

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF)
CHESAPEAKE UTILITIES CORPORATION FOR)
APPROVAL OF NATURAL GAS EXPANSION) PSC DOCKET NO. 12-292
SERVICE OFFERINGS)
(FILED JUNE 25, 2012))

ORDER NO. 8479

AND NOW, this 5th day of November, 2013:

WHEREAS, on June 25, 2012, Chesapeake Utilities Corporation ("Chesapeake" or the "Company") filed with the Delaware Public Service Commission (the "Commission") an application (the "Application"), pursuant to 26 Del. C. §201, §301, and §304, seeking approval of various natural gas expansion service offerings that, according to Chesapeake, would enable it to extend its natural gas distribution facilities in southeastern Sussex County more efficiently than would otherwise be practical under current tariff provisions; and

WHEREAS, the proposed expansion service offerings provide for higher rates in the designated expansion area and modified line extension policies because, according to Chesapeake, under existing rates and line extension policies, service cannot be provided to many customers without the customer paying a substantial up-front contribution or advance; and

WHEREAS, the proposed expansion service offerings included: (a) new Infrastructure Expansion Service ("IES") Rates to be added to the existing customer charge and applicable only to customers within the proposed expansion areas, such rates to be set at \$8.00 per month for

Expansion Area Residential Service - 1, \$25.00 per month for Expansion Area Residential Service - 2, \$40.00 per month for Expansion Area General Service, and \$125.00 per month for Expansion Area Medium Volume Service; (b) a new \$1.25 per month Distribution Expansion Service ("DES") Rate, applicable to all customers; (c) a new Conversion Finance Service option to provide financing to potential new customers who wish to convert from another fuel to natural gas; (d) a new Conversion Management Service option to assist with coordination of the conversion work; and (e) other changes to Chesapeake's tariff addressing main extensions and the economic analysis of customer additions for existing residential developments; and

WHEREAS, the Commission, by Order No. 8174 and pursuant to the authority granted to it by 26 Del. C. §306(a)(1), suspended Chesapeake's Application pending the completion of evidentiary hearings into the justness and reasonableness of the proposed new rates and tariff changes; and

WHEREAS, notice of the filing of Chesapeake's Application was provided in the manner required by the Commission; and

WHEREAS, the Division of the Public Advocate (the "Public Advocate") intervened as of right in this docket, and the following parties were granted intervener status: the Delaware Department of Natural Resources and Environmental Control ("DNREC"); the Delaware Association of Alternative Energy Providers ("DAAEP"), the Caesar

Rodney Institute ("CRI") and Delmarva Power & Light Company ("Delmarva"); and

WHEREAS, the parties held several workshops in an effort to resolve the issues in this Docket, during which time they circulated confidential position papers to more clearly articulate their respective positions on various aspects of Chesapeake's proposal; and

WHEREAS, on January 4, 2013 the Public Advocate filed a Motion to Close the Docket, arguing that the Company had not addressed using the Experimental Area Expansion Plan already in its tariff to expand into unserved areas; that the Company's application constituted single-issue ratemaking; and that the proposed DES rate would result in current customers subsidizing potential future customers; and

WHEREAS, on February 6, 2013, the Hearing Examiner issued a report on the Public Advocate's motion recommending that the Commission keep the docket open; and

WHEREAS, by letter dated February 22, 2013 the Commission Staff asked the Commission to delay its consideration of the Hearing Examiner's report, to which the Public Advocate did not object; and

WHEREAS, based on the input received from the parties in this Docket, Chesapeake filed supplemental direct testimony outlining a revised proposal ("Revised Proposal") in which Chesapeake: (1) withdrew its proposal to implement the Conversion Finance Service and Conversion Management Service as regulated activities and instead will offer them as unregulated services should it decide to offer them in the future; (2) withdrew its request to implement the DES; (3) reduced

the proposed IES rates; (4) withdrew its request to eliminate the 75-foot exception to its revenue test for service installations; and (5) modified the internal rate of return model ("IRR") that it uses to assess the economics of a potential main extension; and

WHEREAS, notice of Chesapeake's Revised Proposal was published in The News Journal on August 19, 2013, and in the Delaware State News and the Cape Gazette on August 20, 2013, which notice, among other things, notified the public that a public comment session would be held in Sussex County Delaware on September 12, 2013 to provide the public with an opportunity to comment upon the Revised Proposal; and

