

**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 DOCKET NO. 13-351F
GAS SALES SERVICE RATES ("GSR"))
TO BE EFFECTIVE NOVEMBER 1, 2013)
(FILED SEPTEMBER 3, 2013; AMENDED)
FEBRUARY 19, 2014))

ORDER NO. 8641

AND NOW, this 30th day of September, 2014;

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 3, 2013 Application and February 19, 2014 Amended Application be approved as just and reasonable for services rendered on and after November 1, 2013, and April 1, 2014 respectively;

AND WHEREAS, the Hearing Examiner recommends that the Proposed Settlement Agreement dated June 11, 2014, which is endorsed by all the parties, the Public Version of 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. The Commission hereby adopts the Findings and Recommendations of the Hearing Examiner, appended to the original hereof as **Attachment "A"**.

2. The Commission approves the Proposed Settlement, appended to the original hereof as **Attachment "B"**, and Chesapeake Utilities Corporation's ("Chesapeake") proposed rates as set forth in the Application and the Amended Application.

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

Rates Effective for Service Rendered on and after November 1, 2013, through and including March 31, 2014

<u>Service:</u>	<u>Rates:</u>
RS, GS, MVS, LVS	\$1.008 per Ccf
GLR, GLO	\$0.536 per Ccf
HLFS	\$0.819 per Ccf
Firm Balancing Rate	\$0.072 per Ccf for LVS
Firm Balancing Rate	\$0.015 per Ccf for HLFS
ITS Balancing Rate	\$0.001 per Ccf

Approved Rates for usage on or after April 1, 2014, and until changed by further order of the Commission:

<u>Service:</u>	<u>Rates:</u>
RS, GS, MVS, LVS	\$1.132 per Ccf
GLR, GLO	\$0.656 per Ccf
HLFS	\$0.941 per Ccf
Firm Balancing Rate	\$0.072 per Ccf for LVS

Firm Balance Rate	\$0.015 per Ccf for HLFS
ITS Balancing Rate	\$0.001 per Ccf

4. All Tariff revisions filed by Chesapeake with this Commission on September 3, 2013, and February 19, 2014, respectively, and the revised rates and charges therein are approved and shall be effective for gas service rendered on or after November 1, 2013, at the rates and during the periods set forth above until further Order of the Commission. No later than two business days from the date of this Order, Chesapeake shall file revised Tariffs which comply with this Order.

5. 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/ Harold B. Gray
Commissioner

/s/ Jeffrey J. Clark
Commissioner

/s/ Jaymes B. Lester
Commissioner

ATTEST:

/s/ Alisa Carrow Bentley
Secretary

A T T A C H M E N T "A"

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TO BE EFFECTIVE NOVEMBER 1, 2013)
(FILED SEPTEMBER 3, 2013; AMENDED)
FEBRUARY 19, 2014))

FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

DATED: August 28, 2014

R. Campbell Hay
HEARING EXAMINER

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(FILED SEPTEMBER 3, 2013; AMENDED)
FEBRUARY 19, 2014))

R. Campbell Hay, duly appointed Hearing Examiner in this Docket pursuant to 26 Del. C. §502 and 29 Del. C. ch. 101 and by Commission Order No. 8492 dated December 5, 2013, reports to the Commission as follows:

I. APPEARANCES

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

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

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

By: JULIE M. DONOGHUE, ESQ., DEPUTY ATTORNEY GENERAL

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

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

II. BACKGROUND

1. On September 3, 2013, Chesapeake filed with the Delaware Public Service Commission ("the Commission") an application ("Application") seeking approval to change its GSR Rates effective on November 1, 2013 as follows: (1) increase the Company's current GSR rate from \$0.997 per Ccf to \$1.008 per Ccf for customers served under rate schedules RS-1, RS-2, GS, MVS and LVS; (2) increase the Company's

current GSR rate from \$0.519 per Ccf to \$0.536 per Ccf for customers served under rate schedules GLR and GLO; (3) increase the Company's current GSR rate from \$0.817 per Ccf to \$0.819 per Ccf for customers served under rate schedule HLFS; (4) increase the Company's firm balancing rate for transportation customers served under rate schedule LVS from \$0.063 per Ccf to \$0.072 per Ccf; and (5) decrease the Company's firm balancing rate for transportation customers served under rate schedule HLFS from \$0.022 per Ccf to \$0.015 per Ccf; and (6) maintain the Company's interruptible balancing rate for transportation customers served under rate schedule ITS at \$0.001 per Ccf.

