

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

IN THE MATTER OF THE APPLICATION OF)
CHESAPEAKE UTILITIES CORPORATION FOR)
APPROVAL OF CHANGES TO THE)
TRANSPORTATION AND BALANCING RIDER) PSC DOCKET NO. 13-383
AND THE GAS SUPPLIER SCHEDULE OF ITS)
TARIFF)
(FILED OCTOBER 1, 2013; AMENDED)
SEPTEMBER 5, 2014))

ORDER NO. 8752

AND NOW, this 7th day of July, 2015;

WHEREAS, the Commission has received and considered the Findings and Recommendations of the Hearing Examiner issued in the above-captioned docket, submitted after a duly-noticed public evidentiary hearing, the original of which is attached hereto as **Exhibit "1"**;

AND WHEREAS, the Hearing Examiner recommends that the Proposed Settlement Agreement dated April 16, 2015 among Chesapeake Utilities Corporation, the Staff of the Delaware Public Service Commission, and the Division of the Public Advocate, and which the Dover Air Force Base does not oppose, a copy of which is attached to the original hereof as **Exhibit "2"**, be approved as just and reasonable and in the public interest;

**NOW, THEREFORE, IT IS HEREBY ORDERED BY THE AFFIRMATIVE VOTE
OF NOT FEWER THAN THREE COMMISSIONERS:**

1. That, by and in accordance with the affirmative vote of not fewer than three Commissioners, the Commission hereby adopts the Findings and Recommendations of the Hearing Examiner, appended to the original hereof as **Exhibit "2"**;

2. That the Commission approves the Proposed Settlement,

3. That all Tariff revisions and the revised rates and charges therein are approved, and shall be effective for gas service rendered on or after April 1, 2015, until further Order of the Commission. No later than two (2) business days from the date of this Order, the Company shall file revised Tariffs which comply with this Order.

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

BY ORDER OF THE COMMISSION:

Chair

Commissioner

Commissioner

Commissioner

Commissioner

ATTEST:

Secretary

Exhibit 1

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TARIFF (FILED OCTOBER 1, 2013))
(AMENDED SEPTEMBER 5, 2014))

FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

DATED: July 9, 2015

R. Campbell Hay
HEARING EXAMINER

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(AMENDED SEPTEMBER 5, 2014))

R. Campbell Hay, duly appointed Hearing Examiner in this Docket pursuant to 26 *Del. C.* §502 and 29 *Del. C. ch.* 101 and by Commission Order No. 8648 dated September 30, 2014, reports to the Commission as follows:

I. APPEARANCES

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

By: WILLIAM A. DENMAN, ESQ., PARKOWSKI, GUERKE AND SWAYZE, P.A.

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

By: JAMES McC. GEDDES, ESQ., ASHBY AND GEDDES

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

By: REGINA A. IORII, ESQ., DEPUTY ATTORNEY GENERAL

On behalf of Dover Air Force Base ("DAFB"):

By: THOMAS A. JERNIGAN, ESQ.

II. BACKGROUND

1. On October 1, 2013, pursuant to 26 Del. C. §§ 201 and 301 and Order No. 8430 (August 13, 2013) approving a settlement in PSC Docket No. 12-450F in which, Chesapeake Utilities Corporation ("Chesapeake" or the "Company") agreed to make a regulatory filing with the Delaware Public Service Commission (the "Commission") to make certain changes to the Transportation and Balancing Rider ("Transportation Rider") and Rate Schedule "SUP" ("Gas Supplier Schedule") of its Delaware Division Tariff, Chesapeake filed an application (the "Application") proposing changes to its Transportation Rider and Gas Supplier Schedule.¹ (Exh. 3, p.1)

2. Based on input received by Chesapeake during workshops held in this docket, on September 5, 2014, Chesapeake filed an Amended Application ("Amended Application"). In the Amended Application, Chesapeake proposed several changes to the Application. First, it proposed to release a portion of its pipeline capacity upstream of Eastern Shore Natural Gas Company ("ESNG") into the open market pursuant to the Federal Energy Regulatory Commission ("FERC") capacity release rules. (*Id.* at p.2)

Under Chesapeake's proposal, ninety percent (90%) of the revenues received by the Company from the release of this upstream capacity would be credited to the Company's firm sales customers through the Company's Gas Sales Rates ("GSR"). (*Id.* at p.4)

¹The Evidentiary Hearing Exhibits will be cited herein as "Exh. ___." References to the pages of the Evidentiary Hearing transcript will be cited as "Tr.-___." Schedules from the Company's Application or pre-filed testimony will be referred to as "Sch. ___."