WHEREAS, the public comment session took place on September 12, 2013, at which several members of the public submitted comments supporting expansion of natural gas service in Sussex County, Delaware; and

WHEREAS, at the public comment session, no members of the public voiced any opposition to the Revised Proposal; and

WHEREAS, subsequent to the aforesaid public comment session, Chesapeake, the Commission Staff, the Public Advocate, DNREC and DAAEP executed a Proposed Settlement Agreement ("the Proposed Settlement Agreement") pursuant to which the settling parties agreed to the terms and conditions of the Company's Revised Proposal, subject to the conditions set forth in the Proposed Settlement Agreement; and

WHEREAS, Delmarva and CRI did not execute the Proposed Settlement Agreement but have indicated that they do not oppose it; and

WHEREAS, 26 Del. C. Section 512(a) provides that "insofar as practicable, the Commission shall encourage the resolution of matters brought before it through the use of stipulations and settlements," and the Commission is specially authorized after hearing to approve the resolution of matters brought before it by settlements where the Commission finds such resolution to be in the public interest; and

WHEREAS, under the Proposed Settlement Agreement, Chesapeake has withdrawn its request for approval to implement the proposed DES rate that would have been applicable to all of Chesapeake's residential customers; and

WHEREAS, the Proposed Settlement Agreement reduces the IES Rates applicable to customers within the proposed expansion areas to \$6.00 per month for Expansion Area Residential Service - 1, \$18.75 per month for Expansion Area Residential Service - 2, \$30.00 per month for Expansion Area General Service, and \$93.75 per month for Expansion Area Medium Volume Service; and

WHEREAS, these IES rates will remain in place for a period of time to ensure an appropriate level of rate and cost recovery related to the distribution system infrastructure established in the Expansion Area;¹ subject, however, to Chesapeake's ability to petition the Commission for approval to modify or change the IES rates and/or rate structure; and

¹ As used in the Proposed Settlement Agreement and in this Order, "Expansion Area" means the area east of Chesapeake's district regulator station located on Route 9 in Lewes, Delaware that is connected to Chesapeake's distribution main and any area that is connected to Chesapeake's distribution main behind the three Eastern Shore Natural Gas transmission pipeline city gates located in Dagsboro, Frankford and Selbyville, Delaware.

WHEREAS, the Proposed Settlement Agreement amends Chesapeake's Line Extension Policy as follows: (1) for prospective customers located within the Eastern Sussex County Expansion Area, Chesapeake will use a debt rate of 3.75% and a rate of return of 7.77% to assess the economics of a main extension, rather than its approved cost of debt and equity rates; (2) with respect to existing residential developments, Chesapeake will base its customer conversion projections used in its IRRM solely on those customers who have signed applications to convert their residence to natural gas; (3) for residential customers and residential developments located in the Expansion Area, the Company will take into consideration the seasonal/non-seasonal nature of the customers' use in projecting the revenues to be derived from any extension; (4) if at the time of Chesapeake's next base rate proceeding the results of the aggregated IRRM for all Expansion Area projects indicate that the anticipated rate of return on the aggregated projects is less than 7.77% over the entire life of the projects, then 50% of the shortfall will be deducted from rate base for ratemaking purposes, and the amount of the shortfall will equal the amount of the contribution in aid of construction that would otherwise be necessary for Chesapeake to earn a 7.77% rate of return on the aggregated projects; and

WHEREAS, under the Proposed Settlement Agreement, the Company has withdrawn its request to provide the "Conversion Finance Service" and "Conversion Management Service," but has reserved the right to provide these services on an unregulated basis, in which case neither the

revenues nor expenses associated with these services will be used in setting Chesapeake's rates for public utility service; and

WHEREAS, the Proposed Settlement Agreement requires the Company, after the first full year of implementing the IES rates and annually thereafter, to file reports with the Commission setting forth the amounts collected under each IES rate and the capital investments made in the Expansion Area; and

WHEREAS, under the Proposed Settlement Agreement, no later than 39 months following the date of a final order in this docket approving the proposed Settlement Agreement, Chesapeake will file with the Commission a confidential report containing a summary of the revenues and associated capital expenditures in the Expansion Area, the number of new customers added in the Expansion Area, and the IRRM reports for each expansion into a new or existing residential development; and

WHEREAS, on November 5, 2013, the Commission conducted a duly-noticed public evidentiary hearing on the Proposed Settlement Agreement, at which representatives of the settling parties testified that the Proposed Settlement Agreement was in the public interest and would result in just and reasonable rates;

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

1. That, for the reasons given by the settling parties, the Commission finds that the Proposed Settlement Agreement is in the public interest and will result in just and reasonable rates that will enable Chesapeake to expand the availability of natural gas in Sussex

County, Delaware, thereby providing Sussex County residents and businesses with an additional alternative form of energy.