2. Comparing the proposed rates in the Application to the rates approved in the last GSR filing, an average RS-2 customer using 700 Ccf per year will experience an annual increase of approximately 0.7% or \$.64 per month. During the winter heating season, a typical RS-2 customer on Chesapeake's system using 120 Ccf per month will experience an increase of approximately 0.8% or \$1.32 per winter month.

3. With its Application, Chesapeake also submitted prefiled testimony from two witnesses, both employed by Chesapeake: (1) Sarah E. Hardy, Regulatory Analyst II (Exh. 3) and (2) Marie E. Kozel, Gas Supply Analyst II (Exh. 4).¹

4. In Order No. 8458 dated September 26, 2013, the Commission authorized the proposed GSR rates, firm balancing rates and

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

interruptible balancing rate and other revisions to the Company's tariff to become effective for usage on or after November 1, 2013, subject to refund and pending further review and final decision by the Commission, and designated Mark Lawrence as Hearing Examiner. By Order No. 8492 dated December 5, 2013, the Commission reassigned this case to me as the Hearing Examiner.

5. On September 18, 2013, the DPA exercised its statutory right of intervention.

6. Notice of the filing of the Application and public comment session was published in the News Journal and the Delaware State News on October 7, 2013 and October 8, 2013 respectively. (Exh. 1).

7. A duly noticed public comment session (Exh. 1) was held at 7:00 p.m. on November 19, 2013 in the Delaware Public Service Commission Hearing Room located at 861 Silver Lake Boulevard, Cannon Building, Dover, Delaware. No members of the public attended. In addition, the Commission received no written comments.

8. On February 19, 2014, Chesapeake filed an amended or "out-of-cycle" application (the "Amended Application") seeking to make further changes to its GSR rates to be effective for service rendered on and after April 1, 2014. The stated reason for this filing was an increase in the projected "under-collection" of gas costs which exceeded the 6% tariff threshold. Notice of the filing of the Amended Application was published in the News Journal and the Delaware State News on March 7, 2014. (Exh. 1) In the Amended Application, Chesapeake proposed to (1) increase the Company's GSR rate from \$1.008 per Ccf to \$1.132 per Ccf for customers served under rate schedules

RS-1, RS-2, GS, MVS and LVS; (2) increase the Company's GSR rate from \$0.536 per Ccf to \$0.656 per Ccf for customers served under rate schedules GLR and GLO; and (3) increase the Company's GSR rate from \$0.819 per Ccf to \$0.941 per Ccf for customers served under rate schedule HLFS. The Company's Amended Application did not request any change in the balancing rates that were proposed in its initial Application.

9. By Order No. 8520 dated March 4, 2014, the Commission authorized the Company to place the amended rates into effect for service rendered on and after April 1, 2014, subject to refund.

10. With its Amended Application (Exh. 5), the Company filed the supplemental testimony of Sarah E. Hardy (Exh. 6).

11. Ms. Hardy sponsored the Company's schedules filed in both applications. (Exh. 3 at 4; Exh. 6 at 2). Ms. Hardy testified to the mechanics of the three separate GSR rates, the development of the firm and interruptible sales volumes and total system requirements, and the development of the lost and unaccounted for gas ("LAUF") volumes. She also provided support for the overall calculation of the proposed three separate GSR rates to be effective with service rendered on and after November 1, 2013 and April 1, 2014, as well as the mechanics of the proposed balancing rates for transportation service under the Large Volume Service ("LVS"), High Load Factor Service ("HLFS") and Interruptible Service rates. She explained the impact of the proposed GSR rates on an average residential customer's bill and ensured compliance with the gas cost provisions required by previous Commission orders. (Exh. 3 at 5-16; Exh. 6 at 3-12).

