:

/s/ Karen J. Nickerson
Secretary

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

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF	)	
CHESAPEAKE UTILITIES CORPORATION FOR	)	
APPROVAL OF A CHANGE IN ITS GAS SALES	)	PSC DOCKET NO. 07-246F
SERVICE RATES ("GSR") TO BE EFFECTIVE	)	
NOVEMBER 1, 2007 (FILED SEPTEMBER 10,	)	
2007 AND AMENDED JULY 1, 2008)	)	

FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

DATED: September 18, 2008

Mark Lawrence
HEARING EXAMINER

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL OF A CHANGE IN ITS GAS SALES SERVICE RATES ("GSR") TO BE EFFECTIVE NOVEMBER 1, 2007 (FILED SEPTEMBER 10, 2007 AND AMENDED JULY 1, 2008)	)	PSC DOCKET NO. 07-246F

FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

Mark Lawrence, duly appointed Hearing Examiner in this Docket, reports to the Commission as follows:

APPEARANCES

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

Parkowski, Guerke & Swayze, P.A.,
BY: WILLIAM A. DENMAN, ESQUIRE
Jennifer Clausius, Manager of Pricing and Regulation

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

Murphy & Landon
BY: FRANCIS J. MURPHY, ESQUIRE
Funmi I. Jegede, Public Utilities Analyst

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

G. ARTHUR PADMORE, PUBLIC ADVOCATE
Andrea C. Crane, The Columbia Group

II. BACKGROUND

A. INITIAL APPLICATION

1. On September 10, 2007, Chesapeake applied to the Delaware Public Service Commission ("Commission") for approval of changes to

its Gas Sales Service Rates ("GSR") to become effective for gas service provided from November 1, 2007 through October 31, 2008. (Ex. 7.) The proposed rates, as compared to the rates in effect since November 1, 2006, are as follows (per Ccf):

Service Classification	Effective 11/1/06 (approved)	Effective 11/1/07 (proposed)
RS, GS, MVS, LVS	$1.340	$1.115
GLR, GLO, GCR, GCO	$1.125	$0.881
HLFS, SFS	$1.289	$1.044
Firm Balancing Rate (LVS)	$0.039	$0.049
Firm Balancing Rate (HLFS, SFS)	$0.017	$0.022

According to Chesapeake, under the proposed rates, residential space heating customers using 120 Ccf of gas in the winter months would experience a decrease of $21.00 (or 10%) in monthly gas billings over the rate in effect prior to November 1, 2007.

2. Pursuant to 26 *Del. C.* §§ 304 and 306, the Commission, in Order No. 7302 (Oct. 2, 2007), permitted the proposed rate changes to go into effect on November 1, 2007, on a temporary basis subject to refund, pending full evidentiary hearings. The Commission designated a Hearing Examiner to conduct the hearings and report to the Commission proposed findings and recommendations based on the evidence presented.

3. Chesapeake's tariff requires Chesapeake to file an "out-of-cycle" GSR application any time the Company's current estimate of the

under-collection of gas costs exceeds six percent (6%) of the projected firm cost of gas for the over/under collection period.

B. SUPPLEMENTAL APPLICATION

4. On July 1, 2008, Chesapeake filed a Supplemental Application (Ex. 9) seeking Commission approval of increases to the Company's GSR rates because the projected under-collection exceeded the 6% threshold. The supplemental rates, compared to the temporary rates that provisionally went into effect on November 1, 2007, are as follows (per Ccf):

Service Classification	Effective 11/1/07 (interim)	Effective 8/1/08 (proposed)
RS, GS, MVS, LVS	$1.115	$1.217
GLR, GLO, GCR, GCO	$0.881	$1.001
HLFS, SFS	$1.044	$1.166
Firm Balancing Rate (LVS)	$0.049	$0.049
Firm Balancing Rate (HLFS, SFS)	$0.022	$0.022

5. According to Chesapeake, under the proposed supplemental rates, residential space heating customers using 120 Ccf of gas in the winter months would experience an increase of $12.00 per month i.e. a 7% increase) over the interim rates which provisionally went into effect on November 1, 2007. Even with the proposed supplemental increase, the Company still projected an under-collection balance of 6.46% of projected gas costs. In order to reduce the magnitude of the increase over the balance of the GSR period, November 1, 2007 through October 31, 2008, the Company requested a waiver of the tariff

provision which would otherwise require the Company to file for revised rates. The Company also sought a waiver of the sixty (60) day notice requirement.

