

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF)
CHESAPEAKE UTILITIES CORPORATION FOR)
APPROVAL OF A CHANGE IN ITS GAS SALES) PSC DOCKET NO. 11-384F
SERVICE RATES ("GSR") TO BE EFFECTIVE)
NOVEMBER 1, 2011)
(FILED SEPTEMBER 1, 2011))

ORDER NO. 8168

AND NOW, this 17th day of July, 2012

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 Attachment "A";

AND WHEREAS, the Hearing Examiner recommends that the Gas Sales Service Rates ("GSR") proposed by Chesapeake Utilities Corporation in its September 1, 2011 Application be approved as just and reasonable for service rendered on and after November 1, 2011;

AND WHEREAS, the Hearing Examiner recommends that the Proposed Settlement Agreement dated May 3, 2012 which is endorsed by all the parties, and which is attached to the original hereof as Attachment "B", be approved as reasonable and in the public interest;

NOW, THEREFORE, IT IS HEREBY ORDERED BY THE AFFIRMATIVE VOTE OF NO FEWER THAN THREE COMMISSIONERS:

1. That, by and in accordance with the affirmative vote of a majority of the Commissioners, the Commission hereby adopts the Findings and Recommendations of the Hearing Examiner, appended to the original hereof as Attachment "A".

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

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

<u>Service</u>	<u>Effective for Service Rendered On and After November 1, 2011</u>
RS-1, RS-2, GS, MVS, LVS	\$1.027
GLR, GLO	\$0.592
HLFS	\$0.830
Firm Balancing Rate (LVS)	\$0.063
Firm Balancing Rate (HLFS)	\$0.021
Interruptible Balancing Rate (ITS)	\$0.001

4. That all Tariff revisions filed by the Company with this Commission on September 1, 2011, and the revised rates and charges contained therein are approved, and shall be effective on a permanent basis for gas service rendered on or after November 1, 2011, until further Order of the Commission. No later than two (2) business days for the date of this Order, the Company shall file revised Tariffs which comply with this Order.

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

A T T A C H M E N T "A"
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FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

DATE: June 26, 2012

MARK LAWRENCE
HEARING EXAMINER

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FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

Mark Lawrence, duly appointed Hearing Examiner in this docket pursuant to 26 Del. C. §502 and 29 Del. C. Ch. 101, by Commission Order No. 8042 dated September 1, 2011, reports to the Commission as follows:

I. APPEARANCES

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

Parkowski, Guerke & Swayze, P.A.,

BY: WILLIAM A. DENMAN, ESQUIRE

Jennifer A. Clausius, Manager of Pricing & Regulation

Marie Kozel, Gas Supply Analyst

Sarah E. Hardy, Regulatory Analyst

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

Julie Donoghue, ESQUIRE, Deputy Attorney General

Susan B. Neidig, Senior Regulatory Policy Administrator

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

BY: REGINA A. IORII, ESQUIRE, Deputy Attorney General

Michael D. Sheehy, THE PUBLIC ADVOCATE

Andrea C. Crane, The Columbia Group, Inc., Consultant

II. BACKGROUND

A. Application

1. On September 1, 2011, Chesapeake applied to the Delaware Public Service Commission ("Commission") for approval of changes to its Gas Sales Service Rates ("GSR") to become effective for gas service provided from November 1, 2011 through October 31, 2012.¹ (See Company's Application, Exhibit 3.) The GSR rates are the component of a customer's bill which reflects the costs the Company expects to incur to purchase the supply of natural gas needed to serve its customers.

2. The proposed rates, as compared to the rates in effect since November 1, 2010, are as follows:

<u>Service Classification</u>	<u>Effective 11/01/10 (approved)</u>	<u>Effective 11/01/11 (proposed)</u>
RS-1, RS-2, GS, MVS, LVS	\$1.035	\$1.027
GLR, GLO	\$0.668	\$0.592
HLFS	\$0.863	\$0.830
Firm Balancing Rate (LVS)	\$0.054	\$0.063
Firm Balancing Rate (HLFS)	\$0.010	\$0.021
Interruptible Balancing Rate (ITS)	\$0.001	\$0.001

¹ Chesapeake's Tariff No. 42 requires the Company to file an annual Gas Sales Service Rates ("GSR") Application sixty (60) days prior to November 1st of each year. Thus, Chesapeake's Application was timely filed.

3. According to Chesapeake, under the proposed rates, an average RS-2 residential heating customer using 700 Ccf of gas per year would experience a decrease of \$0.50 (or 1%) in average monthly billings when compared with the rate in effect prior to November 1, 2011. (See Company's Application, Exhibit 3, §3.) During the winter season, an RS-2 customer using 110 Ccf of gas per month would experience a decrease of \$0.90 (or 1%) per winter month. (*Id.*) As described later herein, in its Application, the Company also sought to increase the HLFS Firm Balancing Rate and the LVS Firm Balancing Rate (LVS), but its Interruptible Balancing Rate will remain unchanged. (*Id.* at §2.)

4. Pursuant to 26 Del. C. §§304 and 306, the Commission, by PSC Order No. 8042 (September 20, 2011), permitted the above proposed rate changes to go into effect on November 1, 2011, on a temporary basis subject to refund, pending full evidentiary hearings. In PSC Order No. 8042, the Commission also designated me as Hearing Examiner to conduct hearings and report to the Commission with his proposed findings and Recommendations based on the evidence presented.

5. On October 31, 2011, the Division of Public Advocate ("Public Advocate" or "DPA") exercised its statutory right to intervene in this case, as permitted by 29 Del. C. §8716(d)(1).

B. Public Comment Session

6. A duly-noticed² Public Comment Session concerning the Company's Application was held at the Commission's office in Dover on

² The Affidavits of Publication of the Notices of the Public Comment Hearing and the Evidentiary Hearing from the *Delaware State News* and *The News Journal* newspapers are

Thursday, December 1, 2011 at 7:00 p.m. No members of the public attended.

III. SUMMARY OF THE EVIDENCE

A. Evidentiary Hearing

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

8. The evidentiary hearing was held on Thursday, May 4, 2012 beginning at 10 a.m. The record, as developed at the evidentiary hearing, consists of a verbatim transcript of twenty-seven (27) pages and nine (9) hearing exhibits. The parties stipulated to the admissibility of all hearing exhibits. (Tr. 22-23.) The evidence from the evidentiary hearing is discussed in Section IV of this Report.