2. That the Commission hereby approves the Proposed Settlement Agreement, a copy of which is appended hereto as Attachment "A".

3. That the proposed rates set forth in the approved Settlement Agreement shall be effective for bills rendered on or after December 1, 2013, and Chesapeake is directed to file revised tariffs with the Commission within five (5) business days of the date of this Order.

4. That the Public Advocate's Motion to Close the Docket is dismissed as moot.

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/ Dallas Winslow
Chair

/s/ Joann T. Conaway
Commissioner

/s/ Jaymes B. Lester
Commissioner

/s/ Jeffrey J. Clark
Commissioner

Commissioner

ATTEST:

/s/ Alisa Carrow Bentley
Secretary

Attachment "A"

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

**IN THE MATTER OF THE APPLICATION OF)
CHESAPEAKE UTILITIES CORPORATION)
FOR APPROVAL OF NATURAL GAS)
EXPANSION SERVICE OFFERINGS)
(FILED JUNE 25, 2012))**

P.S.C. DOCKET NO. 12-292

PROPOSED SETTLEMENT

On this 27th day of September, 2013, 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 June 25, 2012, Chesapeake filed with the Delaware Public Service Commission (the "Commission") an application (the "Application"), pursuant to 26 *Del. C.* §201, §301, and §304, seeking approval of various natural gas expansion service offerings that, according to Chesapeake, would enable it to extend its natural gas distribution facilities in southeastern Sussex County more efficiently than would otherwise be practical under current tariff provisions.

2. On July 3, 2012, the Commission entered Order No. 8174 pursuant to the authority granted to it by 26 *Del. C.* §306(a)(1) and suspended Chesapeake's application pending

the completion of evidentiary hearings into the justness and reasonableness of the proposed new rates and tariff changes.

3. During the course of this docket, the parties have conducted substantial written discovery in the form of both informal and formal data requests, and have conducted several informal workshops at the Commission's office in Dover, Delaware to address the issues in this docket.

4. 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

5. In the Application, Chesapeake sought approval to implement two optional services referred to in the Application as the "Conversion Finance Service" and "Conversion Management Service". The Settling Parties agree that should Chesapeake decide to offer these optional services in the future, Chesapeake will provide such services on an unregulated basis, in which case neither the revenues nor expenses associated with said services will be used in setting Chesapeake's rates for public utility service provided in Delaware.

6. In the Application, Chesapeake sought approval to implement a Distribution Expansion Service ("DES") rate in the amount of \$15.00 per year that would be applicable to all of Chesapeake's residential customers in Delaware. The Settling Parties agree that Chesapeake's

request to implement the DES rate shall be deemed withdrawn, upon approval of this Settlement by the Commission.

7. In the Application, Chesapeake sought approval to implement certain changes to its Line Extension Policy, including eliminating the 75-foot exception to the application of the current 6X net revenue test for service installations. The Settling Parties agree that Chesapeake's request to eliminate the 75-foot exception shall be deemed withdrawn, upon approval of this Settlement by the Commission, so that Chesapeake's current tariff language regarding the 75-foot exception will remain in place. The Settling Parties agree that upon approval of this Settlement by the Commission, the current 100-foot exception for mainline extensions as described in the Application will be eliminated on a prospective basis.

8. Under Chesapeake's current Line Extension Policy, the economics of main extensions to new developments where the mainline extension will exceed 500 feet are evaluated based on the Company's Internal Rate of Return Model ("IRRM") on file with the Commission. For main extensions of 500 feet or less to new residential developments, or main extensions to existing residential developments, under the Company's existing Line Extension Policy, the Company is required to evaluate the economics of the extension under the current 6X net revenue test. The Settling Parties agree that upon approval of this Settlement by the Commission, the Company will use the IRRM, as modified below, to evaluate the economics of all main extensions to new and existing residential customers and developments.