6. Pursuant to 26 *Del. C.* §§ 304 and 306, the Commission, in Order No. 7416 (July 8, 2008), permitted the proposed supplemental rate changes to go into effect on August 1, 2008, on a temporary basis subject to refund, pending full evidentiary hearings. By that same Order, the Commission granted the requested waiver.

C. PUBLIC COMMENT SESSION

7. A duly noticed[1] Public Comment Session on the original application was held on Wednesday, January 16, 2008, at 7:00 p.m. No members of the public attended. A duly-noticed public comment session and evidentiary hearing was commenced on August 22, 2008 to consider the Supplemental Application. No members of the public appeared at the hearing and no written comments from the public were received.

D. EVIDENTIARY HEARING

8. At the August 22, 2008 hearing, the parties submitted a proposed Settlement Agreement ("Proposed Settlement"), which, if adopted, would resolve all issues in the case. (Ex. 10.) The record,

[1]Except as otherwise noted below, the various affidavits of publication of notice from the *Delaware State News* and *The News Journal* newspapers are included in the record as Exhibit 1. (Exhibits will be cited as "Ex.__" and references to the hearing transcript will be cited as "Tr.__.") Notices of the filing of the Supplemental Application, as published in the *Delaware State News* and *The News Journal* newspapers, are included in the record as Exhibit 2. Due to the filing of the supplemental application and other scheduling issues, the evidentiary hearing date was changed at various times. Notice of the cancellation of each hearing and the scheduling of the new hearing were duly published in the *Delaware State News* and *The News Journal* newspapers as reflected in the aforesaid Affidavits of Publication.

as developed at the hearing, consists of a verbatim transcript and fourteen (14) exhibits. As there were no issues in dispute, post-hearing briefs were deemed unnecessary.

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

III. SUMMARY OF THE EVIDENCE

A. CHESAPEAKE'S TESTIMONY

10. Jennifer A. Clausius, Manager of Pricing and Regulation for Chesapeake, submitted pre-filed direct testimony dated September 10, 2007, explaining the basis for the changes requested in the Company's original application. (Ex. 3.) Ms. Clausius described the calculations of the three proposed GSR rates and discussed the Company's gas supply and transportation service offerings. According to Ms. Clausius, the three proposed GSR rates were developed in accordance with the approved gas cost recovery mechanism prescribed by the Company's natural gas tariff. (Id. at 7.) Ms. Clausius testified that the proposed decrease in GSR rates reflected anticipated decreases in commodity gas costs since the last filing. The variable cost decreases, however, are offset somewhat by increases in fixed costs, which are mainly attributable to increased daily firm transportation entitlements on the Eastern Shore Natural Gas Company ("ESNG") pipeline. (Id. at 8-9.)

11. Ms. Clausius also explained the reasons for the proposed increase in the firm balancing rate. (Id. At 28-34.) Ms. Clausius explained that the primary reasons for the increase in the firm

balancing rate for transportation customers served under Rate Schedule LVS are a combination of increased storage demand and capacity rates from the Company's upstream pipelines and the inclusion of storage demand and capacity costs associated with all of the storage services which Chesapeake uses for balancing. (Id. at 29.) Schedule J of Ex. 3 shows the development of the firm balancing service rate for HLF and Seasonal Firm Service. (Id. at 33.) No changes were proposed for the balancing rate for interruptible customers, who are being charged $0.005 per Ccf.