12. Ms. Hardy explained that the three separate GSR rates were developed in accordance with the approved gas cost recovery mechanism as contained in the Company's natural gas tariff on Sheet Nos. 42 through 42.3. (Exh. 3 at 4; Exh. 6 at 6).

13. Ms. Hardy described how she calculated the proposed GSR rate levels based on the estimated purchased gas costs and estimated sales volumes for the twelve months ending October 31, 2014. (Exh. 3 at 5; Exh. 6 at 4).

14. Ms. Hardy stated the reason the GSR rates are changing from last year's GSR filing is because the variable or commodity gas costs are anticipated to increase by \$4,234,044. (Exh. 6 at 4) These costs are increasing primarily due to the projected cost of flowing commodity gas for the upcoming year. (Id. at 5). The fixed costs are anticipated to increase by \$755,282, primarily due to the capacity entitlements associated with the Texas Eastern Transmission TEAM 2012 project. (Id. at 6)

15. Ms. Kozel testified on the support documentation for the gas costs used in the calculation of the Delaware Division's GSR rates in this Application and discussed the Company's gas supply and procurement activities as required by PSC Order No. 4767 in PSC Docket No. 97-294F. (Exh. 4 at 1-9).

16. Jason R. Smith, Case Manager for Staff, filed testimony addressing the justness and reasonableness of the proposed GSR rates and the Company's compliance with the Settlement Agreement approved in PSC Order No. 8430 in PSC Docket No. 12-450F. (Exh. 7A (confidential version) and Exh. 7B (public version)).

17. Mr. Smith testified that he reviewed and verified the mathematical accuracy of the Company's schedules and calculations provided in both applications, and he determined that they conformed to the Company's GSR tariff. Therefore, he recommended that the Commission approve the GSR and firm balancing rates as submitted by the Company in the Amended Application because the rates were just and reasonable and in the public interest. (Exh. 7B at 7).

18. Mr. Smith summarized the provisions of the Settlement Agreements approved in prior Orders and provided his opinion that the Company was in compliance with those provisions. (Exh. 7B at 7-12). Mr. Smith also reviewed the Company's proposed modifications to its hedging plan and supported the proposed changes. (Exh. 7A at 12-13).

19. Jerome D. Mierzwa filed testimony on behalf of Staff and the Public Advocate addressing the reasonableness of the Company's gas procurement practices and policies and other issues raised by the Application. Mr. Mierzwa reviewed his concerns regarding how the costs of upstream pipeline capacity are allocated. While noting that this issue is being addressed in PSC Docket No. 13-383, he stated that if the issue is not resolved in that docket, the Company should release any upstream capacity not required to serve firm sales customers on a "non-recallable long-term basis." (Exh. 8 at 7-8).

III. PROPOSED SETTLEMENT AGREEMENT

20. On June 19, 2014, Chesapeake, Staff and the DPA presented me with a fully-executed Settlement Agreement (Exh. 9A-Confidential Version and Exh. 9B-Public Version) resolving the issues in this docket. The signatories agreed to the following:

- The proposed GSR rates are just and reasonable and should be approved; (Exh. 9A at 3)
- Chesapeake shall be allowed to continue to recover the TETCO capacity costs and Eastern Shore capacity costs associated with the TETCO inter-connect. With respect to any capacity release revenues received outside of an Asset Management Agreement ("AMA") 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; (Id. at 4)
- The Company agrees to continue to utilize its annual 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 in any given year that was not previously identified in its most recent Supply Plan as being required in that year, the Company agrees to continue to provide the information agreed to in the Settlement Agreements in PSC Docket Nos. 08-296F and 09-398F regarding Eastern Shore capacity acquisitions and agrees to provide this information for potential upstream capacity additions as well. The Company will provide this information for both Eastern Shore and upstream capacity on a confidential basis only. The Company will 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 the Company's Supply Plan; (Id. at 3-4)
- The Company's AMA that expired on March 31, 2013 has been replaced with a new AMA with a different Asset Manager. Under the new AMA the Company will receive certain fixed margins on a monthly basis. The Settling Parties agree that with respect to said fixed margins, the Company shall continue to be allowed to retain seven and one half percent (7.5%) of the fixed margins, with the remaining ninety-two and one half percent (92.5%) being credited to ratepayers in the Company's GSR rates; (Id. at 4)
- Chesapeake agrees to provide the Staff and DPA with periodic updates regarding any intervention by the Company in 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 on a confidential basis when appropriate; (Id. at 5)and