To facilitate the release of this upstream capacity, the Company requested a waiver of the Asymmetrical Pricing Rule adopted by the Commission by Order No. 5828 dated November 6, 2001.² (*Id.* at pp.4-5)

3. The Company also requested approval to revise the balancing fees charged to its transportation customers by including the cost of upstream capacity needed to balance a transportation customer's design day requirements in the fees. (*Id.* at pp.5-6)

4. The Company also proposed to charge balancing fees to the Company's General Service ("GS"), Expansion Area General Service ("EGS"), Medium Volume Service ("MVS"), and Expansion Area Medium Volume Service ("EMVS") transportation customers. The Company's current tariff does not include balancing rates for these rate classes. (*Id.*)

5. Finally, Chesapeake requested permission to make other changes throughout the Transportation Rider and its Gas Supplier Schedule either to clarify existing language or to modify the mechanics of the transportation program in order to improve efficiency. (*Id.* at p.6)

III. PRE-FILED TESTIMONY

A. SARAH E. HARDY, CHESAPEAKE REGULATORY ANALYST III

6. Ms. Hardy submitted pre-filed supplemental direct testimony on September 5, 2014 for the purpose of offering a revised proposal based on discussions with all parties in this case. (Exh. 2, p.3)

² The Asymmetrical Pricing Rule was adopted by the Commission by Order No. 5828 on November 6, 2001. This rule requires the Company to book the sale of an asset to an affiliate at the higher of cost or market price. The rule was established because there was lack of evidence of a competitive market for ESNG capacity. (Exh. 2, p.5)

7. Included in Ms. Hardy's testimony were two (2) schedules showing detailed calculations to support the proposed balancing rate methodology. (*Id.*; Schs. SEH-1 - SEH-2)

8. Ms. Hardy testified that Chesapeake proposes to release capacity upstream of ESNG into the open market. She further testified that the amount released would equal the difference between Chesapeake's total upstream firm transportation entitlements and (a) the sum of its forecasted needs for its firm sales customers on a design day and (b) its forecasted needs to balance its firm transportation customers on a design day. Ms. Hardy testified that, under this proposal, ninety percent (90%) of the aforementioned release will be credited to Chesapeake's firm sales customers through the GSR. (*Id.* at p.5)

9. Ms. Hardy testified that Chesapeake sought a waiver of the Asymmetrical Pricing Rules currently applicable to Chesapeake's upstream capacity releases. (*Id.*)

10. Ms. Hardy further testified that the revised proposal would allow Chesapeake to release ESNG capacity directly to Chesapeake's qualified supplier rather than the customer. (*Id.* at p.6)

11. Ms. Hardy testified that, under the revised proposal, the annual level of released ESNG capacity would be set at the customer's

highest Daily Contract Quantity ("DCQ") within twelve (12) months of DCQs calculated, rather than the customer's highest winter DCQ.³ (*Id.*)

12. Ms. Hardy testified that Chesapeake would also like to revise the balancing fees charged to its transportation customers to include the cost of upstream capacity needed to balance the transportation customer's design day requirements. She stated that based on the 2013-14 Gas Supply Plan submitted to the Commission, the difference would be 7,756 Dts at a current rate of \$0.4570 per Dt.⁴ (*Id.* at p.7)

13. Finally, Ms. Hardy testified that Chesapeake proposed to change the deadline for receipt of transportation customer's DCQ Nomination forms to the fifteenth (15th) calendar day for the month prior to the first day on the month in which service begins, then annually thereafter.⁵ (*Id.* at p.9)