12. Ms. Clausius also provided background support for the Company's forecasted sales volumes and unaccounted for gas volumes. (Id. at 16-21.) Ms. Clausius testified that actual unaccounted for gas for the twelve months ending July 31, 2007, was 1.80% of total gas requirements, which is under the targeted percentage range of 2.7% to 3.7% as approved in PSC Docket No. 92-87F. (Id. at 26.)

13. Susan J. Phinnessee, Manager of Gas Supply and Procurements for Chesapeake, submitted pre-filed direct testimony dated September 10, 2007. (Ex. 6.) Ms. Phinnessee was no longer employed by the Company at the time of the evidentiary hearing and, accordingly, Ms. Clausius adopted the testimony of Ms. Phinnessee. (Tr-40.) The testimony provided background support for the GSR initial application calculation, addressed the Company's gas supply procurement activities, and explained its relationship with its "asset manager." (*Id*. at 7.)

14. Ms. Clausius also submitted pre-filed, supplemental direct testimony, dated July 1, 2008 in support of the proposed GSR rates as

reflected in the Company's supplemental application. (Ex. 8.) Ms. Clausius explained that the variable or commodity gas costs were (at that time) anticipated to increase by $2,958,425 since the Company filed its original application. (Id. at 6.) The proposed supplemental rates were calculated in accordance with the Company's approved GSR tariff. (Id. at 6.)

B. STAFF'S TESTIMONY

15. Funmi I. Jegede, a Public Utilities Analyst for Staff, submitted pre-filed direct testimony dated April 22, 2008. (Ex. 12.) Ms. Jegede reviewed the proposed GSR factors and firm balancing rates set forth in the Company's original application, verified that they comply with Chesapeake's tariff, and recommended approval of all of the proposed rate changes. (*Id*. at 5; 10-11.) At the August 22, 2008 evidentiary hearing, Ms. Jegede recommended approval of the proposed rate changes reflected in the Company's supplemental application. (Tr. 63.)

16. In her pre-filed testimony, however, Ms. Jegede also testified as to several compliance issues relating to the Company. (Id. at 4-5.) Ms. Jegede stated that the Company failed to keep the Commission Staff informed, on a timely basis, about various matters affecting the Company, including a valuation analysis of the Company's margin sharing revenue. (Id. at 4.) Ms. Jegede also testified that the Company failed to inform the Staff prior to the filing of the Company's application that the Company was terminating its off-system sales service (Id. at 5.), that the Company did not provide the Staff with adequate information regarding its Asset Management Agreement

procurement process (Id. at 5.), and that the Company did not address the issue of an unaccounted for gas incentive mechanism in its pending base rate case, as required by the Settlement Agreement reached in the prior GSR Docket 06-287F. (Id. at 4-5.) Ms. Jegede noted that the Company had implemented a formal hedging program in July 2007, and Ms. Jegede recommended that the Commission acknowledge the plan. (Id. at 4.) Ms. Jegede also requested that the Company address the recommendations of the Blue Ridge Consulting Services' report (Ex. 13) in its rebuttal testimony. (Id. at 4.)

17. Richard W. LeLash, an independent financial consultant, submitted pre-filed direct testimony dated April 22, 2008, on behalf of Staff. (Ex. 14.) In his testimony, Mr. LeLash recommended that the Company be required to keep the Commission informed concerning the Company's evaluation of, and its contracting for, incremental upstream capacity and related matters. (Id. at 9.) Mr. LeLash also recommended that the Company be required to review its propane storage facilities and evaluate the potential for increasing its storage capacity. (Id. at 9.)

18. In his testimony, Mr. LeLash observed that the Company's decision to unilaterally extend its Asset Management Agreement without competitive bidding was not in compliance with the prior GSR settlement, and he disagreed with the Company's explanation for extending the agreement. (Id. at 9-10.) He also expressed concern about the use of a fixed fee compensation provision in the Company's Asset Management Agreement. (Id. at 10.) Mr. LeLash recommended that in the future, the Company should use a competitive bidding process in

selecting an asset manager unless specifically authorized by the Commission to contract in another manner. (Id. at 10.) He also recommended that any bidding process be initiated at least six months prior to the expiration of the current asset management agreement. (Id. at 10.)