- 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 day been used and provide such information to the Staff and DPA as part of the discovery process, when and if requested. (Id.)
- The Company will continue to monitor the level of its under-collection balance to determine whether a change in the methodology used to calculate the GSR rate is necessary. (Id. at 3)
- The Company will be allowed to implement the proposed changes to the Company's Hedging Plan, as described on Exhibit A attached to the confidential version of the Settlement Agreement. (Id. at 10)

(Exh. 9A and 9B)

21. At the evidentiary hearing, Sarah Hardy presented the testimony of the Company. After reviewing the terms and conditions of the Proposed Settlement (Tr. 37-40), Ms. Hardy stated that she believed the terms and conditions of the Proposed Settlement were just and reasonable. (Tr. 40).

22. The DPA presented the testimony of Andrea B. Maucher, a Public Utilities Analyst. (Tr. 41). Ms. Maucher adopted Mr. Mierzwa's prefiled testimony as her own. She further testified that she believed the settlement would result in just and reasonable rates for residential and small commercial consumers. (Tr. 43). She testified that the proposed rates had been calculated correctly and in

accordance with the Company's tariff. (Tr. 44). After describing briefly the other terms and conditions of the Proposed Settlement (Tr. 46-48), Ms. Maucher concluded that the Proposed Settlement successfully resolved the concerns raised by the parties. (Tr. 48). Accordingly, she concluded that the Proposed Settlement resulted in just and reasonable rates and was in the public interest, and recommended its approval. (Tr. 49).

23. Staff proffered Mr. Smith as its witness. Mr. Smith concluded that the proposed rates were calculated correctly in accordance with the Company's tariff, and therefore Staff did not take issue with the Company's proposed rate changes. (Tr. 51, 53). Mr. Smith discussed briefly the Staff's concern regarding how the Company allocates its upstream capacity costs, but noted that this issue is being addressed in PSC Docket 13-383. (Tr. 52). Mr. Smith also expressed concern over the Company's growing undercollection balance, and noted that this concern was addressed in paragraph 11 of the Proposed Settlement, which would require the Company to monitor this balance to determine if a change in the methodology used to calculate the GSR would be appropriate. (Tr. 52). Mr. Smith concluded that the Proposed Settlement resulted in just and reasonable rates and was in the public interest because it would avoid unnecessary additional administrative costs and was entered into despite differing viewpoints among the parties. (Tr. 53-54)

IV. DISCUSSION AND RECOMMENDATIONS

24. The evidentiary hearing was held on Thursday, July 10, 2014, beginning at 10:00 a.m. The record, as developed at the evidentiary hearing, consists of a verbatim transcript of fifty eight (58) pages and eleven (11) hearing exhibits. The parties stipulated to the admissibility of all hearing exhibits. (Tr.31).

25. Pursuant to the Commission's instructions, I hereby submit for consideration these proposed Findings and Recommendations.

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

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

28. First, 26 *Del. C.* §512(a) provides that "insofar as practicable, the Commission shall encourage the resolution of matters brought before it through stipulations and settlements." This reflects a legislative intent that the Commission welcomes settlements of part or all of a case.

29. Second, I note that each of the Settlement's signatories represents a different constituency and comes to the case with different interests. Chesapeake's interest is in recovering all of its actual gas costs (as 26 *Del. C.* §303(b) permits). Staff is required to balance the utility's and ratepayers' interests. And 29 *Del. C.* §8716(e)(2) charges the DPA with advocating the lowest reasonable rates for consumers consistent with maintaining adequate utility service and an equitable distribution of rates among all the

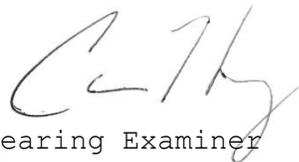
utility's customer classes. Despite these disparate interests and responsibilities, the parties have reached agreement. This is a significant factor weighing in favor of approving the Settlement.