B. Chesapeake's Direct Testimony

9. Along with its Application, the Company filed the direct testimonies of Jennifer Clausius, the Manager of Pricing and Regulation (Exh.4), Marie E. Kozel, Gas Supply Analyst (Exh.5) and Sarah E. Hardy, Regulatory Analyst. (Exh.6)

10. Testimony of Jennifer A. Clausius. The GSR Rates. Jennifer A. Clausius, Chesapeake's Manager of Pricing and Regulation, submitted pre-filed direct testimony dated September 1, 2011. (Exh. 4.) Ms. Clausius also sponsored the Company's schedules filed in the case. (*Id.*) Ms. Clausius' testimony first addressed the Company's calculation of the proposed GSR and balancing rates contained in the Company's Application. (Exh.4, p.4 LL 22-23 - p.5 LL 1-20.) The

included in the record as composite Exhibit 1. The Evidentiary Hearing Exhibits will be cited as "Exh.____" and references to the hearing transcript will be cited as "T.-page#." Schedules from the Company's Application will be cited as "Sch."

proposed GSR and balancing rates would be effective for the twelve-month period of November 1, 2011 through October 31, 2012. (*Id.* at p.5 LL 1-4.) These rates are based upon the projected sales data and gas costs for the same twelve (12) month period. (Hardy, Exh. 6, p.4 LL 20-23 - p.5 L1.)

11. According to the Company, the proposed decrease in GSR rates during this period reflects anticipated decreases of \$5,426,113 in variable or commodity gas costs and \$228,442 in fixed gas costs since the Company's GSR last changed on November 1, 2010. (*Id.* at p.5 LL 13-21.) The projected decrease in variable or commodity gas costs is primarily due to decreasing prices. (*Id.* at p.5 LL 13-18.) The projected decrease in fixed costs is primarily attributable to "an increase in the balancing rate credit to firm rate payers as a result of an increase in the number of customers purchasing their gas through third party suppliers." (*Id.* at p.5 LL 20-22-p.6 LL 1-2.) Finally, during this GSR period, the Company also projects a decline in total sales volume from 40,229,580 Ccf to 34,551,307 Ccf. (*Id.* at p.6 LL 3-5; Clausius, Exh. 4. Sch. E.)

12. The projected gas costs in this GSR docket are the same gas costs used to calculate transportation balancing rates. (*Id.* at p.21, LL 11-13) In its Application, the Company seeks to increase the HLFS Firm Balancing Rate and the LVS Firm Balancing Rate, but its Interruptible Balancing Rate will remain the same. (See Company's Application, Exh. 3, §2.)

13. Revenue Margin Sharing. Ms. Clausius also testified regarding the Company's revenue margin sharing requirements. (Exh.4,

pp. 9-11 & Sch. A-2.) Shared margins include margins with different thresholds at which sharing begins, which the Company receives from: a) interruptible transportation service; b) off-system sales; or c) capacity releases. (*Id.* at p.9 LL 15-18.)

14. As to a) above, the Company is permitted to retain 100% of all margins received from interruptible transportation customers up to \$675,000 per year and 10% of all interruptible transportation margins exceeding \$675,000. (*Id.* at p.9 LL 15-23 - p.10 LL 1-4.) According to Ms. Clausius, "the Company's projected level of interruptible margins is not expected to reach the threshold whereby margin would be shared; however ... [if the threshold is reached], the Company will share those margins with the firm ratepayers according to the margin sharing mechanism." (*Id.* at p.10 LL 9-14 & Sch. A.2; Tr.-31.) As to b) above, the Company does not project any off-system sales for this GSR period. (Tr.-32; Hardy, Exh. 6, p.10, LL 9-10.)

15. As to c) above, capacity releases, effective November 1, 2009, in the gas sales rates ("GSR"), the Company was required to credit 10% of the capacity release credits received from its Asset Manager to the Company, with the remaining 90% credited to its Delaware ratepayers. PSC Order No. 7607 (July 7, 2009); Clausius, Exh. 4, p.11 LL 5-7.) In this GSR period, the Company projects a total of \$420,088 of these capacity release credits from the Asset Manager, with 90% or approximately \$378,079 being credited to the ratepayers. (Clausius, Exh. 4. Sch. A.2.)

16. Regarding capacity releases from Chesapeake's subsidiary ESNG to the Delaware Division transportation customers, the Company

continues to credit 100% to the Delaware firm sales customers due to the market on the Eastern Shore for this capacity. (Clausius, Exh.4, p.10, LL 11-18.) For the twelve-month period ending October 2012, the Company estimates \$5,076,050 of this type of capacity release credit. (Hardy, Exh. 6, p.10, LL 18-21; Exh. 4-Schs. B, I.) A total of 26% of the Company's peak day firm requirements of 70,163 Dts per day are projected to be released to Delaware transportation customers. (*Id.* at p.10 L 11 - p.11 LL 3.)

17. Eastern Sussex County Capacity Charges. According to Ms. Clausius, in the prior GSR case, the Company agreed to "provide an annual status report on its expansion activities in eastern Sussex County as part of the Company's main extension report that is filed in the spring of each year." (See PSC Order No. 7974, June 7, 2011; HE's Report, Exh. A., ¶10.) Since the Company has not since filed a main extension report, "[t]he Company has included Schedule N as part of this filing which lists monthly levels of customers, their Mcf consumption, and the level of Eastern Shore capacity allocated to serving these customers." Clausius, Exh. 4, p.7 LL 20-22 - p.8 L 1.) Effective November 1, 2011, the Company estimates that it will have 9,154 Dt of firm transportation entitlements at delivery points located in Eastern Sussex County on the ESNG Pipeline. (*Id.* at Sch. N.)

18. Deferment & Reimbursement of Capacity & E3 Project Costs. Ms. Clausius testified as follows: a) The Company is continuing to defer \$275,000 in capacity costs (without carrying costs) over a seven (7) year period since November, 2008; and b) the Company is seeking

reimbursement of \$216,040 of the Pre-Certification costs incurred by the Company for the Eastern Shore Energylink Expansion Project ("the E3 Project"), which was terminated in May, 2009.³ (Clausius, Exh. 4, pp 11-12; Sch. B.)

19. Budget Billing for Customers. Ms. Clausius testified about the Company's budget billing program. (*Id.* at p.8, L 13.) This program currently allows the Company's customers to pay predictable monthly payments from September through May to help avoid receiving large winter gas bills which they may have trouble paying. (*Id.* at LL 16-18.) The Company again informed its customers about the budget billing program in the May, June, July and August 2011 bills. (*Id.* at LL 20-21.)

20. Testimony of Marie Kozel. The Company also pre-filed the testimony of Gas Supply Analyst, Marie E. Kozel. (Exh.5) In addition to testifying as to the Company's gas supply and costs, Ms. Kozel also testified as to gas procurement and gas storage activities. (*Id.*)

21. According to Ms. Kozel, the Company is currently receiving transportation and storage services from five (5) interstate pipeline suppliers: Transcontinental Gas Pipe Line Company, LLC ("Transco"), Columbia Gas Transmission, LLC ("Columbia"), Columbia Gulf Transmission Company ("Columbia Gulf"), Texas Eastern Transmission, LP ("TETCO") and a Company subsidiary, ESNG. (*Id.* at p.4, LL 9-14.)

³ Due to insufficient customer commitments and projected capital increases, the E3 Project, a natural gas pipeline, was terminated by Eastern Shore Natural Gas ("ESNG"), a Chesapeake subsidiary. (See PSC Order No. 7837) (Sept 7, 2010), HE's Report \$14.) The Pre-Certification costs (engineering, etc.) among all E3 project participants totaled approximately \$3.1 million, of which Chesapeake's Delaware Division's apportioned share was originally \$1,149,999. (*Id.* at HE's Report \$13, FERC's August 1, 2006 Order, \$5.) The E3 project would have provided Chesapeake with a second natural gas pipeline to serve residents of the Delmarva Peninsula. (*Id.* at HE's Report \$14.)