19. Regarding the Company's hedging plan, Mr. LeLash suggested that it be modified to authorize the Company to contract for gas supply for longer than one year, subject to oversight by the Commission. (Id. at 10.) Mr. LeLash stated that the Commission should set up a funding mechanism to fund an "independent entity" to participate in ESNG matters before FERC and to represent ratepayers. (Id. at 11.)

20. Regarding the Company's transfer of off-system sales customers, Mr. LeLash recommended that the Company be required to ensure that the remaining GSR customers "remain whole with respect to margins that were previously received from" the off-system sales customers. (Id. at 11.) Mr. LeLash recommended that the Company submit an unaccounted for gas report to the Commission within the next six months, and address the feasibility of replacing some or all of its meters that are not "pressure compensating." (Id. at 12.) The report should explore the possibility of billing the cost of pressure compensation directly to those customers that are receiving greater volumes of gas than are being billed to them. (Id. at 12.)

C. <u>THE DIVISION OF PUBLIC ADVOCATE'S TESTIMONY</u>

21. Andrea C. Crane, Vice President of The Columbia Group, submitted pre-filed direct testimony, dated April 17, 2008, on behalf

of the DPA. (Ex. 11.) Ms. Crane testified that the Commission should approve the GSR rates reflected in the Company's original application, subject to true-up in the Company's next GSR proceeding. (Id. at 6.) At the evidentiary hearing, Ms. Crane also recommended approval of the supplemental rates. However, Ms. Crane testified that the Company's GSR rates continue to be "high" relative to those charged by other utilities in the area. (Id. at 5.) Ms. Crane, while noting that the Company has "generally" complied with the terms of the Settlement Agreement in Docket No. 06-287F, testified that the Company did not comply with the provisions of that Settlement Agreement regarding the renewal of the Company's Asset Management Agreement. (Id. at 5.) Accordingly, she recommended that 100% of the capacity release revenues received from the Asset Manager for release of upstream capacity from April 1, 2008 through March 31, 2009 be allocated to the ratepayers, as opposed to being shared with the Company. (Id. at 6.)

22. Ms. Crane recommended that the Company not make any changes to the Company's Gas Hedging Plan at this time. (Id. at 5.) Ms. Crane also recommended that the Company be required to impute capacity release revenues for the ESNG capacity assigned to former off-system sales customers at levels that will compensate ratepayers for the loss of the off-system sales margins. (Id. at 6.) Ms. Crane observed that the Company's shareholders should be at risk for costs relating to any additional capacity that the Company may acquire from ESNG relating to the eastern Sussex County expansion (Id. at 6) and that the Commission should continue to monitor costs incurred by the Company from ESNG for reasonableness. (Id. at 6.) Finally, Ms. Crane

requested that the Company verify that it was not seeking, in this proceeding, to recover from ratepayers any pre-certification costs relating to the ESNG "E3" project, and that the Company identify and quantify any such costs in the future when and if the Company sought recovery. (Id. at 6.)

D. CHESAPEAKE'S REBUTTAL TESTIMONY

23. Ms. Clausius submitted pre-filed rebuttal testimony, dated June 12, 2008, in which Ms. Clausius attempted to rebut the testimony submitted by Ms. Jegede, Mr. LeLash, and Ms. Crane. (Ex. 5 (Clausius Rebuttal-Public Version with Redacted Portions.)) Regarding the extension of the Company's Asset Management Agreement, Ms. Clausius stated that the Company's action was motivated by its desire to await the outcome of the Company's pending base rate case since, in the Company's view, it would have been unfair to prospective bidders to request that they "bid and enter into a multiple-year agreement for the release of capacity only to have that same capacity allocated to third party suppliers upon approval of the Company's proposed aggregated transportation program." (Id. at 12.)