B. JEROME D. MIERZWA, CONSULTANT, STAFF AND THE DPA

14. Jerome D. Mierzwa, Principal and Vice President of Exeter Associates, Inc. ("Exeter") submitted pre-filed direct testimony on behalf of Staff and the DPA. (Exh. 4)

³ This would be the case for most customers. For customers whose lowest winter DCQ does not exceed 10% of its highest DCQ for the twelve month period, Chesapeake would set the level of released ESNG capacity at the customer's monthly DCQ for each month within the twelve months of DCQs calculated. This method accounts for higher load peaks in the winter. (Exh. 2, p.6)

⁴ This was calculated based on a blended weighted average capacity rate, which was derived at by dividing total projected upstream capacity entitlement costs by its total projected quantity of upstream capacity. That figure is divided by 365 to determine the projected daily blended weighted average. (*Id.* at pp. 7-8)

⁵ Currently, transportation customers must submit this information on the sixth business day prior to the beginning of each month. (*Id.* at p.9)

15. Mr. Mierzwa testified that Chesapeake's proposal to release excess upstream interstate pipeline capacity into the open market is reasonable. (*Id.* at p.3)

16. Mr. Mierzwa testified that Chesapeake's proposal to establish balancing fees for GS, EGS, MVS, and EMVS transportation customers is reasonable. (*Id.* at p.3)

17. Mr. Mierzwa testified that the calculation to determine the amount of excess upstream capacity to release should be modified so that the total amount of upstream pipeline capacity includes propane air capacity generated by Chesapeake's on-system propane air facility, which is capable of providing 10,176 Dth on a design day. (*Id.* at pp.8-9)

18. Mr. Mierzwa opposed Chesapeake's proposal to credit 90% of the revenues received from the release of excess upstream interstate pipeline capacity to firm sales customers. He stated that the proposal would hold firm sales customers responsible for the difference between the actual cost of the capacity released and the actual revenues received, plus 10% of the actual revenues received (and to be retained by Chesapeake). Mr. Mierzwa reasoned that such an arrangement erroneously implies that existing firm sales customers are responsible for causing Chesapeake to maintain excess upstream pipeline capacity. (*Id.* at p.10)

19. Mr. Mierzwa testified that the difference between the actual cost of the excess upstream interstate pipeline capacity

released by Chesapeake and the revenues received should be allocated to and recovered from all customers on a volumetric basis. Under this approach costs allocated to sales customers would be included in the GSR calculation and costs allocated to transportation customers would be included in the calculation of balancing charges. (*Id.* at pp.11-12)

20. Finally, Mr. Mierzwa testified that Chesapeake's procedures concerning the release of excess upstream capacity should be reviewable and evaluated for reasonableness in upcoming GSR proceedings. (*Id.* at p.4)

C. MICHAEL P. GORMAN, CONSULTANT, DOVER AIR FORCE BASE

21. Michael P. Gorman of BAI Consulting, an economic and regulatory consulting firm testified on behalf of DAFB. He questioned Chesapeake's need to retain its upstream capacity to meet its firm transportation customers' design day demands. (Exh. 5B, pp.3-4)

22. Mr. Gorman testified that neither Mr. Mierzwa nor Chesapeake had established the need for Chesapeake to retain an amount from its upstream capacity to meet the aforementioned demands. (*Id.*)

23. Mr. Gorman explained that there is a need for some type of delivery capacity in order to access storage facilities to balance Chesapeake's load;⁶ however, whether that capacity is firm or interruptible and the amount of capacity needed for balancing had not been established. (*Id.* at p.7)

⁶ This is because Chesapeake's storage facilities are upstream of ESNG according to Schedule SEH-2. (Exh. 5B, p.7)

24. Mr. Gorman testified that Chesapeake acquired its upstream capacity to ensure that increased demands were met due to firm sales customer growth and to connect to new gas supply regions. He noted that both of these reasons benefitted firm sales customers, but did not prove the need for upstream capacity to balance transportation customers' requirements. (*Id.* at p.8)