Columbia Gulf and ESNG have rate cases proposing new rate designs pending before the Federal Energy Regulatory Commission ("FERC"). (*Id.* at pp. 4-6.) In both cases, interim rates have been placed into effect.⁴

22. Effective November 1, 2010, the Company's maximum daily upstream entitlements were 52,253 Dts. (*Id.* at p.6, LL 4-6; Sch. L.) Of this amount, effective January 1, 2011, the Company obtained 15,000 Dts on the TETCO pipeline and 15,000 on ESNG's pipeline. (*Id.* at p.6, LL 11-13; Sch. L.) According to Ms. Kozel, effective November 1, 2011, the Company anticipated obtaining an additional 11,250 Dts on the TETCO pipeline and 4,050 Dts on ESNG's pipeline.⁵ (*Id.* at LL 18-20; Sch. L.) ESNG does not provide additional deliverability on a "design day."⁶ (*Id.* at LL 17-18.)

23. TETCO & ESNG Capacity. In November, 2009, since the Company was deficient in upstream capacity on ESNG and was relying on more expensive bundled peaking supply, the Company executed a Precedent Agreement with Spectra Energy for 30,000 Dts of capacity on Spectra's Texas Eastern Transmission, LP ("TETCO") pipeline.⁷ (*Id.* at

⁴ A description of the proposed new rate designs is located on p.5 of Ms. Kozel's testimony. (Exh. 5.) "FERC" is the Federal Energy Regulatory Commission which regulates, among other things, the interstate transmission of natural gas. See FERC Docket No. CP10-75-000 regarding documents filed in the ESNG docket.

⁵ Chesapeake relinquished 7,500 Dts of capacity on the Columbia pipeline and 750 Dts of capacity on ESNG's pipeline effective November 1, 2011. (*Id.* at LL 20-22.)

⁶ "The design day requirement is the capacity that the Company would need to transport its estimated volume of firm gas customers under extremely cold conditions." (Crane, Exh. 8, p.16, LL 18-20.) For an in-depth discussion of the design day requirement, see pages 17-18 of the Public Advocate's Witness Crane's testimony. (Exh. 8.)

⁷ TETCO supplies natural gas originating from the Rocky Mountains and the Marcellus Shale. (*Id.* at p.7, LL 17-19.) Hence, TETCO is one of the Company's supply sources "other than primarily from the Gulf of Mexico," thereby diversifying the Company's supply sources for a design day and otherwise. (*Id.* at p.7, LL 11-17.) Since the TETCO line did not directly interconnect with the ESNG transmission line, the Company executed a precedent agreement with ESNG to extend its transmission facilities to a point near Honeybrook, Pennsylvania where it would interconnect with the TETCO line. (*Id.*)

p.7, LL 7-11.) The Precedent Agreement is not planned to be fully effective until November, 2012. (*Id.* at LL 19-20.) However, the Company obtained a total of 26,250 Dts of interim capacity on TETCO and ESNG as of November, 2011. (*Id.* at LL 19-22; p.8, LL 1-2.)

24. Describing the Company's recent capacity changes, Ms. Kozel testified as follows:

"the interim capacity [from TETCO & ESNG] allows the Company access to a diverse supply source and eliminates the Company's reliance on bundled peaking supply. Chesapeake also requested 4,050 Dts of ESNG capacity at various delivery points in Sussex County, Delaware along with three new gate stations. Chesapeake requested this capacity so that it could continue to expand natural gas service into portions of eastern Sussex County where it is not currently available. This capacity will also provide additional capacity where customer load was exceeding Chesapeake's contracted quantities. The receipt point for this capacity is the TETCO interconnect. Chesapeake did not renew 750 Dts of capacity in a different delivery point area on a contract that expire[d] on October 31, 2011. The Company also chose not to renew 7,500 Dts of capacity on the Columbia Line due to the increased capacity available on TETCO." (*Id.* at p.8, LL 3-15.)

25. Gas Storage. To meet its customers' winter gas needs, the Company has six (6) storage sources. (*Id.* at pp. 8-10.) In addition to three (3) sources on ESNG which the Company itself manages, the Company's Asset Manager directs three (3) additional sources on behalf of the Company. (*Id.* at p.8, LL 21-22.)

26. Ms. Kozel testified that the three (3) storage services currently managed by the Company's Asset Manager are: Eminence Storage Service ("ESS"), Washington Storage Service ("WSS") and Firm Storage Service ("FSS"). (*Id.* at p.9, LL 1-3.) Except for FSS, these storage services are "base loaded" as firm, fixed sources for injection and withdrawal. (*Id.* at p.9, LL 5-7.)

27. The Company transferred the gas inventory managed by the Asset Manager, pursuant to an Agreement with the Asset Manager which expires on March 31, 2013.⁸ (*Id.* at LL 3-5; Exh. 2, ¶10.) Pursuant to the parties' Agreement, the Company has the right to receive gas upon demand. (*Id.* at LL 5-8.) The Company specifies the amount of gas to be injected or withdrawn. (*Id.* at L 8.) However, subject to the Company's storage and tariff limitations, in its discretion, the Asset Manager retains the right to withdraw and inject gas. (*Id.* at LL 10-13.) The Asset Manager reconciles the paper balance monthly for each storage service it manages. (*Id.* at LL 13-14.)

28. According to Ms. Kozel, the Company also manages three (3) storage services on the ESNG pipeline, including: General Storage Service ("GSS"), Leidy Storage Service ("LSS"), and Liquefied Natural Gas Storage Service ("LGA"). (*Id.* at p.10, LL 10-12.) The Company cannot base-load withdrawals or injections for any of these storage services. (*Id.* at LL 12-13.) GSS provides year-around swing storage while LSS and LGA are seasonal storage facilities permitting

⁸ In addition to managing the Company's gas inventory and some gas storage, the Company's Asset Manager provides capacity management, supply and dispatch scheduling on upstream pipelines, firm and interruptible gas supply, balancing of supply resources, and performs a monthly accounting of these matters. (*Id.* at p.12, LL 19-22, p.13, 1-2.) The parties settled issues related to the Company's Asset Manager, as described in Section IV of this Report. (See Settle Agree. Exhibit. "1", ¶10.)

injections from April through October, and withdrawals from November through March. (*Id.* at LL 14-17.)

29. The Company's Natural Gas Commodity Procurement Plan. Ms. Kozel also testified as to the Company's Natural Gas Commodity Procurement Plan ("the Plan").⁹ (Exh. 5, pp. 11-12.) The Plan specifies when physical gas hedges will be placed.¹⁰ (Crane, Exh. 8, p.29, L 2.) According to Ms. Kozel, the Plan's purpose is to limit the Company's exposure to price fluctuations in the natural gas market, particularly during the winter season. (Kozel, Exh. 5, p.11, LL 6-10.) A detailed description of the Company's hedging requirements can be found in PSC Dockets 06-287F and 09-398F. (*Id.* at p.11, L 22-p.12, LL 1-3.)