9. The Settling Parties agree that in the application of the Company's IRRM, as modified herein, for prospective customers located within the Eastern Sussex County Expansion Area ("Expansion Area"), as defined below, in lieu of the Company's rate case approved debt rate of 6.74% and overall rate of return rate of 8.91%, the Company will use a debt rate of 3.75%

and an overall rate of return rate of 7.77%. The Settling Parties further agree that with respect to existing residential developments, in the application of the Company's IRRM, as modified herein, the Company will base its customer conversion projections used in the IRRM solely on those customers who have signed applications to convert their residence to natural gas. The Settling Parties also agree that for residential customers and residential developments located in the Expansion Area, the Company will take into consideration the seasonal/non-seasonal nature of the customers use in projecting the revenues to be derived from any extension. In addition, if at the time of the next base rate proceeding, the results of the aggregated IRRM for all Expansion Area projects demonstrate that the Company earned a rate of return on the aggregated projects less than 7.77%, then 50% of the shortfall will be deducted from rate base for ratemaking purposes. The remaining 50% of the shortfall would be eligible for recovery in such rate proceeding pursuant to the rules and regulations of the Commission and applicable law. The amount of the shortfall 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 a return of 7.77% on the aggregated projects. A copy of the Company's Main Extension Policies incorporating the modifications to the IRRM set forth above is attached hereto as Exhibit A.

10. The Settling Parties agree that in the Expansion Area, the Company will charge an Infrastructure Expansion Service ("IES") Rate to all new Residential, General Service, and Medium Volume Service customers. Revenues collected through the IES Rates will be utilized by Chesapeake to enable Chesapeake to extend its natural gas distribution system in the Expansion Area. Unless provided by further order of the Commission, the IES Rates will remain in place for a period of time to ensure an appropriate level of rate and cost recovery related to the distribution system infrastructure established in the Expansion Area. Nothing contained herein,

however, precludes the Company from filing an application with the Commission seeking approval to change or modify the IES structure or rates. The IES Rates will be designed to collect the following additional annual revenues in the customer charge component of the rate: RS-1 customers - \$72.00; RS-2 customers - \$225.00; GS customers - \$360.00; MV customers - \$1,125.00. Tariff sheets incorporating the new IES rates for the Expansion Area are attached hereto as Exhibit B.

11. The Company agrees that after the first full year of implementing the IES rates, and each year thereafter, the Company will submit annual reports to the Commission setting forth the amounts collected under each IES rate and the capital investments made by the Company in the Expansion Area. No later than thirty nine (39) months following the date of the final order in this docket approving this Proposed Settlement, the Company will file with the Commission, on a confidential basis, a comprehensive report setting forth the revenues and associated capital expenditures in the Expansion Area, the number of new customers added in the Expansion Area, and the IRRM reports for each expansion. The reports submitted or filed under this paragraph shall be provided to each party in this proceeding on a confidential basis in accordance with the Agreement to Protect Confidential Information. If requested to do so by the Commission, Chesapeake will open up a docket for the purpose of reviewing and evaluating the IES rates and IRRM.

12. As used herein, the "Expansion Area" shall mean the area east of Chesapeake's district regulator station located on Route 9 in Lewes, Delaware that is connected to Chesapeake's distribution main *and* any area that is connected to Chesapeake's distribution main behind the three (3) Eastern Shore Natural Gas transmission pipeline City Gates located in

Dagsboro, Frankford, and Selbyville, Delaware. A map depicting the Expansion Area is attached hereto as Exhibit C.

13. The Settling Parties agree that the current Experimental Area Extension tariff provisions set forth in Section 6.4 of the Company's tariff shall be deleted.

14. 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.

III. Additional Provisions

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

16. This Settlement shall not set a precedent and no Settling Party shall be prohibited from arguing a different policy or position before the Commission in any future proceeding. 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.

17. The terms of this Settlement will remain in effect until changed by an order of the Commission, and the Commission shall retain jurisdiction over this Settlement. All statutory procedures and remedies shall be available to the Parties to ensure that rates are just and reasonable, including without limitation 26 *Del. C.* §§304, 309-311.