25. Mr. Gorman testified that until Chesapeake had proven that it needs the upstream capacity to balance transportation customers loads, the Commission should not approve the proposal. (*Id.* at p.9)

D. WILLIAM R. KRISS, CHESAPEAKE GAS SUPPLY ANALYST II

26. Mr. Kriss' rebuttal testimony addressed certain portions of Mr. Mierzwa's and Mr. Gorman's direct testimonies. (Exh. 6, p.3)

27. Mr. Kriss testified that Chesapeake should not release the additional 10,176 Dth from its propane air facilities, as proposed by Mr. Mierzwa. He explained that increasing the usage of those facilities over long periods of time could negatively impact system reliability. He further explained that the cost of running the facilities more often would partly offset the savings from the release of additional upstream capacity. (*Id.* at pp.5-6)

28. Mr. Kriss disagreed with Mr. Gorman's assertion that Chesapeake has not established a need to reserve an amount of upstream capacity to balance its firm transportation load.

29. Mr. Kriss explained that, because "(1) DCQs are based on a monthly average of the transportation customer's daily requirement for each day during a month and (2) a transportation customer delivers its monthly DCQ on every day of that month irrespective of its actual

usage, the Company must hold some form of deliverability to make up the difference between a customer's DCQ and its actual usage on days when its usage exceeds its DCQ." (*Id.* at pp. 9-10)

30. Mr. Kriss also testified that it would not be feasible to separately identify and quantify the actual resource used for balancing a particular customer class, as Mr. Gorman suggested. (*Id.* at p.10)

IV. EVIDENTIARY HEARING

31. The evidentiary hearing was held on Monday, April 27, 2015 beginning at 10 a.m. The record, as developed at the evidentiary hearing, consists of a verbatim transcript of 46 pages and 8 hearing exhibits. The parties stipulated to the admissibility of all hearing exhibits presented. (Tr., p.13)

A. Sarah E. Hardy (Chesapeake)

32. Ms. Hardy testified that the pre-filed testimony she submitted was true and correct. (Tr., p.20)

33. Ms. Hardy testified that Chesapeake supports the provisions of the Proposed Settlement Agreement, as outlined *infra* at Section V. (*Id.* at p.25)

34. Ms. Hardy testified that, in her belief, the Proposed Settlement Agreement represents a reasonable compromise of the issues and that the terms and conditions set forth in the agreement, as well as, the resulting rates to Chesapeake's customers are just and reasonable. (*Id.* at p.26)

B. William R. Kriss (Chesapeake)

35. Mr. Kriss testified that his assignment in this proceeding was to provide testimony regarding the quantification and allocation of upstream capacity. (*Id.* at p.28)

36. Mr. Kriss testified that his answers in his pre-filed rebuttal testimony (Exh. 6) remained true and correct, with the exception of any modifications made by the Proposed Settlement Agreement. (*Id.* at p.29)

C. Michael Gorman (DAFB)

37. Mr. Gorman stated that he had no corrections to his pre-filed testimony, marked at Exhibit 5A (Confidential Version) and 5B (Public Version) (*Id.* at p.30)

D. Jerome D. Mierzwa (Staff and DPA)

38. Mr. Mierzwa, in his testimony on behalf of Commission Staff and the DPA, made two corrections to his pre-filed testimony (Exh. 4). First, Mr. Mierzwa referenced Page 5, Line 8 and noted that the first occurrence of the word "retail" should read "transportation."⁷ (*Id.* at p.35) Second, he stated that the number on Page 9, Line 15 should be 88,118, rather than 77,942. (*Id.* at p.36)

39. Mr. Mierzwa testified that with the exception of the corrections noted above, he adopted his pre-filed testimony as his own, sworn testimony for purposes of the Evidentiary Hearing. (*Id.*)

40. Mr. Mierzwa testified that the Proposed Settlement Agreement, in his opinion, is in the public interest because it avoids

⁷ The text will read, as corrected, "There are no similar procedures in place to recover the costs associated with upstream pipeline capacity reserved by the Company for firm transportation customers."