30. Testimony of Sarah E. Hardy. According to Regulatory Analyst Sarah Hardy, there are three (3) steps involved in calculating the proposed GSR for the three (3) separate GSR charges: 1) develop the sales and associated gas supply requirements forecast; 2) forecast supplier rates and calculate annual purchased gas costs associated with serving customers; and 3) a calculation of the three (3) separate GSR charges: a fixed rate, a commodity rate and a system average rate. (Hardy, Exh. 6, p.6, LL 12-20.)

31. Regarding (1) above, Ms. Hardy testified that "the sales forecast began with an analysis of the major variables that affect sales volumes." (*Id.* at p.11, LL 13-14.)

⁹ The Plan became effective on or about July 12, 2007. Prior to its current requirements, the Plan was modified on a short-term basis in December, 2008 and again in November, 2009. (*Id.* at p.11, L 22, p.12, LL 1-9.)

¹⁰ "Hedging" in this context is when the Company enters into a transaction which fixes some of its future gas needs at a defined, set price. (*Id.* at LL 17-22.) A hedge is essentially a forward purchase which locks in gas prices over an extended period. (*Id.*)

"These variables include ... the number of customers to be served, the rate schedule classification of those customers (i.e. large volume, high load factor, etc.), temperature, and the larger individual commercial and industrial customer sales volumes or demands. Sales volumes are normalized based on a ten-year average of degree days for the month of July 2001 through June 2011." (*Id.* at LL 14-20.)

32. Next, forecasted sales were developed for the period of November 2011 through October 2012 "based upon the actual sales volumes billed to each customer class during each month for the prior year with adjustments to reflect average temperature, customer growth and customers switching among rate classes." (*Id.* at p.12, LL 6-10, Sch. C-1.)

33. The Company forecasted the following sales for the current GSR period ending October 31, 2012:

- a. An increase of 1,006 RS-2 customers, mostly new customers;
- b. A decrease of 203 RS-1 customers, mostly customers moving from the RS-2 class;
- c. An increase of 35 commercial and industrial customers; and
- d. No significant change in the number of gas lighting customers.¹¹ (*Id.* at p. 12 L 12 - p.13 L 7.)

¹¹ Additionally, during this GSR period, the Company projects a large increase in gas transportation service by its commercial/industrial customers from 2,419,254 Mcf to 3,493,427 Mcf. (*Id.* at p.13 L 9 - p.14 L 7.)

34. Regarding 2) from Paragraph 30 above, in projecting the cost of firm sales, the Company first calculated the proposed cost of gas for the current GSR period and allocated the total projected monthly supply requirements between different categories of gas (commodity and storage) available to meet the projected demand. (Clausius, Exh. 4, Sch. C.2.) Schedule C.2 [projects] the fixed costs of firm transportation on the Columbia, Columbia Gulf, Transco, ESNG and TETCO pipelines and a summary of storage demand and capacity charges." (*Id.* at pp. 1-2.)

35. Also, in projecting the cost of firm sales, the Company calculated the gas commodity costs associated with firm transportation service. (*Id.* at p.4.). Finally, the Company projected the cost of storage gas for withdrawals during this period. (Hardy, Exh. 6, p.16, L 22 - p.17, L 8.) A comprehensive discussion of 3) above, development of a fixed rate, commodity rate and a system average is beyond the scope of this Report, but can be found on pages 17 through 27 Ms. Hardy's direct testimony.

36. As to the increase in firm gas costs, Ms. Hardy concluded as follows:

"Chesapeake anticipates an increase in firm gas costs per Mcf from \$10.6917 per Mcf to \$11.2319 per Mcf or a \$0.5402 per Mcf increase for the twelve months ending October 31, 2012. As indicated on Schedule F, the \$0.5402 per Mcf increase is mainly attributable to a projected increase in fixed gas costs per Mcf based on increased reservation costs for the determination period along with a decrease in the total firm Mcf sales for the twelve months ending October 31, 2012." (*Id.* at p.18, LL 8-14.)

37. As to the increase in the balancing rate for transportation customers in the "LVS" and "HLFS" rate classes, Ms. Hardy concluded as follows: "[t]he primary reason for the increase in the firm balancing rate for transportation customers served under Rate Schedule "LVS" is the increase in the average annual rate per Dt for the fixed gas supply resources from \$120.6180 to \$148.0887. The primary reason for the increase in the firm balancing rate for transportation customers served under Rate Schedule "HLFS" is a decrease in the annual load factor for the class from 65.84% in the last filing to 56.42%, as shown on Schedule J." (*Id.* at p.22, LL 6-12.)

38. Finally, Ms. Hardy testified that "[t]he Company has projected two supplier refunds totaling \$2,750,000 in the GSR calculation for this determination period, and they are included in the Company's total firm gas cost calculation on Schedule B. These supplier refunds represent the Delaware Division's estimated portion of anticipated rate refunds from Eastern Shore and Columbia Gulf rate proceedings [described in Paragraph 21, *supra.*] It is important to note that this is only an estimate and is subject to change based on the outcome of the proceedings. If Chesapeake receives actual supplier refunds during the determination period, they will be credited against the actual gas costs incurred."¹²

C. Staff's Direct Testimony

39. Testimony of Susan B. Neidig. The GSR Rates. Senior Regulatory Policy Administrator Susan B. Neidig filed testimony dated February 23, 2012 (Exh. 9.) Ms. Neidig first reviewed the accuracy of

¹² The parties settled an issue relating to Supplier refunds, as described in Section IV of this Report. (See Settle. Agree, Exhibit "1" hereto, ¶10.)

the Company's proposed GSR and balancing rates, and recommended Commission approval of those rates.¹³

40. ESNG's FERC Base Rate Proceeding. Ms. Neidig also testified as to the resolution of ESNG's FERC base rate proceeding. (*Id.* at pp. 8-12.) According to Ms. Neidig, the major provisions of the Settlement Agreement reached by the parties are:

- a. "Generally, the overall revenue requirement decreased from the as-filed amount by approximately 17%, from \$34,965,639 to \$29,141,000;
- b. Pre-tax return is 13.9%, which included a return on equity of less than 10.5%;
- c. Other than specifying the pre-tax return, a "built-in" interruptible credit of \$300,000, and depreciation and negative salvage rates, the settlement revenue requirement was a black-box settlement;
- d. A new rate design will be implemented, which includes 2 receipt zones and 3 delivery zones. Rates generally increase ... from North to South on the ESNG system. Delmarva Power & Light ("DPL") is contained wholly within Delivery Zone 1. Chesapeake-Delaware Division has approximately 2/3 of its capacity in Delivery Zone 2 and the remaining 1/3 in Delivery Zone 3. Together, DPL's and Chesapeake/Delaware Division's reservations comprise approximately 50% of the total reserved capacity on ESNG's pipeline; and,
- e. With some conditions, there is generally a five year moratorium in effect where ESNG will not make any additional base rate filings." (*Id.* at p.11, LL 1-15.)