24. Ms. Clausius also took issue with the assertion that the Company did not provide proper notice regarding its Asset Management procurement process. (Id. at 13.) Ms. Clausius noted that the Company informed the parties, via a data request response, of the Company's intent to extend the current Asset Management Agreement, at least two (2) months prior to the expiration of that agreement. (Id. at 13.) Ms. Clausius took issue with the DPA's recommendation that the ratepayers receive 100% of the capacity release revenues, stating

that such a recommendation would represent an unwarranted punishment of the Company. (Id. at 14.)

25. Regarding Mr. LeLash's recommendation that the Company obtain Commission approval and authorization of any future asset management arrangement, while noting that the Company has no objection to providing the Staff and the DPA with information, Ms. Clausius asserted that such matters are within the inherent business responsibilities of the Company, and prior Commission approval is not required. (Id. at 15.) Ms. Clausius did not object to keeping the parties informed of basic information regarding ESNG's proposed extension from the Cove Point LNG facility, and confirmed that the Company was not seeking, in the pending GSR proceeding, the recovery of any pre-certification costs. (Id. at 16.)

26. Ms. Clausius disputed the need for any funding mechanism regarding representation of ratepayers at FERC, and noted that both Staff and the DPA have the ability to intervene in FERC proceedings. (Id. at 27.) Ms. Clausius noted that the Company does in fact participate in ESNG FERC proceedings and adequately represents the interest of the ratepayers. Regarding the transfer of off-system sales customers, Ms. Clausius noted that the parties were informed of this transfer at the time of the filing of the application, which was more than three months prior to the transfer (Id. at 18), and that it would be unfair to require the Company to impute a fixed level of capacity release for these customers, who have always and will continue to have the option of switching to another supplier. (Id at 17-18.)

27. Ms. Clausius also took issue with Mr. LeLash's recommendations to modify the Company's current gas procurement plan, since the plan has only been in effect since July of 2007 and is scheduled to be evaluated after two years. (Id. at 18.) Ms. Clausius, in response to Ms. Jegede's request, provided a confidential response to the Blue Ridge Consulting report. (Id. at 19.) Ms. Clausius took issue with Ms. Crane's comparison of Chesapeake's GSR rates with those of other utilities. (Id. at 19-20.) According to Ms. Clausius, there are differences between the various utilities in terms of location and rate structure that make such a comparison unfair.

28. Regarding the concern expressed by Ms. Crane about the Company's capacity costs associated with the Company's expansion into eastern Sussex County, Ms. Clausius noted that Ms. Crane is presuming that ESNG is the driving force behind the Company's expansion. To the contrary, Ms. Clausius suggests that the additional capacity is needed by the Company in order to meet the demand. (Id. at 21.) Ms. Clausius noted that the increased capacity procured to serve eastern Sussex County is no different than the historical increases in capacity necessitated by other expansions, and that the annual capacity cost per customer has decreased from $132 in 1998 to $125 in 2005. (Id. at 22.) Ms. Clausius acknowledged that the Company was late in filing the margin sharing revenue analysis, and apologized for the inconvenience. In general, Ms. Clausius did not take issue with keeping the Staff informed of various issues. (Id. at 25-26.) However, Ms. Clausius considered it unnecessary to submit any

evaluation regarding the Company's unaccounted for gas expense, since the Company's unaccounted for gas volumes have been below or within the allowable dead band. (Id. at 27-28.)