the "risk, expense and administrative burden of further litigation."
(*Id.*)

41. Mr. Mierzwa concluded his testimony by stating that he believes the rates produced by the Proposed Settlement Agreement are just and reasonable. (*Id.* at p.37)

V. PROPOSED SETTLEMENT AGREEMENT

42. Immediately prior to the Evidentiary Hearing, I was presented with a duly-executed Proposed Settlement Agreement.⁸ (Exh. 7)

43. The Proposed Settlement Agreement provides:

- a. Chesapeake will withdraw its request to release upstream capacity directly to its transportation customers or their qualified suppliers (*Id.* at p.4);
- b. Chesapeake will release capacity upstream of ESNG into the open market pursuant to FERC's capacity release rules. The releases will be for a period of one year and will be made on a non-recallable basis. The amount releases will be the difference between the total upstream firm transportation entitlements and the sum of its forecasted needs for its firm sales customers on a design day and its forecasted needs to balance its firm transportation customers on a design day. Chesapeake will not be required to release any asset utilized for storage. Further, the Asymmetrical Pricing Rules will not apply. (Exh. 7, pp. 4-5)

⁸ DAFB did not sign the Settlement Agreement; however, Mr. Jernigan stated that they did not intend to oppose the Agreement. (Tr., p.14)

- c. 90% of any capacity release revenues will be credited to firm sales customers (*Id.* at p.5);
- d. Any release of ESNG capacity made in accordance with Chesapeake's transportation program will be made directly to the transportation customer's qualified supplier (*Id.*);
- e. DCQs will be calculated based on three years' history, plus any additional information received from the customer or its agent. (*Id.*);
- f. Chesapeake will withdraw its request to impose a penalty on transportation customers who miscalculate their DCQs. (*Id.*)
- g. The balancing fees charged to Chesapeake's transportation customers will include the upstream firm transportation costs incurred to provide that service, and will be determined based on the difference between the transportation customers' aggregate design day requirements and the average demand that the customers' cumulative delivered DCQs are structured to cover (*Id.* at pp.5-6);
- h. The following service classes will be charged a balancing fee, effective with Chesapeake's next GSR proceeding: General Service (GS), Expansion Area General Service (EGS), Medium Volume Service (MVS), and Expansion Area Medium Volume Service (EMVS) (*Id.* at p.6)

- i. Transportation Customers' DCQ Nomination Form will be due on the fifteenth (15th) calendar day of the month prior to the first day of the month in which transportation service begins, and annually on that date thereafter. (*Id.*)
- j. With the exception of Summer Peaking Customers⁹ the annual level of released ESNG capacity will be the highest DCQ within the twelve (12) months of DCQs calculated. (*Id.*)

VI. FINDINGS AND RECOMMENDATIONS

44. Pursuant to the Commission's instructions in Order No. 8648, I hereby submit for consideration these proposed Findings and Recommendations.

45. The Commission has jurisdiction in this matter pursuant to 26 Del. C. §§303(b), 304 and 306.

46. After having reviewed the entire record, I conclude that the Settlement Agreement is in the public interest, results in just and reasonable rates and should be approved.

47. First, 26 Del. C. §512(a) provides that "insofar as practicable, the Commission shall encourage the resolution of matters brought before it through stipulations and settlements." Clearly,

⁹ A Summer Peaking Customer is defined as a "[t]ransportation customer whose lowest winter DCQ does not exceed ten percent (10%) of the customer's highest DCQ for the twelve month period." For these customers the level of released ESNG capacity will be the customer's monthly DCQ for each month within the twelve (12) months of DCQ calculated. (Exh. 7, p.6)

this reflects a legislative intent that the Commission welcomes settlements of part or all of a case.