30. Third, the witnesses for both Staff and the DPA testified that they reviewed Chesapeake's forecasts, methodologies and calculations of the proposed GSR rates and found them to be in compliance with previous Commission Orders as well as reasonable and accurate. Therefore, the proposed GSR rates were not challenged.

31. Fourth, the Settlement is in the public interest because it avoids the cost of a litigated evidentiary hearing.

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

Respectfully Submitted,



Hearing Examiner

Date: August 28, 2014

A T T A C H M E N T "B"

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IN THE MATTER OF THE APPLICATION OF)
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FOR APPROVAL OF A CHANGE IN ITS) PSC DOCKET NO. 13-351F
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TO BE EFFECTIVE NOVEMBER 1, 2013)
(FILED SEPTEMBER 3, 2013; AMENDED)
FEBRUARY 19, 2014))

PROPOSED SETTLEMENT

On this 11th day of June, 2014, Chesapeake Utilities Corporation, a Delaware corporation (hereinafter "Chesapeake" or the "Company"), the Delaware Public Service Commission Staff ("Staff"), and the Division of the Public Advocate (the "DPA") (all of whom together are the "Settling Parties") hereby propose a settlement that, in the Settling Parties' view, appropriately resolves all issues raised in this proceeding.

I. INTRODUCTION

1. On September 3, 2013, pursuant to 26 Del. C. §§ 303(b), 304, and 306, Chesapeake filed with the Delaware Public Service Commission (the "Commission") an application (the "Application") for a change in its Gas Sales Service ("GSR") rates to be effective for service rendered on and after November 1, 2013. By Commission Order No. 8458 dated September 26, 2013, the Commission allowed Chesapeake's proposed rates to go into

effect on November 1, 2013, on a temporary basis, and subject to refund, pending a full evidentiary hearing and a final decision of the Commission.

2. On February 19, 2014, Chesapeake filed an amended, or "out-of-cycle," application (the "Amended Application") seeking to make further changes to its GSR rates to be effective for service rendered on and after April 1, 2014. The stated reason for the "out-of-cycle" filing was an increase in the projected "under-collection" of gas costs which exceeded the 6% tariff threshold. This under-collection arose because natural gas commodity prices significantly increased since the Company filed its GSR application on September 3, 2013. When the Company filed the Amended Application, its under-collection balance was estimated to be \$5,667,285, or 13.35% of the projected cost of gas.

3. The DPA intervened in this docket on September 18, 2013. On May 1, 2014, the Staff filed both separate testimony, and, along with the DPA, joint testimony.

4. In their pre-filed testimony, neither Staff nor the DPA took issue with any of the Company's proposed rate changes as reflected in the Company's original Application and Amended Application. Accordingly, Chesapeake did not file any rebuttal testimony in this proceeding.

5. During the course of this proceeding, the Settling Parties have conducted substantial written discovery in the form of data requests.

6. Notice of the filing of the Application was published in *The News Journal* and the *Delaware State News* on October 7, 2013, and October 8, 2013, respectively. Notice of the Filing of the Amended Application was published in *The News Journal* and the *Delaware State News* on March 7, 2014.

7. As required under the settlement agreement in PSC Docket No. 06-287F, on September 19, 2013 Chesapeake submitted its confidential annual report of all hedging activities and transactions. In this report, the Company proposed certain changes to its Hedging Plan. The details of the revised Hedging Plan are outlined on the attached **Exhibit A**.

8. 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 may differ as to the proper resolution of many of these issues. Notwithstanding these differences, the Settling Parties have agreed to enter into this Proposed Settlement on the terms and conditions contained herein because they believe that this Proposed Settlement will serve the interest of the public and the Company, while meeting the statutory requirement that rates be both just and reasonable. The Settling Parties agree that subject to the approval of the Hearing Examiner, the terms and conditions of this Proposed Settlement will be presented to the Commission for the Commission's approval.

