



STATE OF DELAWARE

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TO: The Chair and Members of the Commission

FROM: Jason R. Smith 
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SUBJECT: 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 (FILED DECEMBER 21, 2015) – PSC DOCKET NO. 15-1734

Application

On December 21, 2015, the Delaware Division of Chesapeake Utilities Corporation (“Chesapeake” or the “Company”) filed an application seeking approval for an increase in its natural gas base rates. The total revenue increase requested by Chesapeake in this matter is approximately \$4,741,823 or 9.96% of existing revenues over total current delivery service rates (See Application ¶ 4). Under the rates included in the application, an average residential heating customer during a winter month would see an increase of \$13.36 per month, an approximate 10.68 percent increase¹. The average non-heating residential customer would experience an increase of \$5.41 per month, an approximate 15.17 percent increase².

In addition to the proposed rate changes, the Company also proposes a number of new service offerings some of which include:

- Multi-Family Housing Program - Chesapeake would provide a financial contribution to offset the costs associated with gas piping and venting to builders that select natural gas for multi-family housing.

¹ Based upon the customer using an average of 120 Ccfs per month. One (1) Ccf is the volume of 100 cubic feet of natural gas.

² Based upon the customer using an average of 18 Ccfs per month.

- Natural Gas Compression Service - Chesapeake would construct, own and maintain compression facilities for commercial customers who require enhanced pressure for their operations.
- Municipal Natural Gas Infrastructure Expansion Program - Chesapeake would offer incorporated towns an advance that would fund the construction of natural gas infrastructure in the town and which the town would pay back within six years.
- Temporary Gas Storage Tank Program – This would allow the Company to provide customers with temporary gas service until they can be connected to a natural gas main in instances when new construction has been completed prior to the completion of a natural gas main extension.
- Poultry House Transportation – This offering would allow poultry companies to aggregate usage from their poultry houses for purposes of meeting the minimum consumption requirement for transportation service.
- Make available natural gas service to owners or operators of compressed natural gas (“CNG”) facilities or to CNG transportation providers, who compress and/or transport CNG to third parties (See Application ¶ 7).

Further, Chesapeake also proposes other tariff changes including the request for a Revenue Normalization Adjustment (“RNA”) provision for residential and smaller commercial customers, changes to Chesapeake’s curtailment policy³, an extension of the bill payment due date from ten (10) days to twenty (20), changes to the interest rate on customer deposits, and other general formatting and clarification changes. Lastly, the Company is also seeking Commission approval of deferral accounting treatment for expenses relating to implementation of new technologies including a new billing system, as well as, expenses associated with the Company’s pension, deferred compensation and other post-retirement benefits (See Application ¶ 7, 8).

Chesapeake has asserted that this increase is necessary due to an investment of approximately \$11 million in unprotected bare steel pipe replacement. Along with a decline in

³ Sheet No. 2 of Chesapeake’s tariff defines the Curtailment guidelines and outlines priorities. Generally, 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 has the discretion to curtail service to Customers.

consumption on a per customer basis over the past eight (8) years which has led to decreased volumes over which fixed costs can be allocated (See Application ¶ 3).

Interim Rates

The Company has requested that the full proposed base rate increase become effective on February 19, 2016. However, the Commission has typically favored the implementation of interim rates at the commencement of a rate case proceeding versus allowing the full proposed rates to be placed into effect.⁴ Therefore, the Company also requests, pursuant to 26 Del. C. §306(c), authorization to collect interim rates if the full proposed rates are services are suspended beyond 60 days from the date of the application. The temporary rates proposed would be effective beginning February 19, 2016, and provide for an increase of \$2,498,052 in additional revenues (See Application ¶ 5, 10).

Chesapeake requests a waiver of requirements under 26 Del. C. §306(b), which requires the utility to file a bond with sureties in an amount approved by the Commission. The Company cites its high credit rating from the National Association of Insurance Commissioners for long term debt and its financing arrangements in place with Prudential Investment Management and five other financial institutions for a total of \$300 million. The Company also agrees that it would be abide by any Commission order that may require a refund of amounts collected through interim rates (See Application ¶ 11).

Review and Recommendation

Staff has performed an initial review of the application, supporting schedules, and supporting testimonies. Above all, Staff has reviewed the proposed interim rate calculations contained within Chesapeake's application and concurs with the Company's estimate of the impact and distribution of the interim rates which total to approximately \$2.5 million. The proposed interim rates will increase rates across all rates classes (with the exception of the GLR, ITS, and NGV classes since the changes are not applicable).

⁴ See *Application of Delmarva Power & Light Company (Gas)*, Docket No. 12-546, Order 8271 (January 8, 2013). *Application of Delmarva Power & Light Company (Electric)*, Docket No. 13-115, Order 8837 (April 9, 2013). *Application of Artesian Water Company*, Docket No. 14-132, Order 8558 (May 13, 2014).

Under 26 *Del. C.* §306(c), a utility is authorized to place temporary rates in effect sixty (60) days after filing an application requesting an increase in rates. The rates may be placed in effect under bond, provided that the increase does not exceed fifteen percent (15%) of the Company's gross intrastate operating revenues or \$2,500,000 annually, whichever is less. The interim rates proposed to be effective with usage on and after February 19, 2016 are within the limits set by the statute.

Therefore, Staff respectfully recommends approval of the proposed interim rates effective with usage on and after February 19, 2016 and a waiver of the requirement to file a bond in order to implement such rates.