48. Second, I note that each of the Settlement's signatories represents a different constituency and comes to the case with different interests. Chesapeake's interest is in recovering all of its actual gas costs (as 26 Del. C. §303(b) permits). Staff is required to balance the utility's and ratepayers' interests. And 29 Del. C. §8716(e)(2) charges the DPA with advocating for lowest reasonable rates for consumers consistent with maintaining adequate utility service and an equitable distribution of rates among all the utility's customer classes. Despite these disparate interests and responsibilities, the parties have reached agreement. This, in my view, is a significant factor weighing in favor of approving the Settlement.

49. Third, the Settlement is in the public interest because it avoids the cost of a litigated evidentiary hearing, thereby mitigating Company expenses that would otherwise be passed through to ratepayers.

50. For the foregoing reasons, I conclude that the Settlement Agreement, which is attached hereto as Exhibit "1," results in just and reasonable rates and is in the public interest, and recommend that the Commission approve it. I attach a form of Order implementing my recommendations hereto as Exhibit "2."

Respectfully Submitted,

Date: June 23, 2015

R. Campbell Hay
Hearing Examiner

E X H I B I T "2"

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

CHESAPEAKE UTILITIES CORPORATION,)
DELAWARE DIVISION'S REQUEST FOR)
APPROVAL OF CHANGES TO THE)
TRANSPORTATION AND BALANCING RIDER)PSC DOCKET NO. 13-383
AND THE GAS SUPPLIER SCHEDULE OF ITS)
TARIFF (FILED OCTOBER 1, 2013))

PROPOSED SETTLEMENT

On this 16th day of April, 2015, Chesapeake Utilities Corporation, a Delaware corporation (hereinafter "Chesapeake" or the "Company"), the Delaware Public Service Commission Staff ("Staff"), and the Division of the Public Advocate (the "DPA"), (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. In the 2012 Gas Sales Rate ("GSR") proceeding for Chesapeake, PSC Docket No. 12-450F, Mr. Jerome D. Mierzwa, a consultant with Exeter Associates, Inc., testified on behalf of the Commission Staff and among other things, suggested that because, in his opinion, Chesapeake holds sufficient capacity upstream of Eastern Shore Natural Gas (*i.e.*; "upstream capacity") to meet the needs of both its sales and transportation customers, Chesapeake's sales customers should not pay for upstream capacity held for transportation customers.¹

¹ See PSC Docket No. 12-450F, Direct Testimony of Jerome D. Mierzwa, p. 10.

2. In rebuttal testimony filed by Chesapeake in PSC Docket No. 12-450F, Chesapeake stated that it intended to make a regulatory filing under a separate docket to propose an alternative approach to cost allocation whereby firm transportation customers would contribute a more appropriate portion of the costs of upstream pipeline capacity.²

3. On October 1, 2013, pursuant to 26 *Del. C.* §§ 201 and 301 and Order No. 8430 (August 13, 2013) in PSC Docket No. 13-382, Chesapeake filed an application (“Application”) that requested the Commission’s approval of certain proposed changes to Chesapeake’s Transportation and Balancing Rider (“Transportation Rider”) and its Rate Schedule “SUP” (“Gas Supplier Schedule”) of its Delaware Division Tariff, to be effective for service provided on and after April 1, 2015.

4. Notice of the filing of the Application was published in *The News Journal* and the *Delaware State News* on November 13, 2013, and November 12, 2013 respectively. Notice of the filing was also sent directly to the Company’s transportation customers.

5. In the pending Application, DPA, WGES, and USAF intervened.

6. During the course of this proceeding, two informal workshops were held by the parties in an effort to narrow and/or resolve the issues in this docket.

7. Based in part on input from the parties, Chesapeake filed an Amended Application on September 5, 2014 (the “Amended Application”) pursuant to which Chesapeake, among other things, would:

a. withdraw its proposal to assign upstream capacity (i.e.; capacity upstream from the Eastern Shore Natural Gas Company (“ESNG”) pipeline) directly to its transportation

² See PSC Docket No. 12-450F, Rebuttal Testimony of Jeffrey R. Tietbohl, p. 13.