18. This Settlement 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 Settlement, provided that the original signature of each Settling Party is delivered to the Commission's offices before its consideration of this Agreement. Copies of this Settlement executed in counterpart shall constitute one agreement. Each signatory executing this Settlement warrants and represents that he or she has been duly authorized and empowered to execute this Settlement on behalf of the respective Settling Party.

IN WITNESS WHEREOF, intending to bind themselves and their successors and assigns, the undersigned Settling Parties have caused this Settlement to be signed by their duly-authorized representatives.

Dated: 9/25/13

Chesapeake Utilities Corporation

By: Jeffrey R. Tietboll

Dated: 9/25/13

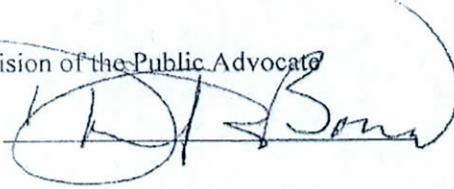
Delaware Public Service Commission Staff

By: Connie S. McJowell

Dated: 9-27-13

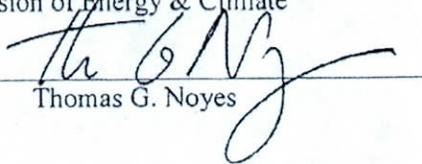
Division of the Public Advocate

By:

A handwritten signature in black ink, appearing to read "K. J. [unclear]", written over a horizontal line.

Dated: Sept. 26, 2013

Delaware Department of Natural Resources
And Environmental Control
Division of Energy & Climate

By: 
Thomas G. Noyes

Delaware Association of Alternative Energy
Providers

Dated: 9/27/13

By: 

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PSC DKT NO. 12-292

EXHIBIT A

CHESAPEAKE UTILITIES CORPORATION
DELAWARE DIVISION
PSC DOCKET NO. 12-292

MAIN EXTENSION POLICIES

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 commercial and industrial main extensions. The Company will utilize an Internal Rate of Return Model ("IRR") in the economic analysis of main extensions to serve both new and existing residential developments.

2. Parameters of the Net Revenue Test

A. Number of Customers

For 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.

3. Parameters of the IRRM

A. Number of Customers

For existing customer developments, the estimated number of residential heating customers will be based on the number of customers intending to convert to natural gas service who have signed an application for natural gas service with the Company.

For new residential developments, 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:

Potential Customers	Buildout Period
0 - 50	1 year
51 - 100	2 years

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MAIN EXTENSION POLICIES

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

- (a) **Customers located in the southeastern Sussex County, Delaware, expansion area:** The estimated annual non-fuel revenue per residential customer will be based upon the potential customer's consumption, on a case-by-case basis, in addition to the estimated rate schedule for the customers in the residential subdivision(s). In evaluating a potential customer's consumption, the Company will take into consideration whether or not the customer is or will be a seasonal customer.
- (b) **For all other customers:** 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).

C. 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.

D. Service Installation and Meter Installation

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MAIN EXTENSION POLICIES

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 IRRM 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

- (a) **Customers located in the southeastern Sussex County, Delaware, expansion area:** The capital structure and associated rate of return for a given capital project will be based on the Company's capital structure and cost of equity capital approved in the Company's most recent base rate proceeding before the Commission. The cost of long term debt will be set at 3.75%.
- (b) **For all other customers:** 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.

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.~~

Issue Date:

Effective Date:

Authorization:

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

The economic evaluation criteria for installing natural gas service to an existing 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. 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.

Issue Date:
Effective Date:
Authorization:

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.~~

6.4 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.

Issue Date:

Effective Date:

Authorization:

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.~~

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.

Issue Date:
Effective Date:
Authorization:

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.

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Issue Date:
Effective Date:
Authorization:

PSC DKT NO. 12-292

EXHIBIT B

RATE SCHEDULE "ERS-1"

EXPANSION AREA RESIDENTIAL SERVICE – 1

AVAILABILITY

This rate schedule is available to any individually metered customer within the southeastern Sussex County, Delaware, expansion area 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 southeastern Sussex County, Delaware, expansion area is defined as the area east of Chesapeake's district regulator station located on Route 9 in Lewes, Delaware, that is connected to Chesapeake's distribution main and any area that is connected to Chesapeake's distribution main behind the three Eastern Shore Natural Gas transmission pipeline City Gates located in Dagsboro, Frankford, and Selbyville, Delaware. 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. 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.