¹³ Ms. Neidig noted that Staff's Consultant "Richard LeLash was retained to review overall gas costs, gas purchasing practices and the management of the Company's gas supply as part of this proceeding. He completed his review and conveyed that he had no significant findings or recommendations as a result of his analysis for this GSR application and will not be filing testimony." (*Id.* at p.2, LL 12-16.)

Due to this Settlement, "the Company's gas costs paid to ESNG will increase by approximately \$110,000 over the costs included in the Company's GSR filing." (Crane, Exh. 8, p.21, LL 11-14.)

D. Division of Public Advocate's Direct Testimony

41. Testimony of Andrea C. Crane. The Division of the Public Advocate's ("DPA") Consultant Andrea C. Crane filed testimony dated February 24, 2012. (Exh. 8.) Ms. Crane's testimony addressed the Company's gas supply, gas costs and gas purchasing practices. (*Id.*) Also, Ms. Crane's testimony addressed capacity, procurement and management issues. (*Id.*) Before addressing these issues, however, Ms. Crane described the natural gas industry and the Company's operation.

42. Company's Operation & Industry Background. Although it accesses other pipelines, 100% of the Company's natural gas eventually flows through the interstate pipeline owned by a Company subsidiary, ESNG. (*Id.* at p.8, LL 6-7, 12-13.) ESNG does not offer storage or peaking supply. (*Id.* at LL 8-12.) Chesapeake serves approximately 41,430 customers in all three Delaware counties, of which 91.6% are residential. (*Id.* at p.7, L 7-p.8, L 1.) Although the Company rapidly grew at the rate of 8.7% per year between 2002 and 2008, demand has since considerably slowed, primarily due to the recession.¹⁴

43. Ms. Crane also described the Company's operation, including its relationship with its subsidiary, ESNG:

¹⁴ During this time period, the national average was only 2-3%. (Crane, Exh. 8, p.9, LL 2-3.)

"the Company's GSR includes total firm gas costs of \$36.1 million.¹⁵ Approximately 49.6% of these costs, or \$17.9 million are fixed costs, which the Company must incur, and the ratepayers must pay, regardless of sales. Almost 59% of all fixed costs are paid to the Company's affiliate, ESNG. Thus, approximately 29.3% of all costs included in the GSR are costs paid to an affiliate that will not vary with variations in usage.

44. According to Ms. Crane, the Company has been increasing the amount of its gas costs that are paid to an affiliate. Ms. Crane testified as follows:

"While over the past five years, total gas costs have declined due to decreases in commodity costs, ... fixed costs increased by almost 50%, from \$11.95 million for the twelve months ending October 31, 2008 to an estimated \$17.91 million for the twelve months ending October 31, 2012. The average fixed cost per Mcf has increased from \$3.52 per Mcf to \$5.18 per Mcf. By far, the most significant increases have accrued to the benefit of ESNG. In fact, while total fixed costs have increased by \$5.96 million, \$2.15 million or 36% of this increase has accrued to the benefit of ESNG." (*Id.* at p.20, L 6 - p.21, L 2, Sch. F.)

45. Eastern Sussex County Capacity Charges. Ms. Crane questioned whether or not the Company's forecasts of residential and commercial customer growth for the eastern Sussex County area have been "overly optimistic" in recent years. (*Id.* at pp.9-10, 18-20.) The Company increased its capacity to 9,154 Dths, compared with 2,238 Dths in 2008. (*Id.* at p.19, LL 1-4, Sch. N.) This issue was settled

¹⁵ "All amounts referenced for the period ending October 31, 2012 have been adjusted to reflect the impact of the ESNG refund of \$2.75 million included in Schedule F." (*Id.* at p.20, fn 2.)

by the parties as described in Section IV of this Report. (Settle. Agree, Exhibit "1", ¶9.)

46. Hedging Plan. In her pre-filed testimony, Ms. Crane also opined as to the current requirements of the Company's Hedging Plan on pages 28 through 30 of her pre-filed testimony.¹⁶ According to Ms. Crane, the Company's Gas Hedging Plan is working "relatively well." (*Id.* at p.31, L 17.) "However, given the recent decline in natural gas prices, the parties are discussing whether it would be appropriate to accelerate purchases of natural gas at this time and/or to adopt a dollar-cost averaging mechanism.¹⁷ The parties are monitoring the natural gas market and discussions are continuing." (*Id.* at p.31, LL 17-21.) In fact, the parties subsequently agreed upon this issue as described in Section IV of this Report. (Settle. Agree. Exhibit "1", ¶7.)

47. Supply Plan & Capacity. According to Ms. Crane, the Company has acquired enough capacity for its ordinary operations, as well as a "design day."¹⁸ Ms. Crane testified as follows:

"The Company currently has total ESNG capacity of 70,163 Dths per day and deliverability of another 10,176 Dths per day from on-system propane air plants, for total firm capacity and deliverability of 80,338 Dths. Given its recent acquisition of TETCO upstream capacity, the Company now has 71,003 Dths per day of upstream pipeline capacity available. The Company's current Supply Plan is based on a design day

¹⁶ "Hedging" in this setting is when the Company enters into a transaction which fixes some of its future gas needs at a defined, set price. A hedge is essentially a forward purchase which locks in gas prices over an extended period. (Crane, Exh. 8, pp.28-32.)

¹⁷ "Dollar Cost Averaging" determines hedges based upon the monthly cost of gas purchases, as opposed to defining hedge targets based upon gas volumes. (PSC Order No. 7837 (Sept. 7, 2010) (HE's Report, p.12.))

¹⁸ The design day requirement is the gas that the Company projects its customers would utilize on the coldest day of the year. (Crane, Exh. 8, p.16 L 20 - p.17 L 1.)

requirement of 76,395 Dths per day for the current GSR period, increasing to 87,765 Dths per day by the 2015-2016 GSR period.”

“However, given the fact that the Company has not approached design day conditions over the past five years, and given the significant amount of new capacity acquired from TETCO, now may be an appropriate time to review the Company’s demand day forecasting methodology. In any case, the methodology should be reviewed prior to the Company acquiring any additional capacity.”

(*Id.* at p. 17 LL 12-17; p.18 LL 6-10.)

48. Asset Manager’s Contract. Ms. Crane testified that the Company extended its contract with its Asset Manager for one (1) year without providing notice to Staff and the DPA. (*Id.* at p.25 LL 19-20.) Ms. Crane’s opinion is that this extension violates the letter and spirit of the Settlement Agreement signed by the parties in PSC Dkt No. 10-296F. This issue has been resolved by the parties and is described in Section IV of this Report. (Settle. Agree. Exhibit “1”, ¶10.)