customers, and in lieu thereof release upstream capacity into the open market pursuant to the Federal Energy Regulatory Commission's ("FERC") capacity release rules;

b. credit ninety percent (90%) of the capacity release revenues to the Company's firm sales customers in accordance with the Company's tariff sheet 42.3 under "Margin Sharing";

c. release ESNG capacity (as opposed to upstream capacity) directly to the transportation customer's Qualified Supplier;

d. revise the methodology for calculating balancing fees charged to the Company's transportation customers to include the upstream firm transportation costs associated with the Company's obligation to balance its transportation customers' design day requirements;

e. charge balancing fees to all transportation customers; and

f. make several revisions to the Transportation and Balancing Rider and Rate Schedule "SUP" – Gas Supplier Requirements of the Company's tariff to clarify existing language or to modify the mechanics of the transportation program in order to improve efficiency.

8. In the Amended Application, the Company also requested the Commission to determine that the Asymmetrical Pricing Rules would not apply to the release of upstream capacity by the Company pursuant to FERC's capacity release rules.

9. Notice of the filing of the Amended Application was published in *The News Journal* and the *Delaware State News* on October 8, 2014. Notice of the filing of the Amended Application was also sent directly to the Company's transportation customers.

10. During the course of this proceeding, the Settling Parties have conducted written discovery in the form of data requests. The Settling Parties have conferred in an effort to resolve the issues raised in this proceeding. The Settling Parties acknowledge that the parties may differ as to the proper resolution of many of these issues. 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. The Settling Parties agree that subject to the approval of the Hearing Examiner, the terms and conditions of this Proposed Settlement will be presented to the Commission for the Commission's approval.

II. SETTLEMENT PROVISIONS

11. The Company agrees to withdraw its request to release upstream capacity directly to its transportation customers or their Qualified Suppliers.

12. The Settling Parties agree that the Company will release capacity upstream of ESNG into the open market pursuant to FERC's capacity release rules. The releases will be for a period of one year and will be made on a non-recallable basis. The amount of capacity released will be the difference between the Company's total upstream firm transportation ("FT") entitlements and the sum of (a) its forecasted needs for its firm sales customers on a design day and (b) its forecasted needs to balance its FT customers on a design day. Under no circumstances, however, will the Company be required to release any asset utilized for storage. For purposes of this provision, only the Transco FT capacity required to deliver ESS and WSS storage and the Columbia Gas SST capacity

will be considered as transportation assets utilized for storage. With respect to any such capacity releases, the Asymmetrical Pricing Rules adopted by the Commission pursuant to Commission Order No. 7778 dated May 18, 2010, shall not apply.

13. With respect to any capacity release revenues received by the Company from the release of upstream capacity, Ninety Percent (90%) shall be credited to the Company's Delaware Division firm sales customers, in accordance with the Company's tariff at Seventh Revised Sheet No. 42.3 under "Margin Sharing." The difference between the Company's actual cost of the released upstream capacity and the aforesaid credit shall be allocated to the Company's sales and transportation customers based on design day demand. For illustration purposes, an example of this calculation is attached hereto as *Exhibit A*.

14. The Settling Parties agree that any release of ESNG capacity made in accordance with the Company's transportation program will be made directly to the transportation customer's Qualified Supplier.

15. The Company agrees to continue to calculate its transportation customer's DCQs based on three years' history plus any additional information received from the customer or its agent in writing. Accordingly, the Company withdraws its request for a DCQ penalty as originally proposed.

16. Effective with the Company's next GSR proceeding, the balancing fees charged to all of the Company's transportation customers shall include the upstream firm transportation costs incurred by the Company in order to balance transportation customers' aggregate design day requirements. The amount of capacity needed for balancing transportation customers' service will be the difference between the

transportation customers' aggregate design day requirements and the average demand that the customers' cumulative delivered daily contract quantities ("DCQ") are structured to cover. A schedule detailing the calculation of the agreed upon methodology is set forth on *Exhibit B* attached hereto.

17. Effective with the Company's next GSR proceeding, the Company's General Service ("GS"), Expansion Area General Service ("EGS"), Medium Volume Service ("MVS"), and Expansion Area Medium Volume Service ("EMVS") transportation customers will be charged a balancing fee.