E. <u>THE PROPOSED SETTLEMENT</u>

29. At the August 22, 2008 hearing, the parties submitted a Proposed Settlement. (Ex. 10; attached hereto as Attachment "A".) According to the Proposed Settlement, the parties agreed to the following terms:

a. No later than six (6) months after the date of the Commission's final Order in this docket, the Company will submit to the Staff and the DPA a report that will: (i) provide an analysis of whether it would be cost effective to replace some or all of the Company's meters that are not pressure compensating; (ii) provide a proposal for incentives related to the Company's lost and unaccounted for gas costs; and (iii) provide an analysis of the Company's propane facilities with respect to operation, storage management, and the feasibility of expansion of peak deliverability (Tr. 45-46);

b. The Company will explore extending its relationship with its current Asset Manager under the conditions set forth in the Proposed Settlement and, if necessary, follow the RFP process described in the Proposed Settlement. If

Chesapeake seeks to replace its current Asset Manager, then Chesapeake will conduct competitive bidding and issue a request for proposal for a new Asset Management Agreement no later than October 1, 2008 (Tr. 45-46);

c. The Company will: (i) continue to provide Staff and the DPA with notice of ESNG filings with FERC, as described in the Proposed Settlement; (ii) provide Staff and the DPA, on a confidential basis, with notice of and copies of any agreements, or a summary of such agreements, the Company enters into for additional pipeline capacity under the circumstances described in the Proposed Settlement; and (iii) identify and quantify any ESNG E3 Project costs included in any future GSR proceeding (Tr. 47-48);

d. The Company will continue to include in its future GSR application, an update on steps taken to mitigate the effect of rising gas costs (Tr. 48);

e. The Company will credit the GSR, on an on-going basis, for 100% of the revenues received by the Company for any capacity released to serve former off-system sales customers, which credit will be designed to equate to what would have been credited through the margin sharing mechanism had

these customers remained off-system customers of the Company. The parties have acknowledged that the amount of the credit may fluctuate in the event of a change in load of a particular customer or if a particular customer no longer needs capacity (Tr. 48);

f. The parties agree that the proposed GSR rates in the Initial and Supplemental Applications are just and reasonable (Tr. 48-49);

g. The Company acknowledges that the Supplemental Application only reflected updates to the Company's gas costs, and the parties agree that all matters related to such updates are subject to review and modification, if required, in the Company's next GSR proceeding (Tr. 49); and

h. The parties agree that no changes to the parameters of the Company's existing natural gas procurement plan are necessary at this time (Tr. 49).

30. At the hearing, each party presented a witness who described the reasons why adoption of the Proposed Settlement would be in the public interest. Generally, Ms. Clausius, Ms. Jegede, and Ms. Crane testified that settlement of this matter avoids the costs of protracted litigation; satisfies Staff's and the DPA's concerns (for the time being) regarding the Company's Asset Management Agreement, and improves the information flow on these activities.

V. DISCUSSION

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

32. As discussed above, Staff and the DPA have verified that Chesapeake developed the proposed GSR rates using reasonable price projections and made its calculations in conformance with its tariff. The proposed changes in GSR rates reflect anticipated changes in commodity gas costs since the last filing. Under its tariff, Chesapeake must recover such costs (without any profit component) through its gas cost recovery mechanism. Based on the Company's supporting testimony and documentation, and on Staff and the DPA's favorable recommendations, I find that the proposed rates are just and reasonable and in compliance with the Company's tariff. I recommend, therefore, that the Commission approve the GSR rates as proposed in the Company's original and supplemental application, for the time periods set forth in the attached form of Order.

33. Regarding the issues raised by Staff and the DPA in their direct testimony, the parties agreed to enter into the Proposed Settlement as a resolution of all such matters. The terms of the settlement are summarized above and are, of course, delineated in the Proposed Settlement document, which is attached hereto. The settlement terms, which were reached by parties representing the interests of shareholders and customers, appear to be a reasonable resolution to the issues raised by Staff and the DPA. At the hearing, Ms. Clausius testified that the Company intended to comply with the compliance requirements of the Settlement Agreement and if the Company

could not comply, a request for an extension would be timely made to the Commission. (Tr. 50.) I agree with Ms. Clausius, Ms. Jegede, and Ms. Crane, therefore, that adoption of the Proposed Settlement would be in the public interest.