E. Chesapeake’s Rebuttal Testimony

49. Capacity Forecasting; FERC Proceedings. According to the Rebuttal testimony filed by Regulatory Analyst Sarah E. Hardy, Staff and the DPA do not fully appreciate the inherent difficulties of forecasting natural gas capacity. (Exh. 7, Hardy Rebuttal, pp.6-9.) The Company must forecast capacity for its entire service territory (including Sussex County), as well as the Company’s firm customers, design day demand.¹⁹ (*Id.*) According to Ms. Hardy, “[t]he Company takes great care to analyze trends, usage, and other factors to develop what

¹⁹ The Company noted that the DPA’s Consultant Crane did not “suggest any alternative [design day] methodologies for the Company to review.” (*Id.* at p.9, LL 5-7.)

it believes is a realistic growth forecast." (*Id.* at p.6, LL 14-15.) If "variables" change, the Company timely updates its forecasts. (*Id.* at LL 16-20.)

50. In performing capacity forecasting, challenges faced by the Company include: a) the rate of housing and business growth in all of its service areas, including Sussex County; b) customer needs and weather; c) obtaining capacity from pipelines under construction, which may encounter delays; and d) securing pipeline capacity three (3) to four (4) years into the future, while obtaining FERC approvals. (*Id.* at pp. 6-8.)

51. Ms. Hardy also addressed the DPA's Crane's recommendation that the Company inform the parties prior to acquiring any new capacity not identified in the Company's annual Supply Plan, whether upstream capacity or ESNG capacity. (Crane, Exh. 8, p.22, LL 15-19.) The Company agreed to do this on a confidential basis, stating that "sometimes opportunities in new markets arise throughout the year that may not have been taken into consideration in the most recent Supply Plan." (Exh. 7, Hardy Rebuttal, p.13, LL 1-3; p.14 LL 13-15.)

52. Finally, as recommended by Staff, in its Rebuttal testimony, the Company agreed to provide confidential updates to Staff and the DPA if the Company intervenes in a FERC proceeding. (*Id.* at p. 15, LL 12-17.)

IV. THE PROPOSED SETTLEMENT AGREEMENT

53. I attach hereto as Exhibit "1" a copy of the parties' Settlement Agreement dated May 3, 2012. ("SA") At the evidentiary hearing, the Company, Staff and the Public Advocate each presented a

witness describing why adopting the proposed SA is in the public interest. I will now discuss the material issues agreed upon by the parties. For your convenience, each material section of the Settlement Agreement is set forth below so that you may easily refer to it.

54. Hedging Plan: In Paragraph 7 of the SA, the parties have agreed as follows:

7. With respect to the Company's Natural Gas Commodity Procurement Plan ("Hedging Plan"), as agreed to in the settlement to the prior GSR proceeding, Chesapeake will review the dollar cost averaging framework for possible implementation at the time of the next review of the Hedging Plan (September 2012). Chesapeake will continue tracking paper transactions utilizing the dollar cost averaging framework and provide an update on the paper program as part of its quarterly reporting. Actual purchases will still be made according to the currently approved program. Chesapeake will summarize the results of the dollar cost averaging tracking in Chesapeake's next GSR filing scheduled to be filed on September 1, 2012, and submit its recommendations at that time in terms of whether or not to implement dollar cost averaging.

55. Supply Plan. In Paragraph 8 of the SA, the parties agreed as follows:

8. The Company agrees to continue to utilize its annual Long-Term Supply and Demand Strategic Plan ("Supply Plan") as a mechanism by which to notify the Settling Parties of the need for all new capacity additions. When the Company needs to acquire capacity that was not previously identified in its most recent Supply Plan, the Company agrees to continue to provide the information agreed to in the Settlement Agreements to PSC Docket Nos. 08-296F and 09-398F regarding Eastern Shore Natural Gas Company ("ESNG") capacity acquisitions and agrees to begin providing this information for potential upstream capacity additions as well. The Company will provide this information for both ESNG and

upstream capacity on a confidential basis only. The Company will also continue to review its design day forecasting methodology each year at the time the Supply Plan is developed to ensure its validity. The Company will also review and comment on any alternative design day forecasting methodology proposals submitted by either the Staff or the DPA during the course of any review of the Company's Supply Plan.

56. TETCO. In Paragraph 11 of the SA, the parties agreed as follows:

11. Chesapeake shall be allowed to continue to recover the Texas Eastern capacity costs and the ESNG capacity costs associated with the Texas Eastern interconnect. With respect to any capacity release revenues received outside of an Asset Management Agreement associated with this capacity, one hundred percent (100%) of any capacity release revenues associated with the release of this capacity will be credited to the GSR.

57. Company's Agreement with Asset Manager. In Paragraph 10 of the SA, the parties agreed as follows:

10. The Company's current Asset Management Agreement ("AMA") is scheduled to expire on March 31, 2013. Prior to such expiration the Company will evaluate options with regard to the management of its gas supply related assets and the continuation of an AMA. To ensure that potential qualified service providers are afforded an opportunity to submit competitive proposals with regard to an AMA, the Company will issue a formal Request for Proposals ("RFP") on or before December 31, 2012. The Company will provide (on a confidential basis) Staff and DPA with (a) a copy of the RFP; (b) the number of entities receiving the Company's RFP; (c) the number of responses; (d) evaluation criteria relied upon by the Company; (e) analysis of bids; and (f) other documents as may be reasonably requested by Staff and DPA. If the Company elects to enter into another AMA, a provision will be included in that AMA specifying that any capacity released by the Company to the Asset Manager cannot be re-released.

58. FERC Proceedings. In Paragraph 12 of the SA, the parties have agreed as follows:

12. Chesapeake agrees to provide the Staff and DPA with periodic updates regarding any intervention by the Company in Federal Energy Regulatory Commission ("FERC") proceedings and the actions taken by the Company on behalf of the Company's ratepayers, including, but not limited to, an enumeration of each issue and the position that the Company is actively pursuing. The Company will provide such periodic updates to the Staff and DPA subject to the Company's ability to provide this information to Staff on a confidential basis when appropriate.

59. Various GSR Issues. In Paragraph 13 of the SA, the parties have agreed as follows:

13. As agreed in prior dockets, the Company will continue with the following practices: (a) the Company will notify the parties of any supplier refunds that may impact the GSR charges; (b) the Company will continue to include in future GSR applications an update on steps taken to mitigate the effects of changes in gas costs; (c) the Company will provide information on the total sales volumes, costs, and margins by month for Interruptible Gas Transportation sales as part of its GSR applications; and (d) the Company will calculate the impact on its proposed GSR rates had a thirty-year average degree days been used and provide such information as part of the discovery process, when and if requested.

60. Updates regarding Sussex County. In Paragraph 9 of the SA, the parties agreed as follows:

9. As part of the settlement agreement in PSC Docket No. 08-269F, the Company provided (on a confidential basis) information on its expansion into eastern Sussex County as part of the GSR filing as opposed to waiting for interrogatories. The Company agrees to continue to provide information on its expansion in advance of interrogatories. However, in lieu of providing this information as part of a GSR filing, the Company will provide an annual status report on its expansion activities in eastern Sussex County

as part of the Company's main extension report that is filed in the spring of each year.