<u>Customer Charge:</u>	<u>\$16.50 per month</u>
<u>First 20 Ccf</u>	<u>\$0.607 per Ccf</u>
<u>Next 30 Ccf</u>	<u>\$0.280 per Ccf</u>
<u>Over 50 Ccf</u>	<u>\$0.170 per Ccf</u>

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" provided on Sheet No. 42.

PAYMENT TERMS

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

Issue Date:
Effective Date:
Authorization:

RATE SCHEDULE "ERS-1"

EXPANSION AREA RESIDENTIAL SERVICE – 1
(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.
- (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.

Issue Date:
Effective Date:
Authorization:

RATE SCHEDULE "ERS-2"

EXPANSION AREA RESIDENTIAL SERVICE – 2

AVAILABILITY

This rate schedule is available to any individually metered customer within the southeastern Sussex County, Delaware, expansion area 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 southeastern Sussex County, Delaware, expansion area is defined as the area east of Chesapeake's district regulator station located on Route 9 in Lewes, Delaware, that is connected to Chesapeake's distribution main and any area that is connected to Chesapeake's distribution main behind the three Eastern Shore Natural Gas transmission pipeline City Gates located in Dagsboro, Frankford, and Selbyville, Delaware. 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 consumptions warrant such a change. A Customer on ERS-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 ERS-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.

<u>Customer Charge:</u>	<u>\$31.75 per month</u>
<u>First 20 Ccf</u>	<u>\$0.578 per Ccf</u>
<u>Next 30 Ccf</u>	<u>\$0.319 per Ccf</u>
<u>Over 50 Ccf</u>	<u>\$0.132 per Ccf</u>

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" provided on Sheet No. 42.

PAYMENT TERMS

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

Issue Date:
Effective Date:
Authorization:

RATE SCHEDULE "ERS-2"

EXPANSION AREA RESIDENTIAL SERVICE – 2
(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.
- (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.

Issue Date:
Effective Date:
Authorization:

RATE SCHEDULE "EGS"

EXPANSION AREA GENERAL SERVICE

AVAILABILITY

This rate schedule is available to any customer within the southeastern Sussex County, Delaware, expansion area using gas for commercial and/or industrial purposes with an annual consumption of less than 4,000 Ccf. The southeastern Sussex County, Delaware, expansion area is defined as the area east of Chesapeake's district regulator station located on Route 9 in Lewes, Delaware, that is connected to Chesapeake's distribution main and any area that is connected to Chesapeake's distribution main behind the three Eastern Shore Natural Gas transmission pipeline City Gates located in Dagsboro, Frankford, and Selbyville, Delaware. 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 customer's location apply to all customers served under this rate schedule.

<u>Customer Charge:</u>	<u>\$56.00 per month</u>
<u>First 20 Ccf</u>	<u>\$0.447 per Ccf</u>
<u>Next 30 Ccf</u>	<u>\$0.278 per Ccf</u>
<u>Over 50 Ccf</u>	<u>\$0.140 per Ccf</u>

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 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: For

Authorization: _____

RATE SCHEDULE "EGS"

EXPANSION AREA 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.
- (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.

Issue Date:
Effective Date:
Authorization:

RATE SCHEDULE "EMVS"

EXPANSION AREA MEDIUM VOLUME SERVICE

AVAILABILITY

This rate schedule is available to any customer within the southeastern Sussex County, Delaware, expansion area 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 southeastern Sussex County, Delaware, expansion area is defined as the area east of Chesapeake's district regulator station located on Route 9 in Lewes, Delaware, that is connected to Chesapeake's distribution main and any area that is connected to Chesapeake's distribution main behind the three Eastern Shore Natural Gas transmission pipeline City Gates located in Dagsboro, Frankford, and Selbyville, Delaware. 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 Rate Schedule EGS 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 rate schedule EGS 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.

<u>Customer Charge:</u>	<u>\$158.75 per month</u>
<u>First 200 Ccf</u>	<u>\$0.227 per Ccf</u>
<u>Over 200 Ccf</u>	<u>\$0.115 per Ccf</u>

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 "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.

Issue Date: _____

Effective Date: _____

Authorization: _____

RATE SCHEDULE "EMVS"

EXPANSION AREA MEDIUM VOLUME SERVICE
(Continued)

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.
- (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.