VI. RECOMMENDATIONS

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

a. That the Commission approve as just and reasonable the Company's proposed revised GSR charges per Ccf as proposed in the Company's September 10, 2007 Application, which are as follows:

Service Classification	**Effective 11/1/06 (approved)**	**Effective 11/1/07 (proposed)**
RS, GS, MVS, LVS	$1.340	$1.115
GLR, GLO, GCR, GCO	$1.125	$0.881
HLFS, SFS	$1.289	$1.044
Firm Balancing Rate (LVS)	$0.039	$0.049
Firm Balancing Rate (HLFS, SFS)	$0.017	$0.022

b. That the Commission approve as just and reasonable the Company's proposed revised GSR charges per Ccf as proposed in the Company's

July 1, 2008 Supplemental Application which are as follows:

Service Classification	**Effective 11/1/07 (interim)**	**Effective 8/1/08 (proposed)**
RS, GS, MVS, LVS	$1.115	$1.217
GLR, GLO, GCR, GCO	$0.881	$1.001
HLFS, SFS	$1.044	$1.166
Firm Balancing Rate (LVS)	$0.049	$0.049
Firm Balancing Rate (HLFS, SFS)	$0.022	$0.022

c. That the Commission adopt as reasonable and in the public interest the Proposed Settlement, which is attached to the proposed Order in this matter. A proposed Order, which will implement the foregoing recommendations, is attached hereto as Attachment "B."

Respectfully submitted,

/s/ Mark Lawrence
Mark Lawrence,
Hearing Examiner

Dated: September 18, 2008

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

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION	)	
OF CHESAPEAKE UTILITIES CORPORATION	)	
FOR APPROVAL OF A CHANGE IN ITS GAS	)	PSC DOCKET NO. 07-246F
SALES SERVICE RATES ("GSR") TO BE	)	
EFFECTIVE NOVEMBER 1, 2007	)	
(FILED SEPTEMBER 10, 2007)	)	

PROPOSED SETTLEMENT

On this 14th day of August, 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 September 10, 2007, Chesapeake filed with the Delaware Public Service Commission (the "Commission") an application (the "Application") for a change in its Gas Sales Service Rates to be effective for service rendered on and after November 1, 2007. By Commission Order dated October 2, 2007, the Commission allowed Chesapeake's proposed rates to go into effect on November 1, 2007 on a temporary basis pending full evidentiary hearings and a final decision of the Commission.

2. In April of 2008, the Commission Staff (the "Staff") and the Division of the Public Advocate (the "DPA") filed testimony. The testimony of the Staff and DPA, among other things, raised several cost recovery and reporting issues.

3. Subsequently, on June 12, 2008, Chesapeake filed its rebuttal testimony pursuant to which Chesapeake took issue with various recommendations of the Staff and DPA regarding several cost recovery and reporting issues.

4. In July of 2008, because Chesapeake was projecting an under-collection of gas costs in excess of 6%, Chesapeake filed a supplemental application ("Supplemental Application") seeking to make updates to its GSR rates, effective August 1, 2008. By Commission Order dated July 8, 2008, the Commission authorized Chesapeake to place the proposed supplemental rates into effect on August 1, 2008 on a temporary basis pending full evidentiary hearings and a final decision of the Commission.

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

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

II. SETTLEMENT PROVISIONS

7. No later than six months after the date of the Commission's final order in this docket, the Company will submit to the Staff and DPA a report that will: (a) provide an analysis of whether it would be cost effective to replace some or all of the Company's meters that are not pressure compensating; (b) provide a proposal for incentives related to the Company's lost and

unaccounted for gas costs; and (c) provide an analysis of the Company's propane facilities with respect to operation, storage management, and the feasibility of expansion of peak deliverability.