V. DISCUSSION

61. The Commission has jurisdiction over this case. 26 Del. C. §201(a). This statute provides, in pertinent part, that "[t]he Commission shall have exclusive original supervision and regulation of all public utilities and also over their rates, property rights, equipment, facilities ... so far as may be necessary for the purpose of carrying out the provisions of this title. Such regulation shall include the regulation of rates..."

62. 26 Del. C. §512 directs the Commission to "encourage the resolution of matters brought before it through the use of stipulations and settlements," and provides that the Commission may, upon hearing, approve the resolution of matters through stipulations and settlements "where the Commission finds such resolutions to be in the public interest." (See Del. C. §§512(a), (c).)

63. I incorporate the prior four (4) sections of this Report as my Findings of Fact. Based upon those Findings of Fact and my analysis in this Section, I find that the Company has met its Burden of Proof in this case.

64. Chesapeake has the Burden of Proof in this case pursuant to 26 Del. C. §307(a), which provides as follows:

§ 307. Burden of Proof

In any proceeding upon the motion of the Commission, or upon complaint, or upon application of a public utility, involving any proposed or existing rate of any public utility, or any proposed change in rates, the burden of

proof to show that the rate involved is just and reasonable is upon the public utility.

(emphasis supplied)

65. Next, I find that the Parties have demonstrated that the proposed Settlement Agreement results in just and reasonable rates and should be approved by the Commission. For the reasons discussed below, I recommend to the Commission its approval and adoption.

66. The Settlement Agreement is the product of extensive negotiation among the parties, and reflects a mutual balancing of various issue and positions. (Exhibit "1;" ¶¶5, 15; Tr.-35, 40.) Staff's Senior Regulatory Policy Administrator Susan Neidig, and the Public Advocate Michael Sheehy, observed that the proposed rates result in just and reasonable rates and are in the public interest. (Tr.-39, 34.) Moreover, the settlement conserves the parties' resources by avoiding future litigation costs. (Tr.40, 35.)

67. Based on my review of the entire record, I find that the approval of the proposed Settlement is in the public interest because it balances the interests of ratepayers and the Company. It is clear from the record that the Settlement was a product of extensive negotiations between the parties, conducted after the completion of thorough investigations by Staff and the Public Advocate, including an evidentiary hearing addressing why the proposed settlement is in the public interest.

68. Finally, it is significant that the Parties, all of whom maintain that the Proposed Settlement is in the public interest, represent a wide variety of interests.

VI. RECOMMENDATIONS

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

70. Based upon the Company's Application, the testimony, and having no objection from any party, I recommend that the Commission approve the proposed GSR rates in the Company's Application. I find that the proposed rates are just and reasonable and are in the public interest. These rates took effect, on a temporary basis, subject to refund, on November 1, 2011. Accordingly, I recommend that the Commission order that the changes to the GSR rates approved by the Commission which provisionally went into effect on November 1, 2011, be approved for the period beginning November 1, 2011, until further order of the Commission.

71. I recommend that the Commission approve the Company's GSR charges proposed in its Application effective November 1, 2011, which are as follows:

<u>Service Classification</u>	<u>Effective 11/01/10 (approved)</u>	<u>Effective 11/01/11 (proposed)</u>
RS-1, RS-2, GS, MVS, LVS	\$1.035	\$1.027
GLR, GLO	\$0.668	\$0.592
HLFS	\$0.863	\$0.830
Firm Balancing Rate (LVS)	\$0.054	\$0.063
Firm Balancing Rate (HLFS)	\$0.010	\$0.021
Interruptible Balancing Rate (ITS)	\$0.001	\$0.001

72. Settlement Agreement. For the reasons described in the preceding section herein, I agree with Staff, DPA and the Company that adopting the proposed Settlement Agreement would be in the public

interest. Therefore, pursuant to 26 Del. C. §512, I also recommend that the Commission approve the parties' Settlement Agreement in its entirety.

73. The proposed Settlement Agreement is attached hereto as Exhibit "1". I also attached a proposed Order as Exhibit "2", which will implement the foregoing recommendations.

Respectfully Submitted,

Date: June 26, 2012

/s/Mark Lawrence
Mark Lawrence
Hearing Examiner

A T T A C H M E N T “B”
BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF)
CHESAPEAKE UTILITIES CORPORATION)
FOR APPROVAL OF A CHANGE IN ITS) PSC DKT. NO. 11-384F
GAS SALES SERVICE RATES (“GSR”))
TO BE EFFECTIVE NOVEMBER 1, 2011)
(Filed September 1, 2011))

PROPOSED SETTLEMENT

On this 3rd day of May, 2012, Chesapeake Utilities Corporation, a Delaware corporation (hereinafter "Chesapeake" or the "Company"), and the other undersigned parties (all of whom together are the "Settling Parties") hereby propose a settlement that, in the Settling Parties' view, appropriately resolves all issues raised in this proceeding.

I. INTRODUCTION

1. On September 1, 2011, Chesapeake filed with the Delaware Public Service Commission (the "Commission") an application (the "Application") for a change in its Gas Sales Service Rates to be effective for service rendered on and after November 1, 2011. By Commission Order No. 8042 dated September 20, 2011, the Commission allowed Chesapeake's proposed rates to go into effect on November 1, 2011, on a temporary basis, and subject to refund, pending a full evidentiary hearing and a final decision of the Commission.

2. On or about February 24, 2012, the Delaware Public Service Commission Staff ("Staff") and the Division of Public Advocate ("DPA") filed their respective testimonies, raising certain reporting issues with respect to Chesapeake's Application.

3. Subsequently, on or about April 11, 2012, Chesapeake filed its rebuttal testimony pursuant to which Chesapeake took issue with various Staff and DPA recommendations regarding its reporting issues.

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

5. The Settling Parties have conferred in an effort to resolve all cost recovery and reporting issues raised in this proceeding. The Settling Parties acknowledge that the parties differ as to the proper resolution of many of 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

6. The Settling Parties agree that the Company's proposed rates as set forth in the Company's Application are just and reasonable.

7. With respect to the Company's Natural Gas Commodity Procurement Plan ("Hedging Plan"), as agreed to in the settlement to the prior GSR proceeding, Chesapeake will review the dollar cost averaging framework for possible implementation at the time of the next review of the Hedging Plan (September 2012). Chesapeake will continue tracking paper transactions utilizing the dollar cost averaging framework and provide an update on the paper program as part of its quarterly reporting. Actual purchases will still be made according to the

currently approved program. Chesapeake will summarize the results of the dollar cost averaging tracking in Chesapeake's next GSR filing scheduled to be filed on September 1, 2012, and submit its recommendations at that time in terms of whether or not to implement dollar cost averaging.