18. The deadline for receipt of a transportation customer's DCQ Nomination form will be the fifteenth (15th) calendar day of the month prior to the first day of the month in which transportation service begins, and then annually on that date thereafter.

19. For transportation customers other than Summer Peaking Customers (as defined below), the annual level of released ESNG capacity will be the customer's highest DCQ within the twelve (12) months of DCQs calculated, as opposed to the current practice of using the customer's highest winter DCQ.

20. Transportation customers whose lowest winter DCQ does not exceed ten percent (10%) of the customer's highest DCQ for the twelve month period shall be considered a Summer Peaking Customer. For Summer Peaking Customers, the level of released ESNG capacity will be set at the customer's monthly DCQ for each month within the twelve (12) months of DCQs calculated.

21. The Settling Parties agree to the modifications to the Company's Delaware Division Tariff which add detail pertaining to the above Settlement Provisions in addition to clarifying processes that are currently in practice. Copies of the redlined and clean

tariff sheets incorporating the changes contemplated by this Settlement Agreement are attached hereto as *Exhibit C*. Except where otherwise stated above, the effective date for the changes to the transportation program will be the effective date of the Public Service Commission order, if any, approving this Proposed Settlement.

III. STANDARD PROVISIONS AND RESERVATIONS

22. This Proposed Settlement is the product of extensive negotiation, and reflects a mutual balancing of various issues and positions of the Parties. It is therefore a condition of the Proposed Settlement that the Commission approves it in its entirety without modification or condition. If this Proposed Settlement is not approved in its entirety, this Agreement shall become null and void.

23. This Proposed Settlement represents a compromise for the purposes of settlement and shall not set a precedent and no Party shall be prohibited from arguing a different policy or position before the Commission in any future proceeding. This includes, but is not limited to, those issues raised by the Parties relating to the calculation of the GSR or any other issues addressed in either the Application or in this Agreement. To the extent opinions or views were expressed or issues were raised in the pre-filed testimony that are not specifically addressed in this Proposed Settlement, no findings, recommendation or positions with respect to such opinions, views or issues should be implied or inferred. The purpose of this Proposed Settlement is to provide just and reasonable rates for the customers of Chesapeake, and the Parties believe that this Proposed Settlement accomplishes this goal. In addition, the Parties believe that the Proposed Settlement is in the public interest because, among other things, it avoids the additional cost of litigation.

24. The terms of this Proposed Settlement will become effective upon the Commission's issuance of a final order approving it and all of its terms and conditions without modification. This Proposed Settlement will remain in effect until changed by an order of the Commission. The Commission retains jurisdiction over this Agreement and all statutory procedures and remedies otherwise available to the Parties to ensure that rates are just and reasonable, while providing a fair rate of return, including without limitation 26 *Del. C.* §§ 304, 309-311.

25. This Proposed Settlement Agreement may be executed in counterparts by any of the signatories hereto and transmission of an original signature by facsimile or email shall constitute valid execution of this Agreement, provided that the original signature of each Party is delivered to the Commission's offices before its consideration of this Agreement. Copies of this Proposed Settlement Agreement executed in counterpart shall constitute one agreement. Each signatory executing this Proposed Settlement Agreement Warrants and represents that he or she has been duly authorized and empowered to execute this Proposed Settlement Agreement on behalf of the respective Party.

Chesapeake Utilities Corporation

Dated: _____

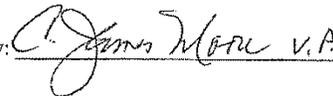
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Chesapeake Utilities Corporation

Dated: 4-16-2015

By:  C. James Morin V.P.

**Delaware Public Service Commission
Staff**

Dated: 4/16/15

By: Connie S. McDowell

The Division of the Public Advocate

Dated: _____

By: _____

United States Air Force

Dated: _____

By: _____

Washington Gas Energy Services

Dated: _____

By: _____

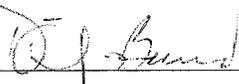
**Delaware Public Service Commission
Staff**

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