8. Regarding the Company's Asset Management Agreement ("AMA"), the Company will explore extending its relationship with its current Asset Manager and make a good faith effort to obtain information from its current Asset Manager on the actual margins achieved by its Asset Manager in optimizing Chesapeake's capacity resources. Any information obtained by the Company on actual historical margins achieved will be used for prospective benchmarking purposes for future Asset Management Agreements. If after obtaining the aforesaid information from its current Asset Manager the Company is unable to reach an agreement with its current Asset Manager that is acceptable to the Company, or if the current Asset Manager does not provide information on the actual margins achieved, the Company will conduct competitive bidding and issue a Request For Proposal ("RFP") for a new AMA no later than October 1, 2008. As part of the bidding process, the Company will seek a margin sharing mechanism in lieu of, or in addition to, a fixed cost recovery mechanism. The Company will endeavor to obtain information that will allow it to assess the merits of a margin sharing mechanism versus a fixed cost recovery mechanism. The Company however shall not be required to agree to a margin sharing mechanism if the responses to the Request for Proposal and information suggest that a margin sharing mechanism would not be as favorable to the Company as a fixed cost recovery mechanism. Throughout the RFP process, the Company will provide, on a confidential basis, reasonable information and documents on its upcoming AMA procurement process, including but not limited to, the following: a) a copy of the RFP; b) the number of entities receiving the Company's RFP; c) the number of respondents; d) evaluation criteria; e) analysis of bids; and f) other documents as may be requested by Staff or DPA. The Company

will provide this information on a rolling basis, as it becomes available, and prior to any selection by the Company of an Asset Manager.

9. Chesapeake will continue to notify the Staff and DPA of Eastern Shore Natural Gas Company filings with the Federal Energy Regulatory Commission that could cause a change in the Company's GSR charges. Such notification will include a detailed summary of the filing, whether or not Chesapeake intends to intervene, and the anticipated impact of material issues on Chesapeake's firm customers. The Company agrees that it will provide Staff and DPA, on a confidential basis, notice of and copies of any agreements, or a summary of any such agreements, the Company enters into for additional pipeline capacity that could result in rate changes for the Company's customers. Notice of such agreements shall be provided prior to the filing of said agreements with the Federal Energy Regulatory Commission. Regarding the ESNG E3 Project, the parties hereto acknowledge that the Company did not include any pre-certification costs associated with this project in the current GSR filing. The Company will identify and quantify any future claims for cost recovery associated with these pre-certification costs, and will provide Staff and DPA additional information regarding the ESNG E3 Project as it becomes available. In any filing that includes a request to recover such costs from ratepayers, the Company will also provide an explanation for its request as well as documentation explaining why such costs should be recovered from ratepayers.

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

11. The Company agrees that it will credit the GSR, on an on-going basis, for 100% of the revenues received by the Company for any capacity released to serve former off-system sales customers. The credit will be designed to equate to what would have been credited through

the margin sharing mechanism had these off-system sales customers remained off-system sales customers of the Company. The parties acknowledge that the amount of the credit may fluctuate in the event of a change in load of a particular customer or if a particular customer no longer needs capacity.

12. The Settling Parties agree that the Company's proposed rates as set forth in the Company's Application and Supplemental Application are just and reasonable rates. The Company acknowledges that the Company's Supplemental Application only reflected updates to the Company's gas costs. The parties agree that all matters related to such updates are subject to review and modification, if required, in the Company's next GSR proceeding for the determination period November 1, 2008 through October 31, 2009.

13. The Parties agree that no changes to the parameters of the Company's natural gas commodity procurement plan are necessary at this time.

III. STANDARD PROVISIONS AND RESERVATIONS

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

15. 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.

16. 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.

17. 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.

18. 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.

19. 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.

20. 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.

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

22. 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.

23. 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.

24. The Company acknowledges that failure to follow Commission ordered actions required by the terms and conditions of this Proposed Settlement can result in the imposition of penalties for the Company.

IV. CONCLUSION

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

Chesapeake Utilities Corporation

Dated: _8-20-08____ By: __/s/ Stephen C. Thompson____

Delaware Public Service Commission Staff

Dated: _8/21/08____ By: __/s/ Bruce H. Burcat_____

The Division of the Public Advocate

Dated: _8/15/2008__ By: __/s/ G. Arthur Padmore_____