8. The Company agrees to continue to utilize its annual Long-Term Supply and Demand Strategic Plan ("Supply Plan") as a mechanism by which to notify the Settling Parties of the need for all new capacity additions. When the Company needs to acquire capacity that was not previously identified in its most recent Supply Plan, the Company agrees to continue to provide the information agreed to in the Settlement Agreements to PSC Docket Nos. 08-296F and 09-398F regarding Eastern Shore Natural Gas Company ("ESNG") capacity acquisitions and agrees to begin providing this information for potential upstream capacity additions as well. The Company will provide this information for both ESNG and upstream capacity on a confidential basis only. The Company will also continue to review its design day forecasting methodology each year at the time the Supply Plan is developed to ensure its validity. The Company will also review and comment on any alternative design day forecasting methodology proposals submitted by either the Staff or the DPA during the course of any review of the Company's Supply Plan.

9. As part of the settlement agreement in PSC Docket No. 08-269F, the Company provided (on a confidential basis) information on its expansion into eastern Sussex County as part of the GSR filing as opposed to waiting for interrogatories. The Company agrees to continue to provide information on its expansion in advance of interrogatories. However, in lieu of providing this information as part of a GSR filing, the Company will provide an annual status report on its expansion activities in eastern Sussex County as part of the Company's main extension report that is filed in the spring of each year.

10. The Company's current Asset Management Agreement ("AMA") is scheduled to expire on March 31, 2013. Prior to such expiration the Company will evaluate options with regard to the management of its gas supply related assets and the continuation of an AMA. To ensure that potential qualified service providers are afforded an opportunity to submit competitive proposals with regard to an AMA, the Company will issue a formal Request for Proposals ("RFP") on or before December 31, 2012. The Company will provide (on a confidential basis) Staff and DPA with (a) a copy of the RFP; (b) the number of entities receiving the Company's RFP; (c) the number of responses; (d) evaluation criteria relied upon by the Company; (e) analysis of bids; and (f) other documents as may be reasonably requested by Staff and DPA. If the Company elects to enter into another AMA, a provision will be included in that AMA specifying that any capacity released by the Company to the Asset Manager cannot be re-released.

11. Chesapeake shall be allowed to continue to recover the Texas Eastern capacity costs and the ESNG capacity costs associated with the Texas Eastern inter-connect. With respect to any capacity release revenues received outside of an Asset Management Agreement associated with this capacity, one hundred percent (100%) of any capacity release revenues associated with the release of this capacity will be credited to the GSR.

12. Chesapeake agrees to provide the Staff and DPA with periodic updates regarding any intervention by the Company in Federal Energy Regulatory Commission ("FERC") proceedings and the actions taken by the Company on behalf of the Company's ratepayers, including, but not limited to, an enumeration of each issue and the position that the Company is actively pursuing. The Company will provide such periodic updates to the Staff and DPA

subject to the Company's ability to provide this information to Staff on a confidential basis when appropriate.

13. As agreed in prior dockets, the Company will continue with the following practices: (a) the Company will notify the parties of any supplier refunds that may impact the GSR charges; (b) the Company will continue to include in future GSR applications an update on steps taken to mitigate the effects of changes in gas costs; (c) the Company will provide information on the total sales volumes, costs, and margins by month for Interruptible Gas Transportation sales as part of its GSR applications; and (d) the Company will calculate the impact on its proposed GSR rates had a thirty-year average degree days been used and provide such information as part of the discovery process, when and if requested.

III. STANDARD PROVISIONS AND RESERVATIONS

14. The provisions of this Proposed Settlement are not severable except by written agreement of the Settling Parties.

15. This Proposed Settlement represents a compromise for the purposes of settlement and shall not be regarded as a precedent with respect to any rate making or any other principle in any future case or in any existing proceeding, except that, consistent with and subject to the provisos expressly set forth below, this Proposed Settlement shall preclude any Settling Party from taking a contrary position with respect to issues specifically addressed and resolved herein in proceedings involving the review of this Proposed Settlement and any appeals related to this Proposed Settlement. No party to this Proposed Settlement necessarily agrees or disagrees with the treatment of any particular item, any procedure followed, or the resolution of any particular issue addressed in this Proposed Settlement other than as specified herein, except that each Settling Party agrees that the Proposed Settlement may be submitted to the Commission for a

determination that it is in the public interest and that no Settling Party will oppose such a determination. Except as expressly set forth below, none of the Settling Parties waives any rights it may have to take any position in future proceedings regarding the issues in this proceeding, including positions contrary to positions taken herein or previously taken.

16. If this Proposed Settlement does not become final, either because it is not approved by the Commission or because it is the subject of a successful appeal and remand, each of the Settling Parties reserves its respective rights to submit additional testimony, file briefs, or otherwise take positions as it deems appropriate in its sole discretion to litigate the issues in this proceeding.

17. This Proposed Settlement will become effective upon the Commission's issuance of a final order approving this Proposed Settlement and all the settlement terms and conditions without modification. After the issuance of such final order, the terms of this Proposed Settlement shall be implemented and enforceable notwithstanding the pendency of a legal challenge to the Commission's approval of this Proposed Settlement or to actions taken by another regulatory agency or Court, unless such implementation and enforcement is stayed or enjoined by the Commission, another regulatory agency, or a Court having jurisdiction over the matter.

18. The obligations under this Proposed Settlement if any, that apply for a specific term set forth herein shall expire automatically in accordance with the term specified and shall require no further action for their expiration.

19. The Settling Parties may enforce this Proposed Settlement through any appropriate action before the Commission or through any other available remedy. The Settling Parties shall consider any final Commission order related to the enforcement or interpretation of

this Proposed Settlement as an appealable order to the Superior Court of the State of Delaware. This shall be in addition to any other available remedy at law or in equity.

20. If a Court grants a legal challenge to the Commission's approval of this Proposed Settlement and issues a final non-appealable order which prevents or precludes implementation of any material term of this Proposed Settlement, or if some other legal bar has the same effect, then this Proposed Settlement is voidable upon written notice by any of the Settling Parties.

21. This Proposed Settlement resolves all of the issues specifically addressed herein; provided, however, that this Proposed Settlement is made without admission against or prejudice to any factual or legal positions which any of the Settling Parties may assert (a) if the Commission does not issue a final order approving this Proposed Settlement without modifications; or (b) in other proceedings before the Commission or other governmental body. This Proposed Settlement is determinative and conclusive of all of the issues addressed herein and, upon approval by the Commission, shall constitute a final adjudication as to the Settling Parties of all of the issues in this proceeding.

22. This Proposed Settlement is expressly conditioned upon the Commission's approval of all of the specific terms and conditions contained herein without modification. If the Commission fails to grant such approval, or modifies any of the terms and conditions herein, this Proposed Settlement will terminate and be of no force and effect, unless the Settling Parties agree in writing to waive the application of this provision. The Settling Parties will make their best efforts to support this Proposed Settlement and to secure its approval by the Commission.

23. It is expressly understood and agreed that this Proposed Settlement constitutes a negotiated resolution of the issues in this proceeding and any related court appeals.

IV. CONCLUSION

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

Chesapeake Utilities Corporation

Dated: 4/27/12_____

By: /s/ Jeffrey R. Tietbohl_____

Delaware Public Service Commission Staff

Dated: 4/30/12_____

By: /s/ William F. O'Brien_____

Division of the Public Advocate

Dated: 4/27/12_____

By: /s/ Michael Sheehy_____