

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF)
CHESAPEAKE UTILITIES CORPORATION FOR) PSC DOCKET NO. 10-187
APPROVAL OF THE ISSUANCE OF)
LONG-TERM DEBT (Filed May 25, 2010))

ORDER NO. 7787

AND NOW, this 15th day of June, 2010:

1. On May 25, 2010, Chesapeake Utilities Corporation ("Chesapeake" or the "Company") filed with the Delaware Public Service Commission (the "Commission"), pursuant to 26 Del. C. §215, an application (the "Application") seeking approval of the issuance of up to \$36 million of Chesapeake long-term debt securities.

2. In its Application, Chesapeake stated that on February 24, 2010, its Board of Directors authorized the Company to proceed with the issuance of unsecured long-term debt. Subsequently, on April 9, 2010, it entered into an agreement in principle ("AIP") with Metropolitan Life Insurance Company ("Metropolitan Life"), in which Metropolitan Life will purchase from the Company unsecured long-term debt in the principal amount of \$36 million with a maturity of 15 years. (Application at 2).

3. Under the terms of the AIP, the first \$29 million of the debt will be purchased, at the Company's discretion, between approximately June 30, 2010 and June 30, 2012, and the remaining \$7 million will be purchased by May 31, 2013. Both purchases will require Metropolitan Life to provide the Company with 30 days' advance notice. Chesapeake will pay interest on the unpaid amount of debt semi-annually. Chesapeake states that it intends to use the proceeds

to the sale of this long-term debt to retire existing long-term secured debt of its subsidiary, Florida Public Utilities Company ("FPU"). (Application at 2).¹

4. According to the Application, Chesapeake selected the unsecured long-term debt financing because it is consistent with the Company's current debt covenants, which limit the amount of secured debt Chesapeake can issue, and because its terms are more favorable than the terms of the debt it will be replacing. The Company explained that when it acquired FPU in 2009, its Senior Noteholders and management amended the then-existing debt covenants to temporarily allow the current level of secured subsidiary debt to tangible net worth to exceed the 20% limit established in those covenants. The proposed issuance of long-term debt brings Chesapeake back within the 20% limit as set forth in those covenants. (Application at 3). In addition, the interest rates on the proposed debt issuances are competitive: the interest rate on the \$29 million issuance is 5.68% (6.13% if it is not taken within the first year of availability), compared to the coupon rate of 5.88%, and the remaining \$7 million issuance has an interest rate of 6.43%, compared to an average 9.8% rate on the debt to be redeemed in May 2013. (Application at 3).

5. The anticipated closing date for the AIP is June 30, 2010. Funding will occur, at the Company's discretion, between June 2010 and

¹ In Docket No. 09-215 (Order No. 7591 dated June 16, 2009), the Commission approved Chesapeake's application to issue up to 2.6 million shares of common stock in exchange for all of the outstanding shares of FPU. That merger concluded on October 28, 2009.

June 2012 for the first \$29 million and prior to May 2013 for the remaining \$7 million. (Application at 3).

6. 26 *Del. C.* §215(d) authorizes the Commission to investigate and hold such hearings on this Application as it deems necessary and, thereafter, to grant the Application in whole or in part with such modification and upon such terms and conditions as may be appropriate. Section 215(d) further requires the Commission to approve any issuance of bonds or other evidences of indebtedness for which approval is required under Section 215(a)(2) when the proposed issuances are to be made in accordance with law, for proper purposes, and are consistent with the public interest.

7. Section 215(d) further requires the Commission to grant, modify, refuse, or prescribe appropriate terms and conditions with respect to every such application within 30 days of its filing. In the absence of such action within 30 days, the issuance described in the application will be deemed to be approved.

8. Commission Staff has examined the proposed issuances and the schedules and exhibits thereto, and conducted discovery on certain issues raised by the Application. As a result of its examination, Staff has determined, pursuant to 26 *Del. C.* §215(d), that the Company has complied with the requirements of Section 215 and furthermore, that the proposed issuances will be made in accordance with law, will be made for a proper purpose, and will be consistent with the public interest. Accordingly, Staff has recommended that the Commission

approve Chesapeake's Application. Staff further recommends that the Commission direct Chesapeake to file the final Note Agreement(s) within 30 days of the closing of the issuance(s) of any debt securities described in the Application.

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

1. That, the Commission having independently reviewed this matter and having determined that public notice and hearing are not required, finds that the issuance by Chesapeake Utilities Corporation to Metropolitan Life Insurance Company of unsecured long-term debt securities with a maturity of 15 years in the principal amount of \$36 million will be made in accordance with law, will be made for a proper purpose, and will be consistent with the public interest. The Application is therefore approved.

2. That nothing in this Order shall be construed as a guarantee, warranty, or representation by the State of Delaware or by any agency, commission, or department thereof with respect to the indebtedness of Chesapeake Utilities Corporation that may be issued or incurred under the Application herein approved.

3. That Chesapeake Utilities Corporation shall file the final Note Agreement(s) for the Application within 30 days following the closing of the issuance(s) of the debt securities described in the Application.

4. That Chesapeake Utilities Corporation is hereby placed on notice that the costs of the proceeding will be charged to it under the provisions of 26 Del. C. §114(b)(1).

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

BY ORDER OF THE COMMISSION:

/s/ Arnetta McRae
Chair

/s/ Joann T. Conaway
Commissioner

/s/ Jaymes B. Lester
Commissioner

/s/ Dallas Winslow
Commissioner

/s/ Jeffrey J. Clark
Commissioner

ATTEST:

/s/ Alisa Carrow Bentley
Secretary