II. SETTLEMENT PROVISIONS

9. The Settling Parties agree that the Company's proposed rates as set forth in the Company's Application and Amended Application are just and reasonable. Accordingly, the Settling Parties recommend to the Hearing Examiner and the Commission that the rates set forth on the attached **Exhibit B** be approved as just and reasonable for the periods set forth on **Exhibit B**.

10. The Settling Parties agree that the proposed changes to the Company's Hedging Plan, as described on the attached **Exhibit A**, are acceptable.

11. The Company agrees to monitor the level of its under-collection balance to determine whether a change in the methodology used to calculate its GSR rate is necessary.

12. 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 Staff or the DPA during the course of any review of the Company's Supply Plan.

13. The Company's Asset Management Agreement that expired on March 31, 2013 has been replaced with a new Asset Management Agreement with a different Asset Manager. Under the new Asset Management Agreement ("AMA"), the Company will receive certain fixed margins on a monthly basis. The Settling Parties agree that with respect to said fixed margins, the Company shall be allowed to continue to retain seven and one half percent (7.5%) of the fixed margins, with the remaining ninety-two and one half percent (92.5%) being credited to ratepayers in the Company's GSR rates.

14. 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.

15. Chesapeake agrees to continue to provide 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 Staff and DPA subject to the Company's ability to provide this information on a confidential basis when appropriate.

16. As agreed in prior dockets, the Company will continue with the following practices: (a) the Company will notify Staff and the DPA 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.

17. In Chesapeake's 2013 GSR filing (PSC Docket No. 12-450F), Staff had argued that it was unreasonable to require firm sales customers to pay for upstream capacity in excess of their requirements. As part of the Settlement Agreement in that docket,² the Parties agreed that Chesapeake would file an alternative proposal to the allocation of the cost of upstream pipeline capacity. Chesapeake timely filed its proposal, which was docketed as PSC Docket No. 13-383. Because that docket is

² The Commission approved the Parties' Settlement Agreement in PSC Docket No. 12-450F via Order No. 8430 (August 13, 2013).

addressing the issue of upstream capacity costs, this Settlement Agreement does not resolve any such related issues.

III. STANDARD PROVISIONS AND RESERVATIONS

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

19. 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.

20. 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.

21. 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.

22. 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.

23. 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.

24. 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.

25. 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.

26. 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.

27. 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: 06/11/14 By: /s/ Stephen C. Thompson

Delaware Public Service Commission

Dated: 06/10/14 By: /s/ Connie S. McDowell

Division of the Public Advocate

Dated: 06/09/14 By: /s/ David Bonar

EXHIBIT A

CONFIDENTIAL SETTLEMENT

EXHIBIT B

CHANGES TO THE GSR RATES

Approved Rates for the Period November 1, 2013, up through and including March 31, 2014:

- | | | |
|----|---------------------|--------------------------|
| a. | RS, GS, MVS, LVS | \$1.008 per Ccf |
| b. | GLR, GLO | \$0.536 per Ccf |
| c. | HLFS | \$0.819 per Ccf |
| d. | Firm Balancing Rate | \$0.072 per Ccf for LVS |
| e. | Firm Balancing Rate | \$0.015 per Ccf for HLFS |
| f. | ITS Balancing Rate | \$0.001 per Ccf |

Approved Rate for usage on or after April 1, 2014, and until changed by further order of the Commission:

- | | | |
|----|---------------------|---|
| a. | RS, GS, MVS, LVS | From \$1.008 per Ccf to \$1.132 per Ccf |
| b. | GLR, GLO | From \$0.536 per Ccf to \$0.656 per Ccf |
| c. | HLFS | From \$0.819 per Ccf to \$0.941 per Ccf |
| d. | Firm Balancing Rate | \$0.072 per Ccf for LVS |
| e. | Firm Balance Rate | \$0.015 per Ccf for HLFS |
| d. | ITS Balancing Rate | \$0.001 per Ccf |