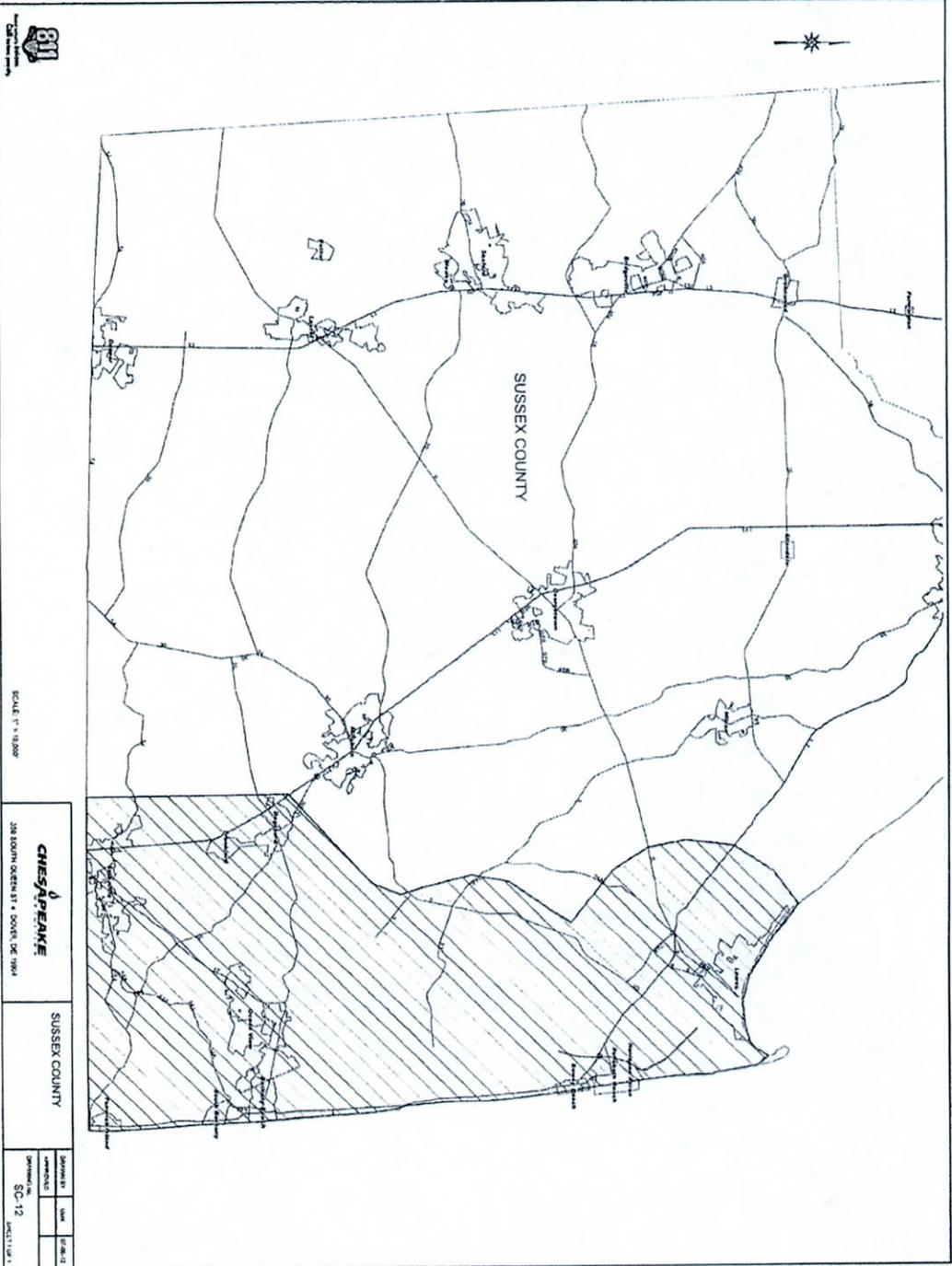
Issue Date:

Effective Date:

Authorization:

PSC DKT NO. 12-292

EXHIBIT C



SCALE 1" = 1.25 MILES

CHESAPEAKE
 200 NORTH GREEN ST. • DOVER, DE 19904

SUSSEX COUNTY

DATE	12/28/11
PROJECT NO.	SC-12
PROJECT NAME	SECTION 1